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Contents:

- Introduction
- FAQs

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Why You Need to Know About XBRL

Introduction

Recent regulatory and market developments indicate that the U.S. Securities and Exchange Commission (SEC) may soon begin to phase in a mandate for the submission of XBRL-based financial reports by U.S. public companies (XBRL stands for “eXtensible Business Reporting Language”). In the spring of 2008, the SEC is expected to propose a rule (to be finalized in the fall) to establish such a mandate. The rule could take effect for certain filers shortly thereafter.

SEC Chairman Christopher Cox has been a vocal advocate of the value of “interactive data” to investors, analysts, and other market participants. XBRL is the tool registrants will use to make their financial filings interactive. In February 2008, the SEC Committee on Improvements to Financial Reporting (CIFI) made preliminary recommendations that the SEC require the 500 largest accelerated filers to furnish XBRL-tagged financial statements, including XBRL-tagged information for both the face of the financial statements and the notes to the financial statements. A requirement for the remainder of public registrants would be phased in under the CIFI recommendation.

The SEC staff currently is (1) considering the CIFI’s preliminary recommendations and other information, (2) drafting recommendations on whether to mandate XBRL use for public-company financial filings, and (3) requesting that filers and other interested parties provide feedback about the recently released U.S. GAAP taxonomy. These recommendations are expected to lead to a formal rule-making process.

The SEC is also working with key regulators and standard setters around the world, such as the International Accounting Standards Board (IASB) and the Financial Services Agency (FSA) of Japan, to begin aligning XBRL initiatives. Longer term, XBRL may also play a significant role in the global movement toward International Financial Reporting Standards (IFRSs). The SEC, and Chairman Cox in particular, has drawn an [explicit link](#) between the SEC’s XBRL initiative and the Commission’s growing support for IFRSs, convergence, and the development of one set of global standards for financial reporting.

This frequently asked questions (FAQ) document is designed to help answer common questions relating to an imminent SEC mandate for XBRL-based financial reporting. The information in this document is based on currently available knowledge and assumptions, and updates may be issued as regulatory and market events warrant. It is not a comprehensive XBRL briefing paper or tutorial. For a list of resources offering additional information or to find out how to receive assistance, see [FAQs 10](#) and [11](#) below.

FAQs

1. What is the expected timeline for an SEC XBRL mandate?

The SEC will need to follow its customary rule-making process before it can approve a final rule mandating the use of XBRL in SEC filings. In recent speeches and informal discussions, the SEC and its staff have indicated that there is a reasonable chance that rules initiating the phased-in adoption of mandatory XBRL reporting will be finalized and approved during calendar year 2008. To do this, the SEC most likely would follow a rule-making timeline similar to the following:

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- *Spring 2008* — Rule-making recommendations drafted by the SEC staff for review by the Commission.
- *Spring/Summer 2008* — Proposed rule issued for public comment.
- *Fall 2008* — SEC redeliberation and issuance of final rule requiring certain registrants to furnish XBRL-tagged financial statements.
- *Year-End 2008/First Quarter 2009* — Anticipated effective date of proposed rule if the SEC adopts the CIFIr's (or a similar) recommendation. Implementation of the rule might be phased in beginning with either Form 10-K filings from the 500 largest domestic accelerated filers for the year ended December 31, 2008, or with their first quarter 2009 Form 10-Q filings.
- If the SEC chooses to adopt the draft CIFIr recommendation, the initial phase described above would be expanded, perhaps one year later, to include all accelerated filers and, ultimately, would be expected to be expanded to include all other public registrants.

2. What is “interactive data”?

The SEC’s Web site defines interactive data as “using technology to provide investors with quicker access to the information they want, in a format they can most easily use.” More specifically, the Web site notes that “interactive data allows the creation of documents that are machine-readable, so that computers can quickly extract the desired data. Think of every fact in an annual report, every number in a company’s financial statements, as having a unique barcode that tells standard software what the item represents and how it relates to other items in the report. Interactive data ‘tags’ all of the key facts in these large documents, so that software can instantaneously recognize them and serve them up to the investor.” This tagging allows investors to “immediately pull out exactly the information they want, and instantly compare it to the results of other companies, performance in past years, industry averages — however the investor wishes to slice and dice the data.”

3. How does XBRL make data interactive?

XBRL provides an identifying tag (analogous to the “barcode” described in [FAQ 2](#)) for each individual item of financial data. For example, “net income” has its own unique tag, which a computer can read, understand, and treat “intelligently.” Reference is often made to XBRL “taxonomies.” In layman’s terms, a taxonomy is simply the collection of predefined tags that are available for registrants to “affix” to their financial data (i.e., the listing of available barcodes). Registrants will not have to manually affix such tags to their financial reports — a number of vendors will most likely offer software that will assist with the tagging process.

Here’s another way of looking at it. Assume a registrant has the following simple balance sheet:

Cash	\$ 100	Accounts Payable	\$ 35
Accounts Receivable	<u>50</u>	Short-Term Debt	<u>100</u>
Total Current Assets	150	Total Current Liabilities	135
Land	185	Long-Term Debt	200
Fixed Assets	<u>165</u>	Equity	<u>165</u>
Total Assets	<u>\$ 500</u>	Total Liabilities and Equity	<u>\$ 500</u>

To make this data interactive, the registrant will use software to affix an XBRL tag to each number on the balance sheet. For example, the tag affixed to the \$100 "Cash" amount will have a descriptive name, such as "Cash." Once the tag is affixed, any software capable of reading XBRL will be able to determine that the \$100 amount represents cash, which is a current asset, and that the \$100 amount rolls up into the "Total Current Assets" and "Total Assets" subtotals. The tag also provides a definition, the currency in which the amount is being reported (e.g., the U.S. dollar or the euro), and the related period for which the amount is being reported (e.g., as of December 31, 2008).

Tags can be applied not only to amounts but also to nonmonetary financial concepts. For example, under GAAP, disclosure of qualitative information in the notes to the financial statements is frequently required. The XBRL taxonomy includes tags that an entity can affix to these required qualitative (i.e., nonmonetary) disclosures. For such disclosures, the tag is affixed to a block of text in the financial statements. The collection of XBRL tags (i.e., the taxonomy) has been modeled to accommodate all amounts and disclosures that must be reported under GAAP. Stated differently, if presentation of a financial number or disclosure is required under GAAP, a corresponding tag for that item should exist in the taxonomy.

The tag provides a definition, the currency in which the amount is being reported, and the related period for which the amount is being reported.

4. What if a registrant reports a financial statement line item that is unique to it (i.e., other companies would not use this line item)? Will the registrant be forced to use one of the predefined tags?

No. The "X" in XBRL stands for "extensible." Put simply, this means that a registrant has the ability to extend the GAAP taxonomy by creating its own unique tags if the standard collection of tags does not meet its needs.

5. What filings will need to be submitted using XBRL?

It is expected that the SEC initially will require XBRL submissions for **basic financial statements** included in Forms 10-K and 10-Q filings, including both the face of the financial statements and the notes to the financial statements. This initial mandate will most likely require "block tagging" of notes to the financial statements, or tagging them as blocks of text rather than tagging the information contained in the notes at a more granular level. The tags for Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) are not yet fully developed; therefore, tagging of this information is not likely to be required during the initial phase-in. It is expected that XBRL tagging eventually will be mandated for all relevant financial aspects of SEC filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, as well as filings under other acts for financial reporting purposes.

6. Will XBRL replace the EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system? Will current filing formats in the EDGAR system be replaced by XBRL (i.e., will registrants be required to file XBRL documents rather than conventional financial statements, or will they be required to file both)?

XBRL will not replace the EDGAR system — they are two different things. Think of EDGAR as a file management system and XBRL as a document format. Registrants use the EDGAR system as a vehicle for submitting regulatory filings in an electronic format, and the EDGAR system makes those electronic filings accessible to the public. Currently, most filings are submitted and posted in an HTML format. If XBRL is mandated, a portion of the filings previously submitted in an HTML format would be submitted in an XBRL format.

In one possible scenario, the SEC could initially require that registrants furnish XBRL-tagged financial statements, including both the face of the financial statements and the notes to the financial statements, in addition to their traditional EDGAR/HTML filings. An alternative scenario being explored is the embedding of XBRL tags within conventional filings.

An XBRL mandate could have audit or other attestation implications; however, any changes will be subject to deliberation and approval by the SEC and PCAOB.

7. What steps can a registrant take now to prepare for a possible XBRL mandate?

- **Learn more about XBRL.**
 - o Attend or listen to webcasts, presentations, and podcasts hosted by XBRL US¹ (see [FAQ 10](#) below).
 - o Review education materials on the XBRL US [Web site](#) (see [FAQ 10](#) below).
- **Begin discussing alternative approaches to implementing XBRL.**
 - o Begin due diligence on methods of implementation (see [FAQ 8](#) below).
- **Consider participating in the SEC's Voluntary Filing Program.**
 - o Participation in this program may give an entity the opportunity to "test drive" its implementation processes and procedures before a mandate takes effect.
 - o Visit the SEC's Web site to learn how to [participate](#) in the program.
- **Participate in the comment process.**
 - o Review and provide comments on SEC proposed rules when issued.

8. What approaches are available to a registrant wishing to prepare XBRL-tagged financial statements?

A registrant may wish to consider one of the following approaches to preparing XBRL-tagged financial statements:

- **Handle XBRL tagging in-house. Costs associated with this approach might include:**
 - o Purchase of XBRL tagging software.
 - o Training for use of XBRL and associated tagging software.
- **Hire a third-party service provider to assist with XBRL tagging. Costs associated with this approach might include:**
 - o Consulting/service fees.
 - o Training.
- **A combination of the in-house and outsourced approaches.**

9. Will XBRL documents submitted to the SEC be subject to an audit requirement? What might assurance on XBRL-formatted financial statements include?

An XBRL mandate could have audit or other attestation implications; however, any requirements will be subject to deliberation and approval by the SEC and PCAOB. The SEC might require auditors to expand the scope of audit work to cover XBRL-tagged financial statement information in the form of an attest engagement. While the PCAOB has issued a question-and-answer document on forms of attest engagements for voluntary filers, further consideration under a mandatory program will be warranted.

Although it may be premature to speculate, assurance requirements may include the performance of audit or attest procedures specific to the XBRL-tagged financial statements. Such procedures might encompass determining the appropriateness of tags assigned to specific financial statement elements and assessing whether the XBRL-tagged financial statements are consistent with the underlying conventional financial statements.

¹ XBRL US is a local jurisdiction of XBRL International, which is a not-for-profit consortium of approximately 500 companies and agencies worldwide working together to build the XBRL language and promote and support its adoption.

10. Where can I find more information about XBRL?

Source	Web Site Address
XBRL International	http://XBRL.org
XBRL US	http://xbrl.us
SEC	http://www.sec.gov/spotlight/xbrl.shtml
IASB	http://www.iasb.org/xbrl

11. How can Deloitte help companies prepare for and make the most of XBRL?

As one of the founding members of the XBRL International consortium, Deloitte actively participates in XBRL development around the globe. Deloitte continues this commitment through membership in the [XBRL US Founders Council](#), representation on the [XBRL US Board of Directors](#), and as an active participant in the development and adoption of XBRL in the United States. As a multidisciplinary organization, Deloitte can help companies understand, implement, and benefit from XBRL. For more information, please contact your Deloitte representative or one of the professionals below:

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