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Audit and Enterprise Risk Services

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# Why You Need to Know About XBRL

## Contents:



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## Introduction

On May 30, 2008, the U.S. Securities and Exchange Commission (SEC) issued proposed rules to mandate the submission of XBRL-based (XBRL stands for "eXtensible Business Reporting Language") financial reports for public companies. The proposed rules were a result of the May 14, 2008, unanimous approval vote by the SEC Commissioners. The rule proposal outlined below will be open for public comment until August 1, 2008.

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.

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 the SEC proposed rules 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 14 and 15 below.

## FAQs

### 1. What is XBRL or "interactive data"?

XBRL is a language for the electronic communication of business and financial 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."

The site continues, "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."

## 2. How does XBRL make data interactive?

XBRL provides an identifying tag (analogous to the "barcode" described in FAQ 1) 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 | 50 | Short-Term Debt | 100 |
| Total Current Assets | 150 | Total Current Liabilities | 135 |
| Land | 185 | Long-Term Debt | 200 |
| Fixed Assets | 165 | Equity | 165 |
| Total Assets | $ 500 | Total Liabilities and Equity | $ 500 |

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).

*XBRL provides an identifying tag for each individual item of financial data.*

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.

## 3. 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.

## 4. What are the principal elements of the SEC proposed rules?

- Phasing in of XBRL-based submission requirements for all public companies over a three year time line.
- Furnishment of documents as an exhibit to accompany the existing required documents.

- Posting of the interactive data on the filer's corporate Web site.
- Tagging of financial statements and related footnotes and certain required schedules. Requirement for detailed tagging of footnotes and financial statement schedules is phased-in.

### 5. What is the phase-in schedule?

According to the proposed rules, the phase-in approach would cover all filers reporting in either U.S. GAAP or IFRSs, including smaller reporting companies and foreign private issuers, on the basis of the following schedule:

- Year 1: Domestic and foreign filers using U.S. GAAP with a worldwide public common equity float above $5 billion as of their most recently completed second quarter. (The SEC expects this to be approximately 500 companies.)
- Year 2: All other large accelerated filers using U.S. GAAP.
- Year 3: All remaining filers using U.S. GAAP and foreign private issuers with financial statements prepared in accordance with IFRSs as issued by the IASB.

The proposed rules will require that filers furnish the required XBRL financial statements as an exhibit to filings containing financial statements beginning with fiscal periods ending on or after December 15, 2008. For traditional calendar-year-end companies, this would be effective for the 2008 Form 10-K filed early in 2009.

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

### 6. What filings and other financial information are subject to the proposed rules?

The SEC proposed rules initially require XBRL submissions for financial statements included in Form 10-K, 10-Q, and 20-F filings and Registration Statements containing financial statements. This includes the notes to the financial statements and any required financial statement schedules. For the first year of submissions using XBRL, the proposed rules will allow "block tagging" of notes to the financial statements. For the first year in which XBRL is used in submissions, registrants would tag footnote disclosures and financial statement schedules as blocks of text rather than tagging the detailed information contained in the notes and schedules at a more granular level. After the first year of block tagging, filers would be required to tag the disclosures at a more detailed level. (See FAQ 7 below.)

### 7. At what level of detail must the footnotes be tagged in the first year and subsequent years?

There are four levels of financial statement footnotes tagging required by the proposed rules. They are as follows:

"(i) each complete footnote tagged as a single block of text;

(ii) each significant accounting policy within the significant accounting policies footnote tagged as a single block of text;

(iii) each table within each footnote tagged as a separate block of text; and

(iv) within each footnote, each amount (i.e., monetary value, percentage, and number) separately tagged and each narrative disclosure required to be disclosed by U.S. GAAP (or IFRS as issued by the IASB, if applicable), and Commission regulations separately tagged."

During an entity's first year of having to comply with the rule, only level (i) will be required. Starting one year from the filer's initial required submission, when the detailed tagging is required, all levels (i–iv) of tagging will be required.

### 8. Under the proposed rules, when must the interactive data (XBRL-based information) be submitted to the SEC?

The XBRL submissions will be due to the SEC at the same time as the traditional filings to which they relate. The proposed rules provide two separate 30-day grace periods for the following filings:

- The filer's initial submission of XBRL financial statements, and
- The filer's initial submission of financial statements with detailed tagging of footnotes (as described in FAQ 7).

Companies are also required to post the XBRL documents on the corporate Web site as currently required for traditional filings.

A registrant that fails to submit its interactive data on the filing due date will temporarily lose its timely filing status and, consequently, lose eligibility to access the markets using short forms S-3, F-3, or S-8. However, the registrant would be deemed timely again as soon as it furnished the required interactive data.

### 9. 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)?

*The XBRL submissions will be due to the SEC at the same time as the traditional filings to which they relate.*

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. Under the proposed rules, XBRL-related documents will be furnished in an issuer's filing as an exhibit.

### 10. What steps can a registrant take now to prepare for the SEC's XBRL mandate?

A registrant can take the following steps:

- **Learn more about XBRL.**
  - o Attend or listen to webcasts, presentations, and podcasts hosted by the SEC, XBRL US, and others (see FAQ 14 below).
  - o Review education materials on the XBRL US Web site (see FAQ 14 below).
  - o Consult the U.S. GAAP Preparer's Guide on the XBRL US Web site (see FAQ 14 below).
- **Begin discussing alternative approaches to implementing XBRL.**
  - o Begin due diligence on methods of implementation (see FAQ 11 below).
- **Participate in the public comment process on the proposed rules** (see FAQ 14 below).

### 11. What implementation options are available to a registrant for preparing XBRL-based financial statements?

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

- **Handle XBRL tagging in-house. Costs associated with this approach might include:**
  - o Purchase of XBRL tagging software.

- Training for use of XBRL and associated tagging software and taxonomy.
- Creation of a team including those with accounting and technology backgrounds.

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

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

The proposed rules currently do not require that the auditor provide any form of assurance on the XBRL-related documents; however, the SEC is seeking feedback on the need for assurance related to XBRL submissions.

If, as a result of the comment process, the SEC establishes an assurance requirement, that requirement and the related standards under which assurance would be provided will be subject to deliberation and approval by the SEC and PCAOB, respectively. While the PCAOB has issued a question-and-answer document on forms of attest engagements for voluntary filers, further consideration under any mandatory program will be warranted.

*The SEC is seeking feedback on the need for assurance related to XBRL submissions.*

### 13. Do the current proposed rules apply to mutual funds?

On May 21, 2008, the SEC Commissioners voted unanimously to formally approve the use of interactive data for mutual funds. While this is separate from the traditional financial-statement XBRL requirements, it further illustrates the SEC's commitment and direction in promoting interactive data in the marketplace.

The rule proposal applies to mutual funds as follows:

- Mutual funds to provide a new exhibit with the risk/return summary for initial registration statements and subsequent amendments that become effective after December 31, 2009.
- Filing due no later than 15 business days after the effective date of the filing.
- Posting of each mutual fund risk/return summary information on maintained Web site.
- Subjected to federal securities laws similar to that of the voluntary filer program.
- Comments are due August 1, 2008.

### 14. 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 |

## 15. 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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