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Developments Related to the Use of XBRL in Digital Financial Reporting

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Introduction

The increasing global use of eXtensible Business Reporting Language (XBRL) in digital financial reporting has fostered a continued focus on data quality issues; new SEC, European Union (EU), and Federal Energy Regulatory Commission (FERC) regulations; and changes to third-party assurance requirements in certain markets. SEC registrants and other stakeholders must be aware of these developments to assess their impact on financial reporting processes and the information that is being communicated to the market.

This *Heads Up* summarizes recent developments related to the use of XBRL and discusses their implications for financial reporting. Specifically, it highlights key considerations for issuers that submit financial data in the United States or in an EU-regulated market.

2020 U.S. GAAP Taxonomy

Data Quality Rules

To help SEC registrants improve the quality of their XBRL data, the FASB has included certain XBRL US Data Quality Committee (DQC) rules in its release of the [2020 U.S. GAAP Financial Reporting Taxonomy](#) (the "2020 U.S. GAAP taxonomy"), which the SEC approved in March 2020. The inclusion of those rules in the taxonomy makes them more visible, thereby emphasizing the need for SEC registrants to comply with them.

Currently, the 2020 U.S. GAAP taxonomy contains three DQC rules: (1) checking for incorrect negative values, (2) inappropriate combinations of tags, and (3) incorrect calculations. These three rules incorporate thousands of tags from the U.S. GAAP taxonomy. It is expected that future versions of the U.S. GAAP taxonomy will include additional DQC rules.

The DQC, which meets with SEC staff members periodically to inform them of its rules and activities, consists of XBRL US (a national consortium) and an alliance of investors, data aggregators, issuers, and software providers that develop guidance and validation rules that can detect errors in XBRL data filed with the SEC. The group provides an open collaborative process with stakeholders by exposing its proposals for public comment. Over the past several years, the DQC has produced a multitude of freely available [automated rules](#), which have improved quality by alerting SEC registrants that use the rules to correct errors they otherwise would have unknowingly submitted to the SEC.

SEC registrants should become familiar with the DQC rules and run them against their XBRL files to detect and correct XBRL errors before submitting those files to the SEC. Although there are many errors that automation cannot detect, the DQC rules provide an easy way for registrants to identify XBRL errors that automation can reveal, resulting in improved XBRL data quality.

Registrants must also consider that since the DQC rules are publicly available and included in the taxonomy that is accepted by the SEC, it is easy for outside parties to detect noncompliance. Entities such as the SEC, investors, analysts, and the media can run the DQC rules on SEC filings and identify registrants that have filed erroneous disclosures with the SEC. Complying with the DQC rules will help registrants prevent unwanted attention from outside parties, including the SEC.

Accounting Standards Updates

The new version of the U.S. GAAP taxonomy also contains revisions from both FASB Accounting Standards Updates (ASUs) and various projects, including reference and topical projects. The key changes to the 2020 U.S. GAAP taxonomy and the related [2020 SEC Reporting Taxonomy](#) include:

- 338 new tags.
- 324 deprecated tags that should not be used in filings.
- 440 tags with a modified definition.
- Revisions to retirement benefits — multi-employer plans.
- Revisions to variable interest entities and equity method investments.
- Transition to ASUs and other accounting changes.

We have observed over time that there is an increased risk of errors when an SEC registrant transitions to a new version of the U.S. GAAP taxonomy since changes made in the new taxonomy may be overlooked. For example, a disclosure that was previously tagged with a custom tag may now have an appropriate tag added to the U.S. GAAP taxonomy. If that new tag is overlooked, it will not be properly selected to replace the custom tag, resulting in noncompliance and a negative impact on comparative analysis.

Each registrant should review the 2020 U.S. GAAP taxonomy for changes affecting its XBRL tagging and make the appropriate revisions. Fully understanding the additions and improvements reflected in the new taxonomy is critical to complying with the SEC's XBRL requirements.

Giving Custom Tags More Meaning

The SEC has added a feature to the EDGAR system that enables registrants to add meaning to a custom XBRL tag by associating the custom tag with a tag in the U.S. GAAP or IFRS® taxonomy (the base taxonomy). This association provides information that indicates how the custom tag is related to the base taxonomy tag. It is often referred to as “anchoring” since the custom tag is being anchored to a base taxonomy tag.

Anchoring a custom tag to a base taxonomy tag is voluntary for SEC filings. However, for tagging of annual reports under the EU's Inline XBRL (iXBRL) requirement, anchoring is mandatory (for further discussion of XBRL requirements for EU issuers, see [EU's XBRL Requirements for Financial Reporting — Including Audit Assurance](#)). The SEC added voluntary anchoring at approximately the same time that anchoring was mandated by the EU. Because the SEC permits anchoring, an issuer that anchored a filing's tags to comply with EU digital financial reporting requirements will not need to remove the anchoring before submitting the filing to the SEC.

Although the SEC does not require anchoring, an SEC registrant may want to use it for the following reasons:

- *Greater clarity of custom tags* — Because anchoring reduces the ambiguity of custom tags, the registrant may choose to anchor custom tags that it believes need more clarity.
- *More effective communication of data* — As other registrants start anchoring custom tags, the registrant may view anchoring as a best practice and therefore may wish to join its peers to communicate XBRL-formatted financial data more effectively.
- *Easier replacement of unnecessary custom tags* — The SEC has frequently communicated that there are an excessive number of unnecessary custom tags in SEC filings. The process of anchoring may help the registrant identify an appropriate base taxonomy tag to substitute for an unnecessary custom tag.

SEC's Phase-In of iXBRL Continues

The provisions of the SEC's June 2018 [final rule](#)¹ requiring operating company financial statement information to be submitted in iXBRL format are being phased in by filer category. Accordingly, most large accelerated filers have already submitted such information in iXBRL format.

Although SEC registrants may use third-party vendors, they retain the overall responsibility for their filings. Therefore, registrants should (1) understand how adoption of iXBRL will affect the timing and nature of their filing preparation and review processes (e.g., their ability to meet submission dates or make last-minute changes) and (2) ensure that they have personnel with appropriate expertise to review the iXBRL formatting.

Compliance with the final rule is required beginning with the first Form 10-Q filed after the applicable compliance date. The compliance dates are as follows:

- Large accelerated filers that prepare their financial statements in accordance with U.S. GAAP must comply beginning with fiscal periods ending on or after June 15, 2019.
- Accelerated filers that prepare their financial statements in accordance with U.S. GAAP must comply beginning with fiscal periods ending on or after June 15, 2020.
- All other operating company filers that are required to submit interactive data files must comply beginning with fiscal periods ending on or after June 15, 2021.



Connecting the Dots — What Is iXBRL?

iXBRL is a format that allows XBRL-tagged data to be embedded into the traditional financial statements. The result is a single document that combines the benefits of (1) the traditional human-readable financial statements and (2) the rich content of the computer-readable XBRL data.

¹ SEC Final Rule Release No. 33-10514, *Inline XBRL Filing of Tagged Data*.

The iXBRL requirement reflects the SEC's increased focus on data quality. As stated in the final rule, the "Commission staff uses XBRL data to efficiently analyze large quantities of information in support of risk assessment, rulemaking, and enforcement activities." In addition, XBRL data are used by investors, analysts, economists, data aggregators, academics, and filers seeking information on their peers.²

EU's XBRL Requirements for Financial Reporting — Including Auditor Assurance

Under the [European Single Electronic Format \(ESEF\) Regulation](#), issuers whose securities (shares or bonds) are admitted to trading on an EU-regulated market must comply with new digital reporting requirements for consolidated annual financial reports for fiscal years beginning on or after January 1, 2020, as follows:

- For financial statements prepared in accordance with IFRS Standards, the primary financial statements must be marked up in detail with XBRL tags and embedded in an eXtensible HyperText Markup Language (XHTML) document³ using iXBRL. The notes to the financial statements must be tagged individually as a block of text in 2022.
- For financial statements prepared in accordance with any other basis of accounting, such as U.S. GAAP, the annual report is not required to be marked up with XBRL but must be in XHTML format.

As a result of the above reporting requirements, many EU issuers will need to reassess their current financial reporting processes to ensure compliance with the digital reporting requirements.

In addition, the ESEF Regulation requires the auditor to provide an opinion of whether the financial statements comply with the ESEF requirements, including the XBRL tagging. This EU directive is the first large-scale mandate in which independent assurance is necessary for XBRL data.

EU member countries are developing guidance on performing the assurance engagements; however, more detail is needed on how auditors will meet the overall requirements. In November 2019, the Committee of European Auditing Oversight Bodies issued [guidelines](#) on auditors' involvement with ESEF financial statements. The following month, Accountancy Europe issued a [briefing paper](#) on independent assurance related to ESEF. These documents will help form the basis of the upcoming XBRL assurance engagements.

The assurance mandate for EU filings points to the increasing need for data quality in XBRL-tagged financial statements due to the increasing use of XBRL by consumers of financial data.

FERC's XBRL Program

A new XBRL program is being developed for companies that submit certain forms to FERC, particularly public utilities. These companies will be required to use XBRL to create and capture the information they submit to FERC, thereby ensuring more accurate reporting and more efficient analysis of the data.

XBRL will be required for FERC Forms 1, 1-F, 2, 2-A, 3-Q, 6, 6-Q, 60, and 714. The expected date for utilities to start reporting by using XBRL is mid-2021, pending guidance from FERC.

² The final rule states, "During the second quarter of 2017, individual financial statement information XBRL exhibits were accessed on the EDGAR website approximately 53.1 million times (including approximately 13.7 million unique filing views by approximately 149,000 unique [Internet Protocol (IP)] addresses) and individual risk/return summary XBRL exhibits were accessed approximately 6.8 million times (including approximately 839,000 unique filing views by approximately 8,000 unique IP addresses). This is the approximate equivalent of 287 exhibit views and 74 unique filing views for each filing with financial statement information XBRL data and 224 exhibit views and 28 unique filing views for each filing with risk/return summary XBRL data during the examined quarter" (footnote omitted).

³ XHTML is a human-readable format that can be opened in a standard Web browser.

Affected companies that are already submitting XBRL-formatted filings with the SEC should communicate with their existing vendors about support for FERC's XBRL program and explore how to integrate data and applicable processes. Affected companies that are not subject to the SEC's XBRL requirements should become familiar with FERC's upcoming XBRL requirements and reporting processes.

Contacts

If you have questions about this *Heads Up* or would like information about the services Deloitte can provide, please contact our XBRL specialists:

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