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SBR/XBRL: A hot topic internationally with rising local prominence

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The Australian Government’s Standard Business Reporting project announced in August 2006, which aims to reduce the regulatory burden on business, has shone a spotlight on XBRL. This information technology facilitation tool has prominence internationally but has been slow to develop in Australia. In Japan, Singapore and China, regulatory agencies have mandated business reporting to government using XBRL, with the USA, Netherlands and UK (and others) planning to move to compulsory XBRL filings (from the current voluntary position) in the next few years. The momentum in XBRL developments is rising with the need for the Australian business, academic, professional and public sector communities to now increase its appreciation and understanding of the impacts and implications of this new mechanism for increasing information functionality.
What is XBRL?

XBRL (extensible business reporting language), is a richer version of a computer language known as XML (extensible mark-up language). It is being developed primarily by government agencies around the world to make financial reporting by businesses more efficient and useful. Current reporting often requires the distribution of the same data to multiple local, state and federal agencies on paper-based forms that are then re-keyed for the agency’s needs. The inefficiencies and errors of a paper-based system contribute substantially to the red tape, particularly for small and medium enterprises (SMEs), in relation to compliance regimes. This issue is less about IT or accounting, and more about the quality and accessibility of business information.

XBRL can improve the reporting of business information in a number of ways. However, to achieve the benefits claimed, reporting elements need to be standardised so that there is a shared understanding of definitions and labels attached to all pieces of information by users of information. The shared understandings are described as ‘taxonomies’. Taxonomies are a description and classification system that allows data to be tagged with narrative information including labels, presentation requirement (for example, language and currency), references (for example, to reporting standards such as International Financial Reporting Standards and Generally Accepted Accounting Principles), formulas, contexts and calculations. Data is thereby enriched by tagging, with these qualities capable of being retrieved after the data has been aggregated for reporting purposes. Taxonomies can also be customised or extensible to retain the unique informational needs and qualities that may be specific to certain contexts.

A simple example that illustrates how tagging can benefit information exchange and retrieval is to consider the XBRL tagging process as similar to a barcode. Barcodes enable pricing to be changed easily through a central database, provide costing and manufacturer details, allow for stock control and stocktake capabilities, and can also be used to provide data about consumer purchasing behaviour such as buying patterns. To tag financial data with quantitative and qualitative data in machine readable language can be extremely informative to many users of the information. Taxonomies are the key to the standardisation process and these are being developed as open standards with over 500 contributors including government, professions, and industry groups from many countries involved in arriving at the standard taxonomies.

Benefits of XBRL

XBRL initiatives and implementation around the world have the capacity to reduce regulatory burdens (the underlying motivation in Australia and the Netherlands); provide increased transparency in reporting for the benefit of investors and capital markets (the stated motivation in the US); and reduce the cost of data storage, retrieval and processing. In relation to regulatory compliance, interoperability can be enhanced by sending the information electronically to one agency through a single interface, allowing information to be propagated for the needs of other agencies. Electronic lodgement is much more than submitting PDF/HTML files that cannot be accessed and often needs to be re-keyed for alternative uses. XBRL allows data to be easily de-aggregated by users for their own needs, enhancing the functionality of data and saving considerable time in data compilation and reformatting (see, for instance, Miller 2008).

In relation to capital markets, the key benefit of XBRL is the comparability of data. Data can now easily be interrogated by software programs designed to mine and manipulate XBRL data in a far more efficient and timely manner in real time through internet access. The reduced information costs and the speed with which data can be accessed means that many small or medium size companies that were previously not included in financial analysts portfolios can now be included in recommendations. This increases capital mobility with the potential for reductions in the cost of capital (see, for instance, Weber...
The ability to compare standardised data through the usage of XBRL is another step in the globalisation of financial reporting, with differences in reporting regimes becoming less important: the application of particular taxonomies to any data set allows data to be interpreted within multiple contexts (see, for instance, Premuroso and Bhattacharya 2008). Other benefits of adopting XBRL are listed on the www.sbr.gov.au website and include:

- less errors in government work
- online validation of forms, and confirmation when forms are received
- less likelihood that errors will be made
- less queries and follow-up from agencies
- more certainty about transactions
- increased business output and productivity
- management of reporting creep
- innovation in the private sector
- reduced costs in dealing with unintentional non-compliance
- reduced cost of data exchange among government agencies
- improved collaboration among government agencies
- a faster and more consistent way to resolve business reporting queries
- more efficient and effective revenue collection and regulatory monitoring
- increased electronic reporting leading to a reduction in paper lodge ments with potential savings downstream associated with scanning, storage and re-keying of information
- greater comparability of the financial performance across the globe should facilitate borrowing at a lower cost, because of reduced information risk for lending institutions.

The Australian Standard Business Reporting (SRB) Project

The SBR project is a government multi-agency initiative to make business reporting to government simpler. The usage of XBRL tagged data will make it easier for the specific needs of many government agencies to be met by accessing data lodged by businesses once through a central portal. The objective is to eliminate multiple filing requirements and allow data to be interrogated without reprocessing. Time and cost savings are expected to accrue to both government agencies and to businesses by reducing regulatory burdens. The Treasury program will involve many developmental phases before implementation from 1 July 2010 and includes the following major streams:

1) Harmonisation of reporting, involving the development of a set of harmonised reporting terms and definitions.

2) Creation of a reporting taxonomy, involving the development of an XBRL taxonomy for use in Australia.

3) Mapping the reporting taxonomy to business accounts, involving the development of software.

4) Developing SBR core services, involving the development of information technology (IT) capabilities and infrastructure including a single-sign on process and system for secure online interactions.

5) Connecting government agency systems to core services using the developed IT capabilities and infrastructure that has been developed and using third party software.

6) Education and two-way communication with business, software developers and business intermediaries, involving information and advice to encourage voluntary use of the capabilities.

A pilot Tax File Declaration project with the Australian Taxation Office is scheduled for...
along with a style sheet presenting information (print), assurance will be required that both the instance document and the style sheet are presented to the users. Where users are likely to use an instance document to import data into analysis tools or spreadsheets, assurance will be required that the instance document has been prepared using an appropriate taxonomy, that the data has been properly tagged and mapped, that the instance document has been properly rendered into readable form in the style sheet and contains same data. Assurance also may be required on the style sheet itself, including the data therein.

The need to ensure data integrity, privacy and security will mean that both auditing and assurance standards and legislation will need to be developed to protect the rights and needs of all stakeholders in the information supply chain. The following regulators and organisations now use, have been involved with the development of, or endorse XBRL:

- Australian Prudential Regulation Authority (APRA)
- Australian Taxation Office (ATO)
- Australian Securities Exchange (ASX)
- Australian Government Information Management Office, to transfer data efficiently throughout the public sector
- Australian Investments and Securities Commission (ASIC).

In addition, XBRL is a standing item on the agenda for each Australian Financial Reporting Council meeting and its auditing implications are the subject of a taskforce of the International Auditing and Assurance Standards Board, and regularly discussed at meetings of the Australian Auditing and Assurance Standards Board.

FINANCIAL REPORTING

XBRL formatting will enable investors to more easily analyse and understand financial statements. It will enable a shift from static, text-based financial information to data that can be searched and analysed in a new way that facilitates the comparison of financial and business performance across companies, across reporting periods, across industries and across jurisdictions. The greater emphasis on analytical skills rather than compliance will also have repercussions on the content of education programs. Graduates will need to be versed in the new processes, flexibilities and data richness that facilitate enhanced analysis and interpretation.

CHALLENGES

The adoption of XBRL is not without its challenges. Resistance to change, lack of knowledge of XBRL, disproportionate costs for small business, lack of standardisation in creation of new data tags, the impact on assurance and audit services, the application to financial report narratives as well as numbers, and lack of comparability are all issues that present challenges (see, for instance, Miller 2008). Concerns over the low rate of voluntary adoption (see, for instance, Weisel 2002), including in Australia (Doolin and Troshani 2007), have been expressed together with the fact that the expected benefits of XBRL are yet to be proven.

Global initiatives

Europe has been very active in the promotion and implementation of XBRL initiatives as a consequence of the need to access and interpret data across language and currency barriers. The benefits of using this technology are that once established the data is not language specific or financial reporting regime specific. Taxonomies established in any country can access the tagged XBRL data and convert it to any language and to any statutory reporting definition established.

In a major recent development, on the 14th May 2008 the US Securities and Exchange Commission (SEC) approved a proposal to mandate filing of financial statements using XBRL, or ‘interactive data’ as it is known there, for 60-day comment. The proposal is to require domestic and foreign issuers using US GAAP, and eventually those that use International Financial Reporting Standards (IFRS), to submit their primary financial statements and notes in XBRL format. A phased approach is advocated, whereby in the first year domestic and foreign accelerated filers with worldwide public float of $US 5 billion or higher (approx 500) will file in XBRL format for fiscal periods ending on or after 15 December 2008. In the second year, all other domestic and foreign accelerated filers will do likewise, and in the
January 2009 as the first application. This project involves developing connectivity between business, software developers and the Australian Taxation Office for the exchange of Tax File declaration information.

The SBR project is one form of application of XBRL to the outcomes of an information supply chain (the reporting of performance and position for periodic financial reporting) that allows for the granularisation of information which software programs can access and reuse data in a myriad of ways. The opportunity to further increase information functionality by using XBRL earlier in information supply chain is also possible.

**Implications of XBRL adoption**

**INFORMATION SYSTEMS**

One of the potential consequences of the introduction of XBRL is likely to be a streamlining of systems development activities within firms. This in turn will affect the information systems activities undertaken, and in the long term the demand for information systems skills. While there is an ongoing trend towards widespread adoption of XML in systems development, the lack of industry standards for XML definitions means interoperability between vendor products and databases has been quite limited.

Substantial firm budgets are still currently being expended in medium to large firms on developing ‘middleware’ software. This form of software acts as an intermediary between software applications and vendor products so that they can exchange data. Middleware software must often be individually tailored to let different systems share data, or to enable users to access data held in legacy systems using familiar browsers. XML has the potential to streamline this effort, however, without agreed taxonomies (like XBRLs) too much of the middleware development effort is spent on analysing data, translating data between different sources, and on testing the middleware code that translates data.

In future, firms will have incentives to use XBRL-based taxonomies rather than develop their own internal taxonomies for this effort, since they will need to expend effort anyway to accommodate regulators requiring XBRL-based reporting.

This will soon lead to a much greater level of standardisation which, in turn, will reduce the need for much of the systems development effort associated with such middleware. There will therefore be a shift in skill demand: less need for software developers with intimate understanding of the languages of middleware (including, C, C++ and Java) and more demand for those with a deep understanding of business conventions (and language), data analysis, and of XBRL. The use of standard definitions based on XBRL will also reduce much of the effort of ‘maintaining’ (that is, adapting) existing software. Historically, the largest single computer system life cycle cost has been that for maintaining information system software. Once data is stored in XBRL format, maintenance efforts can be fully or partially automated. Standardisation based on XBRL will also encourage more systems maintenance to be outsourced. In all, there will be shift from demand for highly specific technical skills to more hybrid business-technology skills that emphasise understanding of the business language and processes.

**DATA INTEGRITY, AUDITING AND ASSURANCE**

The introduction of XBRL for financial reporting presents new challenges for both existing assurance processes and also in relation to new needs identified as part of enhanced data interrogation and interoperability. In terms of auditing, traditional financial reporting converted to XBRL format will require assurance that data represented in a XBRL document is the same as data in the audited financial report, and that appropriate taxonomies have been used and the data tagged and mapped correctly. From the point of view of regulatory or government agencies, for any information uploaded in XBRL format, assurance will be required that data included is accurate and properly stated and in accordance with the applicable rules and legislation, and that a proper taxonomy has been used and applied correctly. Where traditional documents accompany the instance documents, assurance will be required that data in traditional documents are the same as data in the instance document and meet the regulatory and legislative requirements. Where an XBRL instance document is presented
third year, all remaining companies. This move in the US provides significant impetus for those jurisdictions that have been slow to progress the XBRL agenda to raise the profile of XBRL issues.

In Europe, emphasis has been on cross-border and government applications. In Ireland, it has been tax regulators who have been at the forefront of implementation. In Germany, local municipalities have been the driving force. In Spain, it has been the banking sector, with that work feeding into Basel II reporting across the member states represented by the Committee of European Bank Supervisors. In the Netherlands, the main impetus has come from the Water Board, and in Denmark it has been the Companies House (Kernan 2008). In Asia, it has been the stock exchanges that have driven implementation with China, Japan, Singapore and South Korean exchanges mandating XBRL reporting (Kernan 2008). All of these developments have occurred since 2005.

**Conclusion**

XBRL In 2008 is poised at a crossroad, similar to where the Internet itself was poised 10 to 15 years ago. It is set to become ubiquitous on a global basis. While Australia has been somewhat slow to harness its potential, the SBR project, although not advocating compulsion, is set to revolutionise business reporting and reporting to government. Amongst other implications, XBRL provides the potential for regulators to automatically review and analyse pre-validated annual filings, for accountants to prepare and publish annual reports and regulatory filings, for banks to automatically consume and analyse pre-validated customer financial statements for loan covenant monitoring and ongoing credit risk assessment, for analysts to automatically import pre-validated and consistent company financial information for comparison with other investment alternatives, for investors to access corporate reporting data and analyse it at low cost, and for management to access consistent, valid data (potentially free) for benchmarking its own performance against competitors and peers, anywhere in the world.

**References**


