

Benefits of XBRL for Finance Executives

Anticipating the widespread adoption of this technology standard, more and more companies are getting on board and using it for their own financial data.

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Many finance executives these days are wondering, "What is XBRL and what's in it for me?" Though most have heard of XBRL, very few know what this new technology standard can do for them or how their companies can benefit from it.

First introduced in the late 1990s, XBRL has loomed on the horizon for nearly a decade. But it's finally becoming evident that the technology is about to take center stage, and the long-anticipated XBRL revolution will soon be upon us.

Many regulators and standards organizations, including the Securities and Exchange Commission, American Institute of Certified Public Accountants and the Financial Executive Institute, are now adopting XBRL. The SEC, for its part, is spending millions and warning us that XBRL is coming. In fact, SEC Chairman Christopher Cox has offered his strong support for XBRL in many of his public speeches since taking office.

Emphasizing the ease with which public companies can be examined and compared by using XBRL, Chairman Cox has called the technology "truly revolutionizing and exciting ... with the potential to slash hours of waste, cost and inefficiency

- not just for users of financial data but for the companies that prepare it as well."

Yet most finance people wonder if XBRL is going to hit them like Sarbanes-Oxley compliance did. Many are asking themselves whether the SEC will mandate the use of XBRL in the filing of financial reports, though the SEC has not signaled its intention to do so. In fact, it has been very clear that it does not want XBRL to be a mandate. Still, finance professionals don't want to be caught off guard. If mandates are to follow, they want to be fully prepared and on top of the technology.

It's also worth noting that blue-chip companies like Cisco, Microsoft, United Technologies and others are voluntarily filing their SEC documents using XBRL. Microsoft was the first company to provide a full set of financials and footnotes in XBRL when it filed its annual Form 10-K report to the SEC for the year ending June 30, 2005. And United Technologies, believing that XBRL may eventually become a requirement, is also participating in the SEC's Voluntary Filing Program.

Companies like Microsoft and United Technologies understand that taking part in voluntary programs is an ideal way to learn and get comfortable with the

technology. Given all it has to offer, many finance people believe XBRL will inevitably become the standard. They want to get familiar with the technology sooner rather than later, because they know they will be better off in the long run.

For most organizations, XBRL does indeed represent a giant leap forward. It is something that can radically improve how the finance department does its job.

XBRL can speed reporting, aid analysis, reduce errors and improve audits by making it much easier for companies to collect and analyze data. It can also make it more efficient and less costly to communicate financial and business information. And by integrating all financial data across ERP and other IT systems, XBRL can eliminate the gap that exists in most companies between internal and external reporting.

As the founding chairman of XBRL International describes it, "The effect that XBRL will have on the business community will be more significant than the transition from paper and pencil analysis of financial information to the use of electronic spreadsheets."

THE ROLE OF THE FINANCE DEPARTMENT

The finance department serves two critical functions. First, it acts as a funnel for data to be turned into accurate and relevant information to be sent across the organization. Second, the finance department makes information available - in a very public forum - showing how well the organization is performing.

Today's finance teams have great skill and experience in consolidating financial and operational data. They also have the ability to transform that data into reports that answer key questions asked by stake-

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holders both inside and outside the organization. What oftentimes goes unnoticed, however, is the amount of effort it takes to do all this aggregation and to get all the data sliced and diced so that everyone gets the information they need.

Making sure the data is 100 percent accurate, relevant and properly disclosed is a monumental achievement. But in our ever-changing, compliance-driven environment - where all disclosures must be absolutely transparent - these wizard-like efforts may not be enough. True, there are some organizations that have managed to stay ahead of the game by tracking almost all their data in enterprise applications. But even there the process starts to break down when the number of business units, departments and contributors grow.

In most companies, there are multiple accounting systems, different charts of accounts, divergent ways of classifying data and unique regulatory requirements. There's a lot of work that goes into collecting and reconciling all this data, and it boils down to a few spreadsheet superstars in finance that pull it all together.

When the finance department gets its books closed and the financial statements out, the mood can range from confidence and satisfaction to relief at having dodged another bullet. Chances are it's a little bit of both. There's tremendous pressure on the finance department to make sure:

- The SEC filings are accurate, complete and meet all current regulatory requirements;
- The subsidiary financials are accurate, footed and footnoted properly before consolidation;
- The consolidated financials are themselves accurate, they coordinate with the footnotes and there are no contradictions; and
- Supporting spreadsheets are error-free.

Along with all these pressures, auditors are increasing their fees by thousands of dollars because there are - or at least they think there are - errors. Sometimes it's not confirmed that footnotes and financial statements properly match and support each other until days, hours or even minutes before the filing.

FACILITATING PROCESSES

No one wants to be on the wrong side of a disclosure issue. XBRL represents an opportunity to make this whole process easier. The work being funded by the SEC to capture the principles of U.S. GAAP into an XBRL taxonomy isn't merely another way of saying, "Here's more for you to do." In fact, it's just the opposite. The SEC is encoding U.S. GAAP into something computers can understand (the taxonomy), so they can be smart enough to make the financial reporting process both easier and more accurate for everyone involved. This taxonomy will be kept current with changing regulatory requirements.

Companies exist that provide the software and knowledge to help companies take advantage of the U.S. GAAP taxonomy and put it to use. By extending U.S. GAAP taxonomy to meet a company's specific requirements, its finance team will have an easier time managing other internal business reports as well.

Smart finance professionals are starting to understand that XBRL can benefit their organizations in many ways, such as substantially enhancing business and financial reporting systems. In fact, continents like Europe and Asia are blazing a trail in the adoption and use of XBRL. The Netherlands, for instance, has launched the largest XBRL e-government project in the world. The Dutch government is using XBRL to streamline the filing of accounting reports, tax declarations and statistical data, ultimately saving companies in that country more than \$1 billion annually.

In the U.S., the FDIC is using XBRL to collect higher-quality and more accurate data from over 8,000 U.S. banks under its authority. All in all, XBRL will allow the FDIC to analyze and publish more timely information on the health of the banking industry. The new XBRL platform will also help the FDIC generate an impressive \$26 million in cost savings over 10 years.

Any company, no matter its size, can benefit from XBRL. If your business uses a lot of spreadsheets - whether for consolidation, budgets, forecasts, product line P&Ls, sales pipelines, expense reports, timesheets or even Balanced Scorecards - then XBRL can deliver benefits.

One particularly attractive benefit is the potential for improved audits. Some auditors are already using XBRL-coded data for their clients. PricewaterhouseCoopers, for instance, is now converting documents into XBRL for its largest clients. Because XBRL provides more efficient analysis of company data, audits can potentially be performed faster, more accurately and at a lower cost.

Companies are even using XBRL as a tool for competitive analysis, since the technology makes it faster and easier to collect and analyze data about other players in the same space. XBRL can also help solve internal data integration problems by allowing tagged information to flow seamlessly from one system to another, regardless of how big the organization is or how many disparate enterprise software systems are in place.

Finally, XBRL could make it easier to publish external financials to any agency - whether it's the SEC, IRS or FDIC - that requires them. Thanks to XBRL, companies can easily repurpose financial and business data without having to create one-off reports for each agency - or expend a significant amount of time and energy in the process.

Still, as much as we would like to believe our organizations are automated to the hilt, we know there are many talented people behind the curtain, pulling the ropes and levers. Oftentimes they are our finance team. And, against all odds, they make it look easy.

It's illustrative to think of XBRL as the technology that allows a computer to take control of some of those ropes and levers, giving instructions to make sense of a sea of disconnected data - and intuitively understanding when the information is right, and when it's wrong. When they learn what it's all about, finance professionals will quickly see why XBRL adoption makes excellent business sense. ■

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