

COMPLIANCE WEEK

Software, Printing Vendors Prep for XBRL

By Melissa Klein Aguilar — March 18, 2008

Many public companies have been, ahem, less than enthusiastic about adopting XBRL for their financial-reporting processes. Software vendors, however, are just about doing handsprings for what they see as their moment finally arrived.

In the last six months, the Securities and Exchange Commission has unveiled a trio of XBRL software programs for investors; the most recent, its Financial Explorer application, was added only last month. The tools are intended to help the public analyze and compare financial data more easily, once companies tag that data in eXtensible Business Reporting Language. SEC Chairman Christopher Cox has long hailed it as “the future of financial reporting.”

Software vendors can't wait. Michael Schlanger, vice president of strategy at financial printer Merrill Corp., says XBRL will finally make the “A” in the SEC's EDGAR filing system—which stands for “analysis”—come true. “That has been missing,” says Schlanger. “EDGAR doesn't have any built-in analytical tool capability, which was the vision SEC had when they started EDGAR.”

Gary Purnhagen, a former Merrill Corp. executive who now works as an independent consultant, agrees that XBRL “completes the promise of EDGAR.”

On the regulatory side, both the SEC itself and its special Advisory Committee to Improve Financial Reporting are nudging XBRL to fruition. Last month, CIFR gave its endorsement of XBRL, albeit in a phased-in style starting with Fortune 500 companies so all questions—especially whether auditors will need to inspect XBRL tagging—can be answered in due course. The SEC has promised to propose a rule by the end of the year to mandate XBRL, although the Commission seems to be waiting for CIFR's final recommendations before going further.

Then there's the SEC's software initiative.

The Commission hopes to drum up enthusiasm for XBRL with its three freely available software applications. Financial Explorer lets users create interactive charts and diagrams and compare earnings, expenses, cash flows, assets, and liabilities for companies in the same industry, based on filings from the companies in the SEC's voluntary XBRL program.


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Financial Explorer follows the Executive Compensation Viewer, which lets users compare pay data from 500 of the largest U.S. companies, and it also follows the Interactive Financial Report Viewer, a precursor to Financial Explorer that also allows investors to study XBRL-based filings submitted to the SEC.

Companies in the business of analyzing financial data or selling XBRL software say they don't see the SEC's free programs as a competitive threat. "The tools are the SEC's way of saying, 'We're serious about XBRL; it's coming,'" says Liv Watson, vice president of global strategy for EDGAR Online. Watson describes the SEC's role as a "fire hose" to disseminate corporate financial data, not to help investors analyze it. "That's not their business," she says.

Similarly, other observers say the tools are a way to showcase XBRL's potential.

"What the SEC is doing with its tools is helping people understand what's possible with XBRL," says Steve Levine, marketing chief at UB Matrix, a maker of XBRL software applications. "The SEC viewers only scratch the surface of the kinds of things people can build in XBRL."

Purnhagen describes the tools as the proverbial carrot in a carrot-and-stick strategy the SEC is using to promote XBRL: The tools demonstrate the power of XBRL technology, and a regulatory mandate to use it will be the stick.

Also, the SEC programs are open source, meaning the underlying computer code is freely available for other programmers to use and modify, so long as those modifications are also open to the public.

Purnhagen says the public should see new XBRL-based software that will let investors "do things that would be very expensive and time consuming today," such as analyzing data from gas and oil companies to find those with gas reserves of 50,000 barrels or more. Today, he says, such a task would require a subscription to a third-party aggregator—such as 10-K Wizard or EDGAR Online—or would require people to search for the information themselves in company filings, download it, and then do their own analysis.

The adoption of XBRL "is going to be incredibly good for the market" Watson says. "When there's more consistent data in the market, the winners are the investors."

And what of potentially lost business, when investors no longer need aggregators like EDGAR Online? Watson likens the situation to how the music industry was caught flat-footed by Napster, which allowed people to find and trade raw music files themselves. Intermediaries such as EDGAR Online "have to move up the data chain to integrate more data and build business intelligence on this information," she says.

To that end, EDGAR Online struck a partnership with financial printer R.R. Donnelley last year to offer XBRL tagging and XBRL filing services. "We're jumping in with both feet," Watson says. "We believe we can build better products, and XBRL technology allows us to do that."

Any mandate from the SEC would only require companies to use XBRL for their external reporting. That alone is a large business opportunity, but XBRL enthusiasts say it's just the tip of the iceberg.

Wilson So, director of Hitachi America's XBRL division, says that once companies are required to file their

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external reports in XBRL, they're more likely to consider using XBRL internally as well. "Our vision is to use XBRL for both internal and external reporting," he says. "The use of XBRL for internal reporting will be a much bigger market if it takes off."

Levine agrees that SEC reporting "is only the start" for XBRL. Real efficiencies and savings from the technology will come from using XBRL for internal reporting, he says.



Blake

Rob Blake, senior director of interactive services at financial printer Bowne & Co., says companies can use XBRL to help them review their data prior to submitting it. For example, he says, while reviewing one company's SEC filings tagged in XBRL, Blake found a discrepancy in the net income amounts reported on the company's cash flow statement and income statement. He went back to the original SEC filings and found that the information submitted didn't match up.

"It can provide a check and balance on data that some companies don't have today," he says.

Purnhagen adds that XBRL regulation "isn't going to stop with the SEC." He predicts other agencies, such as the Internal Revenue Service, will eventually require filings in XBRL. The Netherlands is attempting to adopt XBRL using such a cross-agency approach.

"All companies want to hear right now is what the SEC" will require, he says. "They don't view the current process as broken." Once a mandate is in place for some companies, he adds, "I think we'll see companies that aren't yet mandated jump on board sooner."



Neblett

Still, Andrew Neblett, chief executive of EDGARfilings, an EDGAR software developer, says the company sees XBRL and HTML (the technology to craft and display Webpages) "going hand-in-hand." He likens it to a consumer buying cereal at a grocery store. "We don't read the barcode; we read the label on the box," he says. "The computer reads the bar code."

Neblett says the process for EDGAR is similar: "We don't need to see the XBRL code, but [it] should make it easy for the computer to process it. XBRL is great for computers; HTML is great for people."

EDGARfilings has its own software to help clients tag and map their documents. "They are finding the process be a relatively quick and simple process once they understand the concepts," he says. "Whatever format the SEC mandates, we will make the process easy for our clients."

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