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XBRL: “What’s in it for me?”

An Open Letter to Finance Executives from a Finance Executive

By Mike Makris, Vice President of Finance, UBmatrix, Inc.

Dear Finance Colleague,

I get this question all the time: “What is XBRL and what’s in it for me?”

Though most financial professionals 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. Yes, the long-predicated 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 can’t help but wonder if XBRL is going to hit us like SOX compliance did. Many are asking themselves whether the SEC will mandate the use of XBRL in the filing of financial reports. 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 fair to wonder why blue chip companies like Cisco, Microsoft, United Technologies and others are voluntarily filing their SEC documents using XBRL. What exactly is going on here?

Well, Microsoft was the first company to provide a full set of financials and footnotes in XBRL. Last year, it even began submitting its Form 10-K report to the SEC in an XBRL format. 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.

If your organization is anything like the organizations I've worked in, I'm sure you'll agree that XBRL represents a giant leap forward. I believe that XBRL 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.

Don't just take my word for it. Listen to what Mike Willis, a PricewaterhouseCoopers partner and founding chairman of XBRL International, has to say about the technology. "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," he exclaims.

You've probably heard of people like Mike Willis and Christopher Cox before. But who am I? Here's a little background on me: I've been in finance for more than 25 years. I did my tour of duty at a big accounting firm (KPMG Peat Marwick), and spent 11 years in various accounting and leadership roles at United Technologies, a Fortune 100 company. I've helped take companies public. I've worked at private companies. I've run accounting using everything from QuickBooks to Oracle and many others in between. I've been around the block.

In my experience, 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. And secondly, the finance department publishes information to a very public forum on 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 amazing ability to transform that data into reports that answer key questions asked by stakeholders both inside and outside the organization. What often times 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 truly 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. Of course, this makes a huge difference. But even in these organizations, 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 ultimately it boils down to a few spreadsheet rock stars (bless them) in finance that pull it all together.

But let me ask you this: When you finally get your books closed and the financial statements out, which of these two statements best reflect your mood:

1) “We’ve got a well-oiled machine!”

2) “Whew! Dodged another bullet! I hope…”

Chances are it’s a little bit of both. My point is, there’s all this pressure on the finance department to make sure:

- The SEC fillings 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 that there are no contradictions.
- Supporting spreadsheets are error free. (Don’t you just love those cell errors?)

Now couple all these pressures with the fact that auditors are increasing their fees by thousands of dollars because there are—or at least they think there are—errors. Oh, and by the way, when do you finally ensure that the footnotes and financial statements properly match and support each other, is it days, hours or minutes before the filing?

Let’s be honest, no one wants to be on the wrong side of a disclosure issue. If there were a way to make all of this easier, you’d want to know about it, right?

Well, that’s the opportunity XBRL represents. The work being funded by the SEC to capture the principles of U.S. GAAP into this thing called an XBRL taxonomy isn’t merely their 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 all of us. This taxonomy will be kept current with changing regulatory requirements.

Companies like UBmatrix are here to provide the software and knowledge to help you take advantage of the U.S. GAAP taxonomy and put it to use in your own organization.
What’s more, by extending U.S. GAAP taxonomy to meet your company’s specific requirements, your team can make it easier to manage other internal business reports.

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.

The FDIC is using XBRL to collect higher quality and more accurate data from more than 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 ten years.

Any company, no matter how big or small, can benefit from XBRL. Quite simply, 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 is for you.

One mouth-watering 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 competitors. 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 ton of time and energy in the process.

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

I like to think of XBRL as the technology that allows my computer to take control of some of those ropes and levers, giving instructions to make sense out of a sea of disconnected data—and intuitively understanding when the information is right, and when it's wrong.

That can only make my life easier. And, goodness knows, we finance professionals need a break once in a while. Hopefully you'll come to appreciate XBRL as much as I do. I know you will.

Cheers,

Mike

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