Public Companies: Are You Ready to Comply with XBRL?

The Securities and Exchange Commission (SEC) has talked about eXtensible Business Reporting Language (XBRL) for years — now it's finally mandating compliance. XBRL is part of its Interactive Data Electronic Applications (IDEA) project, which eventually will replace the document-centric Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. According to the SEC's final rule issued in late 2008, some larger public companies must begin filing financial statements in XBRL for periods ending on or after June 15, 2009.

Smaller public companies and foreign private issuers aren't off the hook for long. Depending on their size, these filers should anticipate adopting XBRL for periods ending a year or two years from now. They also have the option of getting a head start by voluntarily transitioning to XBRL before they're required to do so. If your company has yet to invest in the technology and train personnel to manage the XBRL process, you can't afford to wait any longer.

Mark Your Calendar

The first step to compliance is to find out which XBRL phase-in group your company falls into:

Group 1. This group includes most of the largest public companies, including all U.S. and foreign registrants that file in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and have a public float above $5 billion (approximately 500 filers). Members of this group must file XBRL-compliant financial statements beginning with fiscal periods ending on or after June 15, 2009. A calendar-year-end company in this group, for example, will need to provide XBRL-compliant data beginning with its June 30 Form 10-Q.

Group 2. This group includes the next tier of large accelerated filers using U.S. GAAP (around 1,300 filers). These companies must begin filing XBRL data for fiscal periods ending after June 15, 2010.

Group 3. The remaining public companies, including smaller companies that file in accordance with U.S. GAAP and foreign private issuers using International Financial Reporting Standards (IFRS), must begin filing XBRL data for fiscal periods ending after June 15, 2011.

During the first year of adoption, you must use XBRL tagging for each line item in the balance sheet, income statement, statement of cash flows and statement of owners' equity, but you may tag each footnote and financial statement schedule as a single block of text. In subsequent years, detailed tagging is required for individual amounts and narrative disclosures within each footnote as well as for individual amounts within each schedule. You aren't required to tag Management's Discussion and Analysis of Financial Condition and Results of Operations.

The SEC is providing 30-day grace periods after the official EDGAR filing for companies to file their first XBRL exhibit and detailed tagged footnotes. But that doesn't mean companies scheduled to be phased in this year, or even in 2010 and 2011, can afford to be complacent. Preparing for XBRL typically takes considerable time and labor.

The To-Do List

XBRL doesn't impose any new disclosure requirements and "is not about changing what companies report," according to a spokesperson for XBRL US, the national consortium for XML business reporting standards. But it is likely to create additional administrative work — at least, initially.

After you determine when you must begin filing in XBRL, assess your internal resources. For example, are any of your IT or compliance staff knowledgeable about XBRL and prepared to lead the transition process or train other employees? If not, you may need to hire someone with these skills. Other tasks on the to-do list may include:

- Purchasing, and possibly customizing, XBRL management software,
- Training data-entry staff to use the software,
- Conducting information sessions for compliance staff, executives and board members so they know your phase-in date and understand the advantages and potential pitfalls of the new reporting system, and

- Becoming familiar with the XBRL U.S. GAAP Taxonomy Preparers Guide, which instructs companies on how to select the right tags within the XBRL taxonomies.

According to the SEC, the process of assigning data tags to all of a company's financial statements and any attached schedules will take approximately 100 hours the first time, but less after the initial templates have been created. For many companies, however, it will take longer. Outsourcing some or all of the work is an option if you don't have the internal resources.

These projects are likely to involve many people across several departments. So consider forming an XBRL task force that might include the manager of your XBRL transition project, department heads, IT staff and outside consultants to prioritize items and keep the process moving forward to your compliance date.

Need to Know

In-depth knowledge of XBRL isn't required of every employee who works on the transition or performs regular reporting tasks. But it is helpful to have a basic understanding of the format and its intended benefits.

XBRL is complex, but the concept behind it is simple. Each piece of information in a company's financial statements, including line items and footnotes, is tagged with a unique code that can be read electronically across different platforms — similar to Web HTML tags. So, for example, "net assets" and "receivables" have their own unique tags. XBRL allows numerical data, as well as narrative text, to be extracted and processed by many software programs and adapted to meet various uses and requirements.

For XBRL to work, all users must "speak" the same language. The language is organized as "taxonomies," or generally accepted vocabularies developed by industry groups, government agencies and other organizations. Taxonomies with thousands of different tags have been developed for specific accounting standards, such as U.S. GAAP and IFRS. XBRL can also be customized by individual organizations. You can, for example, create tag extensions that provide company-specific information such as revenue by product or business unit.

Good Outweighing the Bad

Critics claim that XBRL is too esoteric for widespread acceptance, especially among smaller businesses with limited resources. Some also argue that it will be years before XBRL collects enough data to enable meaningful analysis about reporting companies.

But most experts agree that XBRL is a giant leap forward for storing, accessing and analyzing public company financial information. It allows shareholders, investors, analysts, lenders and the media to quickly pinpoint the information they seek. Users can then extract it in a format that makes it easy to:

- Calculate financial ratios and other performance indicators,
- Draw comparisons with other companies, and
- Identify trends.

Financial statement issuers also welcome the change. Typically, public companies include financial statement information in SEC reports, in printed annual reports and on their Web sites. Because this information must be manually extracted and entered into Word, HTML or other types of documents, human error is responsible for inaccuracies. Through XBRL, reports can be generated and updated automatically, greatly improving accuracy.

Similarly, XBRL allows companies to quickly generate reports and analyses for their own internal use. You might, for example, use XBRL information to measure performance and costs and create financial and benchmarking models.

Be Prepared

Some companies are already on board with the new format — Microsoft and Reuters first published financial statements in XBRL in 2002, and other large filers have voluntarily adopted it since. A recent survey conducted by XBRL US found that two-thirds of the approximately 500 large public companies in Group 1 are ready to file XBRL-compliant financial statements. Unfortunately, this doesn't appear to be true of the larger pool of companies scheduled to phase in over the next few years. A Compliance Week survey reported that nearly 80% of public companies lacked even one employee very knowledgeable about the format; 15% said their organization had no XBRL knowledge at all.

Wherever your company falls on the readiness scale, XBRL compliance is inevitable. And it's better to prepare now so you don't have to scramble later.

For more information contact us and sign up to receive future Dixon Hughes communications.

About Dixon Hughes: With a staff of over 1200 located in eight states, Dixon Hughes ranks among the nation's top 20 CPA firms and provides a wide array of assurance, tax and consulting services to clients of all sizes. For more information, visit *www.dixon-hughes.com*.

To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code.