Policy Statement

Standing for trust and integrity

December 2009

Auditing and Assurance

Financial Reporting

eXtensible Business Reporting Language (XBRL) -
The impact on accountants and auditors

Documents filed using eXtensible Business Reporting Language (XBRL) or XBRL enabled documents are becoming more prevalent. Regulators, reporting entities and users of financial statements, annual reports and other financial information are interested in reducing costs, increasing efficiencies and the quality of information in dealing with financial reports. XBRL has the potential to play an important role in such endeavours and in particular in reducing costs such as the cost of capital by increasing transparency and ease of use of financial information.

This Policy Statement is designed to briefly explain XBRL and set out FEE's position on XBRL. FEE has monitored the developments regarding XBRL for some time and this policy statement is FEE's first initiative in respect of XBRL. FEE expects to continue to perform more detailed work in the area of XBRL in the future, for instance in relation to the expectation gap that may exist in respect of assurance on XBRL generated data. FEE might also consider other areas where the use of XBRL becomes prevalent, like for instance company and tax filings.

Additionally, FEE is committed to actively contribute to the International Auditing and Assurance Standards Board (IAASB) initiatives related to XBRL and its implications for auditors and other stakeholders.

Why XBRL?

There are many organisations including regulators that post financial information and maintain a history of such information on the internet. At present financial information is usually presented on the internet for public consumption in a static format such as pdf or html, the universal language for web browsers. Pdf or html are static formats that can enable interested parties regardless of physical location to access relevant financial information easily. However, pdf and html do not enable electronic data interchange of financial information or at least no better exchange than a "copy and paste".

These static formats mean that a person is required to access a single file and then read the information page by page. Any further interaction with the data requires the user to either cut and paste or re-key the information or otherwise render it in an appropriate format for further use. Several files may need to be accessed and read to achieve any particular end. For example, to compare the income of ten companies for a period of ten years is likely to require the user to access 100 discrete files, search in each one for the required information and then, if found, extract the relevant information. Thus, interacting with a population of static data to analyse it or to input it to an appropriate software package for further processing is burdensome,

expensive and error prone. These formats are also of little use for companies to file a tax return or for financial institutions to file a regulatory report and for tax authorities or regulators to electronically use the filing.

However if such information were made dynamic then it would be possible to automatically interact with the relevant data population and avoid the inherent usage costs and increase the quality. XBRL offers a way to make financial information dynamic.

It is also important to note that just as someone sending an e-mail does not need to understand the technology behind e-mails it is not necessary for the preparer or user of an XBRL enabled document to understand XBRL. In fact XBRL is designed to be written and read by computers rather than humans. However, technical skills are required of an accountant in order to ensure that XBRL is properly applied to the financial information presented. Therefore, there are significant education and training challenges to enable the proper use of XBRL, as explained in further detail hereafter.

In summary, using XBRL eliminates the need for repeated data inputting, comparison, transferral and submission, thus streamlining the process for collecting and reporting financial information. Consumers of financial data,

including investors, analysts, financial institutions and regulators, can receive, find, compare and analyse data much more rapidly and efficiently if it is in XBRL format.

What is XBRL?

XBRL is a computer based language for the electronic communication of business data. XBRL is promoted by an international non-profit consortium of companies, organisations and government agencies. It is an open standard, free of licence fees.

Who is using XBRL and for what?

Australia, Belgium, Canada, China, Denmark, France, Germany, Hong Kong, India, Israel, Italy, Japan, Korea, the Netherlands, Singapore, Spain, Sweden, Thailand, the United States of America and the United Kingdom are among the jurisdictions that require or have XBRL enabled regulatory filings to various degrees. In certain jurisdictions XBRL enabled filings are required mainly for supervisory reports to the banking regulator. Other jurisdictions have enabled XBRL filing of statutory financial statements for their business registers of financial information and in connection with corporate tax returns to their tax authorities.

How does XBRL work?

Instead of treating financial information as a block of text - as in a standard internet page or a printed document, XBRL provides a computer readable tag similar to a bar code so that electronically each individual item of data is uniquely identifiable.

XBRL Tags

The tag assigned to a specific figure in the financial information identifies certain characteristics that allow the information to be read, understood and manipulated by a computer programme that can recognise the tag. XBRL enables the automated processing of business information by computer software and so cuts out laborious and costly processes of manual re-entry and comparison. Computers can treat the data "intelligently": they can recognise the information, select it, analyse it, store it, exchange it with other computers and present it automatically in a variety of ways for users. In this way, XBRL greatly increases the speed of handling of financial data, reduces the chance of error and permits automatic checking of information.

XBRL Taxonomies

The library of tags required for any particular purpose is referred to in the XBRL world as a "taxonomy" and individual tags are known as taxonomy

elements. Taxonomies are available for all major Generally Accepted Accounting Principles (GAAPs) including International Financial Reporting Standards (IFRSs) and US GAAP. Taxonomies that are officially recognised by the XBRL International Consortium are free to use and available at: http://www.xbrl.org/Taxonomies/

The latest IFRS taxonomy is available at: http://www.iasb.org/XBRL/XBRL.htm. Readers may find the following document available from The International Accounting Standards Board (IASB) website particularly useful: *IFRS Taxonomy Guide 1.00 – All you need to know about the IFRS Taxonomy as a preparer, supervisor, software developer*[1]. The IASB is also consulting on the development of an IFRS for SMEs Taxonomy which is expected to be finalised by April 2010.

The XBRL taxonomy for IFRS complies with the requirements of International Accounting Standard 1 (IAS 1) on Presentation of Financial Statements. IAS 1 allows flexibility in the presentation of IFRS-based financial statements, which is included, and is expected to continue to be included, in the XBRL taxonomy for IFRS.

In addition to GAAP taxonomies, specific taxonomies have been developed by regulators and others for specific reporting purposes. Further, a special taxonomy to support the collation of data and internal reporting within organisations known as the Global Ledger taxonomy has been developed.

Extending a taxonomy

No two businesses are the same and as a consequence no two financial statements are likely to be the same. It is therefore highly unlikely that a taxonomy can be created that contains all the various elements any given population of reporting entities may require to tag up their financial report. For example, the tags a bank might need for its financial statements or annual report will likely differ from those required by a manufacturing company even though both may use the same reporting framework such as IFRS. In addition there may be entity specific information e.g. analysis of sales by product line that would be unique to the reporting entity. The "X" in XBRL stands for "extensible" and accordingly XBRL is flexible, enabling reporting entity to create specific elements by way of "extensions" to a given taxonomy. Such flexibility supports the adaptability required to ensure that the results, cash flows and financial position of a reporting entity can be presented fairly for any given accounting framework.

Use of extensions requires care to ensure that comparability with other reports using the same taxonomy is not unduly hindered. Accordingly it is important that extensions are used appropriately. Comparability is clearly enhanced when commonly used extensions are separately codified into the appropriate taxonomy to the extent possible.

[1] http://www.iasb.org/NR/rdonlyres/95D8BAE9-24A1-40D1-A6B1-46F1B9F32436/0 IFRSTaxonomyGuide100080828.pdf

XBRL Specification

E-mails can be transmitted and received worldwide regardless of computer system because the basic Information Technology (IT) standards required to make e-mail work have been codified and those rules have universal acceptance. Likewise, XBRL enabled information can be created and accepted by any computer as the IT standards that underlie XBRL have universal acceptance. These rules are called the XBRL Specification[2] and have been established by the XBRL International Consortium.

Generally, accountants do not need to be familiar with the detail of the Specification to use XBRL. Among other things, the Specification sets out rules as to the information that is required to create valid XBRL instance documents, taxonomies and extensions thereto.

XBRL instance

An XBRL instance is a computer file containing the XBRL tags for a given set of financial information. For example if a reporting entity tagged up its Annual Report the resulting computer file containing the tagged information is called an XBRL instance document. The tagging up of the annual report for any previous financial year would result in a further XBRL instance document for that year.
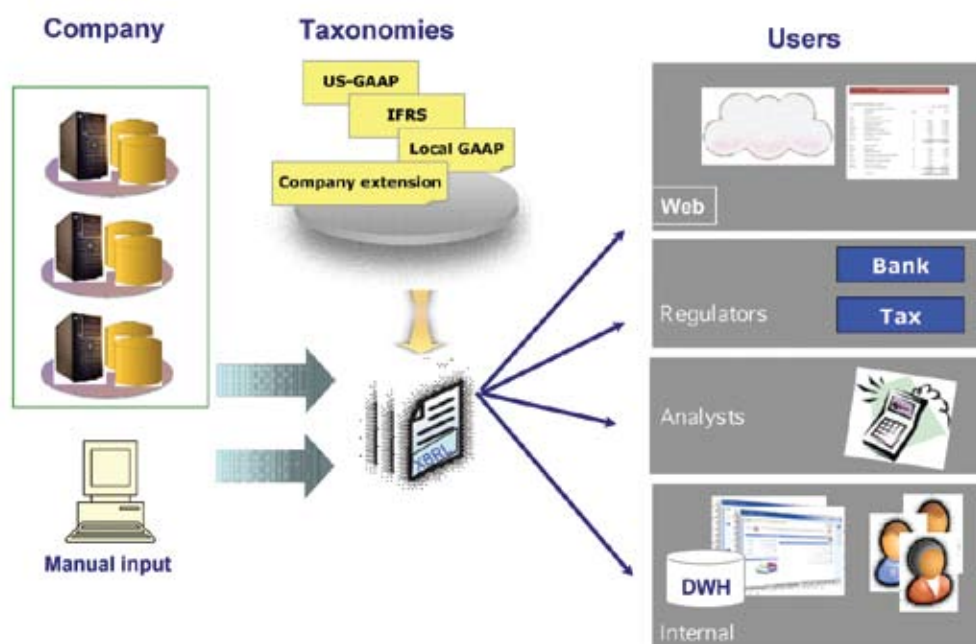
Instance documents are not meant to be read by users of financial statements; they are written in computer code, comparable to the html coding that is behind many internet pages. The benefits of XBRL-tagged information appear when an application converts the instance document to a human-friendly reporting format, in much the same way that a web browser converts html

code into the internet pages that we see. Such an application can be either a style sheet that transforms the instance document into a human readable format (what is known today as financial statements or an abstract of them), or any other tool that an application can use to consume the data buried into the instance to perform analysis or comparison.

An XBRL instance is prepared once but is capable of use many times and this flexibility allows a variety of user needs to be met. For example, an instance document could be used by an investor to extract data for analysis; used by the tax authorities to extract the information needed for tax return purposes; used by a bank for credit control purposes and so forth. In each case the user applies its particular computer application to the instance to extract the required data if these tagged data are available in the instance document.

Recently a new solution that uses web browser technology (html or xhtml) to handle instance document styles has been developed. This new solution is called Inline XBRL (iXBRL). It provides a mechanism taking XBRL fragments in financial and business information in html and adding to it hidden metadata which can be used to construct a machine-readable copy of the same information. The objective is to provide documents which can be viewed in a web browser while making use of XBRL tags which can be processed automatically by consuming applications.

The diagram below shows the XBRL reporting process. The information of a company, most of the time already electronically available in computer systems, is being tagged with XBRL labels. Information which is not available in the computer systems of the company can be inserted manually. The

[2] See http://www.xbrl.org/SpecRecommendations/ for the IT technical details.

XBRL labels are defined in a XBRL taxonomy. This taxonomy can be a core taxonomy based on IFRS, US-GAAP or a taxonomy based on local GAAP. It is also possible that the company uses company specific labels (extensions), which are defined by the company itself. The tagged data, called an instance document, is being sent by electronic means directly to users, like regulators or analysts or put on the web for interested parties to use. It is also possible to use XBRL internally and store data in XBRL format in a data warehouse (DWH) to be analysed.

XBRL enabled software

A variety of computer software solutions are available covering the creation and maintenance of taxonomies and extensions as well as the creation of instance documents. In relation to annual reports, commonly available reporting packages in a number of jurisdictions incorporate elements of XBRL either as part of the standard package or as an add-on.

In an integrated XBRL system, tagging of data is built-in and initiated when data are first input into the system. In an added-on XBRL system, data from the existing financial reporting system are converted into XBRL data at a later stage.

Supporting technologies

XBRL as a computer language requires supporting technologies covering software applications that:

- Enable the user to map business data from their pre-existing systems against appropriate XBRL taxonomies;
- View, edit, and publish XBRL enabled data including validating XBRL instance documents against taxonomies;
- Render XBRL enabled data in various formats for communication with interested parties;
- Provide for features such as version control, encryption, electronic signing and ensuring access to non-corruptible data only.

Recipients of XBRL enabled data will also require software applications enabling them to:

- Reference web services that facilitate the automated pulling of XBRL enabled data from the internet;
- Analyse the XBRL enabled data confirming its validity and appropriately port it over the user's relevant applications;
- Render the XBRL data in the user's desired format.

Implications for statutory auditors

Auditors generally opine on the truth and fairness of the financial statements of a reporting entity taken as a whole. This is based on a static (paper) document for which there is only one possible format and view.

The auditor is not expected to perform any work or provide any assurance on any of these XBRL taxonomies for which responsibility is to be borne by the developing organisation, like the IASB, the US Securities and Exchange Commission (SEC), etc. Just as auditors do not express an opinion on IFRSs or US GAAP themselves, the auditor would not express an opinion on the taxonomy itself.

There is an open question as to the level of assurance that stakeholders may require or expect in relation to annual financial statements that are XBRL enabled. Clearly it is possible for auditors to carry out agreed upon procedures in relation to a given instance document[3].

However given the dynamic nature of any given XBRL enabled document and the multiple ways in which it can be formatted or rendered it is possible that in time, the adoption of XBRL may require changes to the audit process to provide assurance to external stakeholders that each item of data within the given instance document maintains its integrity rather than assurance on the instance document taken as a whole. If an auditor was engaged to provide assurance on XBRL-tagged data, the auditor would consider the appropriate subject matter of the engagement along with other salient features such as general IT controls, controls over the suitability of the taxonomy and the integrity and completeness of processes such as the tagging of the financial information and any extensions required to the taxonomy in that process.

The IAASB is currently undertaking consultation to determine what auditors may be asked or expected to do with regard to XBRL. This may result in the development of guidance for auditors on the approach to be followed when XBRL financial statements are to be filed together with an auditor's report. The IAASB also plans to:

(a) Monitor developments with regard to XBRL to determine whether there is a demand for related assurance services;

(b) Monitor developments in continuous auditing and the continuous availability of information to assess whether to develop guidance; and

(c) Monitor other technology-related matters that may affect the audit of financial statements and therefore require the attention of the IAASB, for example, the effect of technology on audit evidence.

[3] AICPA's SOP 09-1 http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/New_Releases/New_Releases_Publications/PRD~PC-014947/PC-014947.jsp

As is the case with the provision of any service, auditors may need to consider the risks associated with being involved with financial statements prepared using XBRL and should carry out a risk assessment appropriate for the involvement with electronic information.

Other implications for the accountancy profession

As more and more entities file their financial statements, their tax return, statistical and other data using XBRL rather than paper-based documents, the client demand for assistance in these areas has increased and will continue to do so.

Such assistance for non-audit clients is usually provided under the form of a compilation engagement whereby the accountant uses accounting expertise, as opposed to auditing expertise, to collect, classify, summarize and enable filing of financial and other information.

The procedures employed are not designed and do not enable the accountant to express any assurance on the compiled information. However, users of the compiled information derive some benefit as a result of the accountant's involvement because the service has been performed with professional competence and due care.

Practical consequences of the adoption of XBRL

Properly implemented, XBRL enabled documents can provide a variety of benefits to reporting entities of all sizes including:

- Saving costs by enabling the preparation of data in one form and automatically generating many outputs. Re-keying of data and other manual tasks can be avoided;
- Increasing the speed and reliability of financial information;
- Reducing the effort required to gather, compile and prepare financial information thus freeing up time and resources to focus on more value added tasks such as analysis, forecasting and decision making;
- Making better use of the internet in communicating with investors;
- Simplifying the process and reducing the costs involved in regulatory reporting to tax and other authorities;
- Obtaining quicker responses from counterparties, including banks and regulators.

Some of the challenges that preparers of financial statements and information presented using XBRL could face are:

- Time and effort required to learn XBRL;
- Cost of investing in XBRL software;

- Implementing new procedures and processes;
- Managing the proliferation of taxonomy elements;
- Overcoming any initial resistance to moving from a paper-based (traditionally signed) document centric process to electronic documents (signed by electronic signatures).

Some of the challenges that auditors of financial statements and information presented using XBRL could be confronted with in addition to the ones preparers could face are:

- The level of assurance which can be given on the different steps within the XBRL process to prepare XBRL financial statements;
- Auditor's involvement in the provision of assurance related to XBRL generated data beyond the information currently included in hard-copy financial statements;
- Current lack of standards to perform assurance work on XBRL generated financial statements;
- The accuracy, completeness and comparability of extensions to taxonomies;
- Issues related to narrative notes disclosures;
- Changes in the audit approach and/or audit opinion;
- Issues with the use of electronic signatures;
- Managing the possible widening of the expectation gap;
- Managing specific risk associated with the association of an audit opinion and a set of financial statement both in an electronic and dynamic format.

Education and training

There are two pillars to XBRL: an IT literacy pillar and a technical accounting and auditing pillar. Organisations wishing to adopt XBRL will need to consider both pillars in establishing their training needs to ensure successful use of XBRL.

IT support will be required in relation to the information technology requirements and appropriate steps will need to be taken by organisations to ensure that the providers of IT support are familiar with the technologies required to enable XBRL.

Preparers of financial statements and financial information will need to be familiar with the organisation's selected XBRL software package or packages and have the IT abilities to put those packages to best use. However, the key requirement for accountants will be to relate their technical accounting skills to the information being XBRL enabled. Key areas for training include ensuring the accountant has the necessary skills to:

- Select the appropriate taxonomy and download from the appropriate webpage;
- Identify taxonomy elements required for any particular instance;
- Identify when a valid taxonomy extension is required;
- Create valid extensions; and
- Create valid instance documents in line with the appropriate specification or user guide.

Auditors of financial statements and financial information will equally need to extend their education and training to have a similar understanding of the workings of XBRL, of XBRL enabled software and of the implications of XBRL generated financial statements on their audit work and their audit opinion.

Regulatory development in the European Union (EU)

Currently, the European Commission does not have plans to legislate specifically with regards to XBRL. However, there are a number of initiatives at European level for simplification and reduction of administrative burdens, to promote the use of new technologies to harmonize the collection of data across Europe.

The following examples can be mentioned:

- On 21 May 2008, the European Parliament called on the European Commission to encourage Member States to harmonize the classification of financial information and promote the use of new technology such as XBRL;

- The 25 February 2009 De Larosière Group report recommended accelerating the reform of supervision practices, managing cross-border and cross-sectorial risk[4];

- On 26 February 2009, the European Commission issued a "Consultation Paper on Review of the Accounting Directives: Cutting Accounting Burden for Small Business / Review of the Accounting Directives" which is supportive of an "only once" filing system facilitated by e-government portals and encourages Member States to develop this further. The consultation paper comments on the role of electronic tools and gateways, e.g. XBRL, its costs and benefits and whether one XBRL taxonomy should be developed on EU level;

- On 23 September 2009, the European Parliament issued a resolution on the future structure of supervision whereby the European Commission is called upon to deliver common reporting standards using a multi-purpose format such as XBRL; and

- On 27 October 2009 the Committee of European Securities Regulators (CESR) issued a "Call for Evidence – The Use of a Standard Reporting Format for Financial Reporting of Issuers Having Securities Admitted to Trading on Regulated Markets". CESR has not yet taken any position on standard reporting formats, or more particularly XBRL reporting but on the basis of the analysis CESR may address the issue in more detail in the preparation of a report to the European Commission on the possible future development of the network of OAMs (central storage of regulated information).

FEE position on XBRL

Over the last two years, FEE has engaged with Member Bodies in debating XBRL issues and has established a task force to address XBRL specific assurance and reporting matters. FEE supports the use of electronic applications in financial reporting, in particular XBRL while acknowledging the challenges of using it. Global developments and various XBRL initiatives are monitored closely. FEE is satisfied that electronic filing has the potential to reduce the cost of filing and facilitate the re-use of the electronic data stored.

FEE supports the idea of a "one stop shop" such that jurisdictions require a reporting entity to deliver information only once for filing its financial statements, its tax return, statistical and other data using XBRL and then it is made available as appropriate to the relevant authorised persons rather than requiring the reporting entity to make multiple filing of the same information.

FEE looks forward to the widespread adoption of XBRL where the appropriate circumstances prevail. Such circumstances include a clear lead and support from the relevant authorities with regards to taxonomy requirements and instance document preparation along with the appropriate IT infrastructure and a robust cost-benefit analysis that justifies the implementation of XBRL.

[4] http://ec.europa.eu/internal_market/finances/docs/de_larosiere_report_en.pdf

About FEE

FEE (Fédération des Experts comptables Européens - Federation of European Accountants) represents 43 professional institutes of accountants and auditors from 32 European countries, including all 27 EU Member States. In representing the profession, FEE recognises the public interest. FEE has a combined membership of more than 500.000 professional accountants working in different capacities in public practice, small and larger firms, business, public sector and education, who all contribute to a more efficient, transparent, and sustainable European economy.