Using standards to increase the value of reporting

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Introduction

The digitisation of information is unstoppable. Increasing amounts of data are created, transferred and interpreted through the internet. Nevertheless, the process of preparing and using financial and non-financial business information has more or less stayed the same: paper-based reports are exchanged, re-keyed, and used for analysis. The result is a real challenge for companies to control the consistent re-use of the information they disseminate and to make sure that this information is interpreted in the way it was meant to be; both internally and externally.

Adoption of standardised reporting is growing

To address this challenge it is essential that the use of digital information is promoted and used by stakeholders of the organisation and it is promising to see that governments and regulators are indeed taking this route. As for them the business case is clear to digitise information flows. To improve analysis, increase reporting speed and lower supervisory cost many governments and regulators are adopting new standards and technologies. One of these standards is XBRL (eXtensible Business Reporting Language). XBRL standardises data exchange, but also supports the harmonisation of reporting definitions within (and across) reporting chains.

There are many examples of regulators using the capabilities of XBRL to define and publish their reporting requirements and definitions. To push the use of these standards, regulators are mandating the use of XBRL for reporting as well.

Her Majesty's Revenue and Customs (HMRC) in the UK requires all companies to submit their tax returns in XBRL, receiving millions of reports per year, ready to read in and analyse. The Dutch government was one of the early adopters of XBRL. After years of building and fine-tuning a shared digital dictionary for statutory, tax, statistics and credit reporting, the regulators have begun to phase-in an XBRL mandate. Also countries like Denmark, Germany, Italy, Spain and Belgium have adopted XBRL to modernise their filing infrastructure and receive hundreds of thousands of reports in one standard digital format, with harmonised definitions. Furthermore, stock exchanges and regulators in Asia are applying XBRL for easier collection and analysis of reporting data.

The XBRL program with the highest profile is the US SEC XBRL mandate, which started in 2009. About 10,000 companies are filing SEC forms, such as quarterly and annual reports, in XBRL. Recently the European Financial Supervisory Authorities (EBA and EIOPA) also decided to mandate all national supervisory authorities in Europe to report their compliance reports (Basel and Solvency) in XBRL.

Another example of the application of XBRL is the Global Reporting Initiative. They provide their sustainability reporting framework in a digital dictionary (an XBRL taxonomy) making it easier for companies to identify and report their non-financial data, and for stakeholders to compare sustainability reports.

These adoption rates clearly demonstrate the business case for regulators to collect digital data and avoid re-keying the paper-based reports in their database systems. Many regulators are more efficient and effective, and collect more reliable data by using XBRL.

Companies however often perceive these digital reporting requirements as an additional administrative burden.

Companies also benefit from data standardisation

The exchange of information has benefited from data standardisation; where would the Internet be without clear standards? In the case of XBRL, the macroeconomic reduction of administrative burden is clear, but it requires investments by all parties in the reporting supply chain. This requires more emphasis on the benefits for companies to collect, report and analyse their data using these standards.

Many companies are juggling with spreadsheets and word processors, and re-key the information many times to produce the required reports. The reports must be submitted in various ways, like entering the data in webforms, e-mailing PDFs, sending on paper or through proprietary software tools. Moreover company information is used in many ways by external parties for analysis purposes and benchmarking. To store and interpret non-digital business data, it must be re-keyed in their own systems.

One would expect that companies would be eager to transform this way of working to a more standardized digital data collection and reporting process that is more efficient, prevents errors and ensures consistency of data in the various reports.

When companies take control over the tagging of their business information themselves, it would greatly enhance the transparency and quality of the data used by external stakeholders. It also lowers the risk of analysts misinterpreting the information in the first place.

XBRL changes the efficiency, effectiveness and reliability of the internal reporting process also by enabling the creation of a company-wide reporting dictionary. A dictionary (read: taxonomy) that can be used to

Efficiency	• Faster interpretation of new and changing reporting requirements (either legally required, or agreed with stakeholders) • Less manual work, less people involved • Shorter reporting timeline • Tag data once to be used for different reports • Less time and effort needed for reconciliation
Effectiveness	• Greater alignment between reports • Easier-to-reuses data • Improved transparency to regulators and other stakeholders • Better control over interpretation of reported data by stakeholders
Reliability	• Less re-keying • Better traceability of data • Less exception flows and correction/rework

Figure 1: Benefits from using data standards for reporting

enable the digital transfer of reporting data between both internal and external parties and systems.

Whether XBRL is an additional burden, or helps to reduce the reporting time and complexity depends on the chosen service or software to produce digital reports. By simply re-keying the data to produce individual digital reports, companies could comply with the various digital requirements. However, shallow implementation of these standards leads to added costs and increased risks, and will not deliver the potential benefits. Choosing for a complete, integrated implementation of digital reporting will lead to a more efficient reporting process, higher quality reports and less compliance risks.

The approach to prepare for filings to different regulators using XBRL should therefore include the definition of a clear strategy to address the challenges in the standardisation of reporting data across the organisation, for both external and internal purposes. It involves the creation of a company-specific dictionary for reporting data that is aligned with external reporting requirements.

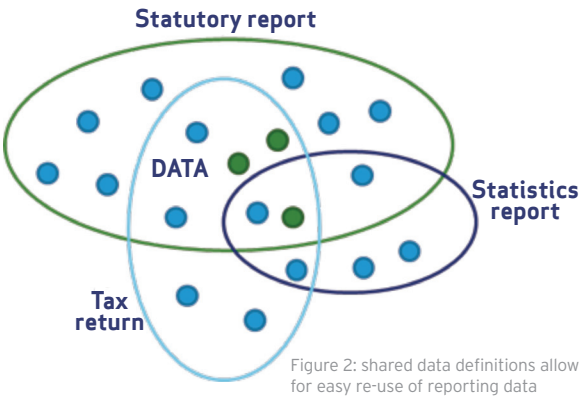

Figure 2: shared data definitions allow for easy re-use of reporting data

Standardisation requires investments across reporting supply chains

Looking at the examples of countries implementing digital reporting, there is a clear trend that shows digital reporting will not be limited to a handful of reports: multinationals are facing hundreds of reporting obligations, and even smaller companies need to deal with a multitude of reports such as statutory accounts, tax returns, statistics and industry questionnaires.

However, from a company perspective, transforming existing reporting processes to produce digital information is a relatively costly operation. Some economies of scale are needed to justify the investment. This is where collectors of business information need to work closely with companies to increase the number of digital reports, increase the re-use of digital company data and lower the marginal costs to comply with new reporting requirements.

Several governments (e.g. Australia, New Zealand, Netherlands and Singapore) are actively using their XBRL implementation project to identify and harmonise reporting definitions across different regulators. This approach is called Standard Business Reporting (SBR) and helps governments to reduce the administrative burden by offering standardized reporting requirements and reporting channels. Although big businesses with complex reporting obligations come to mind, the SBR programs are mainly targeted at smaller companies.

Some XBRL mandates are criticized for the additional reporting effort they require, the errors in the filings, the lack of comparability of data and the fact that few stakeholders are using the digital data. These symptoms should not be blamed on the XBRL standard as such; they are the result of applying digital reporting to traditional paper-based reporting processes, both at the reporters' and regulator's side. It is a steep learning curve, but as more XBRL data becomes available the value increases and will put more emphasis on clear, well-defined reporting frameworks.

Conclusion

Both regulators and filers can benefit from the advantages of digital reporting. Through the adoption of XBRL, filing requirements can be easily defined and exchanged, avoiding misunderstanding of definitions, manual interpretation and re-keying.

With a quick approach, you will likely end up with a longer, less efficient, less reliable, and less transparent reporting process. An integrated approach will improve the control over your reporting process and your data, resulting in a more transparent process and higher quality data to be used by your stakeholder community, increasing the value of your company's data and increasing the opportunity to be evaluated and included in investor portfolios. This is the balancing act for the next couple of years to really move business reporting to the digital age. ■

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