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# XBRL Requirements for Companies Reporting Under IFRSs

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In March 2017, the SEC announced the availability of the [IFRS Taxonomy](#)<sup>1</sup> for foreign private issuers (FPIs) that prepare financial statements under International Financial Reporting Standards (IFRSs). As a result of the announcement, FPIs are required to use XBRL — eXtensible Business Reporting Language — in their financial data submitted to the SEC.

## What Is XBRL?

XBRL is a technology for tagging data to identify and describe information in a company's financial statements. The data are machine-readable and can be searched, downloaded into spreadsheets, and reorganized for analytical purposes. Financial analysts use XBRL to rapidly analyze a company's financial statements and compare it to data provided by other companies as well as to analyze industry trends and other benchmarks and to update their financial models. Regulators (including the SEC) use XBRL, among other purposes, to look for statistical anomalies that may indicate questions about a company's accounting practices.

## Benefits to Using XBRL

There are many benefits associated with the use of XBRL, including the following:

- *Easy access to financial data and industry benchmarking* — The use of XBRL can increase the transparency of a company's financial information in international capital markets. Taxonomies provide a framework for comparability of financial information, allowing

<sup>1</sup> SEC Release No. 33-10320, *IFRS Taxonomy for Foreign Private Issuers That Prepare Their Financial Statements in Accordance With International Financial Reporting Standards as Issued by the International Accounting Standards Board.*

companies to assess performance and conduct industry benchmarking analyses more easily.

- *Data consolidation from disparate systems* — XBRL provides a uniform standard for consolidating data from multiple disparate source systems. XBRL-tagged data allows automation of data validation and analysis, reducing time-consuming and costly collation and reentry of information. The human effort spent on manual compilation of data can be shifted to tasks that add greater value, such as those involving analysis, review, or decision-making.

Using XBRL does not necessarily require a significant change to a company's current financial reporting process. For example, tagging can be treated as an added step in reporting.

## What Are the XBRL Requirements?

FPIs that report under IFRSs are subject to the SEC's XBRL filing requirements. The SEC will allow a company to submit its initial XBRL-tagged interactive data file with its first annual report on Form 20-F or Form 40-F for the fiscal year ending on or after December 15, 2017. A registrant has the option to use a 30-day grace period for its initial interactive data file submission, which the registrant would be required to file as an amendment.

Under the SEC's rules, a registrant must submit an interactive data file with the following filings:

- Annual reports and transition reports on Form 20-F or Form 40-F.
- Reports on Form 6-K, but only if the Form 6-K contains (1) interim financial statements that were included in accordance with the nine-month updating requirement in Item 8.A.5 of Form 20-F or (2) a revised version of financial statements that were previously filed with the SEC.
- Certain Securities Act<sup>2</sup> registration statements. A company conducting an initial public offering (IPO) is not required to include an interactive data file in its IPO registration statement. For subsequent registered offerings, an interactive data file is only required (1) in a Securities Act registration statement that includes (rather than incorporates by reference) financial statements and contains a price or a price range and (2) whenever the financial statements are changed (rather than in each filing or amendment). In the context of a business combination, XBRL financial information will be required for the filer (the acquiring company) but not for the company being acquired.

## Web Site

Interactive data submitted to the SEC must also be posted to a registrant's Web site, if it maintains a Web site, no later than the end of the calendar day that the information is filed or required to be filed with the SEC (whichever is earlier), and it must remain posted for at least 12 months.

## Information to Be Tagged

A registrant's interactive data file must include the following XBRL-tagged information:

- Financial statements (each amount on the face of the financial statements must be tagged).
- Notes to the financial statements:
  - Each footnote must be individually tagged as a single block of text.

<sup>2</sup> Securities Act of 1933.

- A registrant also must tag:
  - Each significant accounting policy in the significant accounting policies footnote as a single block of text.
  - Each table in each footnote as a single block of text.
  - Individual amounts (e.g., monetary value, percentage, and number) in each footnote.
- Financial statement schedules:
  - Each schedule must be individually tagged as a single block of text.
  - Individual amounts within each schedule.

## No Audit or Assurance Requirement

There are no audit or assurance requirements for an interactive data file provided as an exhibit to a registrant's periodic reports or registration statements.

## Internal Process Versus Outsourcing

A registrant has various options for creating interactive data files, including engaging outside service providers. One of the main benefits of outsourcing is that the labor-intensive tasks of building the taxonomy extensions and tagging the financial statements can be performed by a service provider with expertise in XBRL rather than the financial statements. However, a registrant must still have a working knowledge of XBRL to review and validate the work product of any third-party service provider, including its selection and application of tags. Cost considerations include:

- Consulting or service fees.
- Training of internal reviewers in XBRL and the selected software.
- Time taken by personnel to review the prepared interactive data files.

On the other hand, a registrant that prepares its interactive data files internally can benefit from having full control over the process, which includes building a thorough knowledge of tagging, the taxonomies, the tools being used, and the application of the tags to the financial reports. A registrant should also consider the investment in time and resources it would need to make for training its personnel in preparing an interactive data file and the costs incurred to purchase XBRL software.

Regardless of the option chosen, the company and management are ultimately responsible for the tags selected and will need to perform a thorough review.

## What Steps Can Be Taken Now?

To prepare for adoption of the XBRL requirements, a company can:

- Assemble an XBRL reporting team and determine the technical training required, such as instruction on XBRL and on the regulatory mandates affecting the company.
- Review the SEC rules as well as educational and supporting materials on the [SEC's Web site](#) and the [IFRS Taxonomy Web site](#).
- Attend or listen to webcasts, presentations, and podcasts hosted by the SEC staff, the IFRS taxonomy staff, and others.
- Become familiar with the IFRS taxonomy, including its elements and definitions, and begin selecting appropriate tags for the financial statements and footnotes.
- Review the IASB's [Guide to Understanding the IFRS Taxonomy Update](#).

- Determine whether management would like to tag and create the XBRL instance document (i.e., the filing formatted according to XBRL rules) in-house or outsource it to a service provider.
- Consider tagging a mock filing as practice before the requirements are effective.

## SEC Focus

The SEC has been increasing its focus on the quality of data in XBRL files. As a result, it has issued a number of staff observations and data quality announcements related to the following:

- Extensive use of customization when a standard taxonomy should suffice (see [Staff Observations of Custom Axis Tags](#)).
- Different contexts used that represent the same fact or concept (see the data quality announcement [Contexts](#)).
- Incorrectly entered negative values in the instance document (see the data quality announcement [Negative Values](#)).
- Values scaled with an incorrect number of zeros (see the data quality announcement [Scaling](#)).

## Common Mistakes

Common mistakes observed by the SEC include:

- Incomplete tagging — all values, including percentages and parenthetical information, must be tagged.
- The creation of extension elements when an appropriate element existed in the standard taxonomy.
- The selection of elements that were either too narrow or too broad for the associated financial reporting concept.
- Efforts to make a rendered version of the interactive data file “look like” the traditional financial statements that resulted in the introduction of errors into the data.
- Calculation inconsistencies that were not addressed before submission of the interactive data file, or calculation structures that were missing.

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