

## **XBRL for Financial Analyst and Professional Investors**

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This white paper describes how XBRL eXtensible Business Reporting Language will radically change the financial reporting from corporates to professional investors and financial analysts.

XBRL is a global standard for interactive reporting which is carried by over 500 global organisations such as regulators, legislators, accounting firms.

## User-oriented financial reporting – the challenges

Financial communication in a broader sense has to face up to challenges when targeting investors and financial analysts. In most capital markets increased regulation for corporates has resulted in increased complexity – without a noticeable improvement of fundamental problems on the side of the users i.e. investment professionals. Many legislative and regulatory requirements clearly have led to higher reporting expenditures and costs but have not delivered any significant benefit to investment professionals.

There are many reasons why. First of all in financial reporting there is an obsession with paper and hardcopy: Quarterly Reports in PDF-format (which is merely virtual paper), Annual Reports with more than 400 pages, colourful photos and plenty of words. The assumption that professional investors in high-speed capital markets would have the time to read annual reports beyond a cursory level is naive. There is simply not enough time.

Besides which, when a company's Annual Report is published, the period reported is *historical* and not current – they are backward looking. Investment Professionals are equally interested – if not much more interested - in future cashflows and future plans than accounts for the past. What are the future cashflows a company is expecting? Which factors may have an influence on the cashflows and which risks, developments and influences can make a company's future plans plausible?

The natural tendency in financial reporting seems to be to ask for and

consequently to produce more information of the same: when discussing Behavioural Finance Dresdner Kleinwort's James Montier speaks about misapprehensions of investment professionals („The Seven Sins of Fund Management“): there is incorrect assumption that more information is better information which leads to ongoing higher amounts of data being produced, transported and analysed.

### Is reduction or simplification of financial reporting the answer?

Neither reduction nor simplification of the reporting package will be successful. On closer examination there is no such person as 'the investor': there are Long-only Investors, Hedge Fund Managers, Arbitrageurs, Institutional Investors, SRI investors, Fixed Income Investors etc. etc. Each of these investor types will have different information needs and define transparency differently. Financial Analysts who are being paid by their clients i.e. investors to show *original thoughts* and *intellectual rigour*, too, deploy their own, individual analysis models based on individual evaluation premises in order to differentiate from their competitors. It is highly unlikely that there will be a common standard for financial analysts at the appropriate level of detail.

There is no alternative to answering target-groups' requirements and expectations. Companies have no alternative but to recognise the possibly heterogeneous demands and answer them appropriately. However, *ceteris paribus* is it neither acceptable nor feasible for companies to provide each investment professional group with

their own specific and customized "reporting portfolio".

### **The answer: XBRL**

The answer lies in a synthesis which integrates a seemingly irreconcilable conflict: producing transparent, comprehensive and detailed financial reports and yet allowing the user to selectively and in an ad-hoc manner determine which data at which aggregate level he/she wants to see. This synthesis is technically feasible, it is mature for the market, it has sparked interest in many markets ... it's called XBRL.

### **What is XBRL?**

XBRL is short for eXtensible Business Reporting Language, a global standard for interactive data in financial reporting and supported by a global organization with over 500 companies, regulators, software developers and accounting firms. XBRL is being adopted in virtually all important capital markets. Members of XBRL and early promoters are the global "Big 4" Accounting Firms, standard setters such as FASB and IASB but also regulators, data vendors and professional bodies.

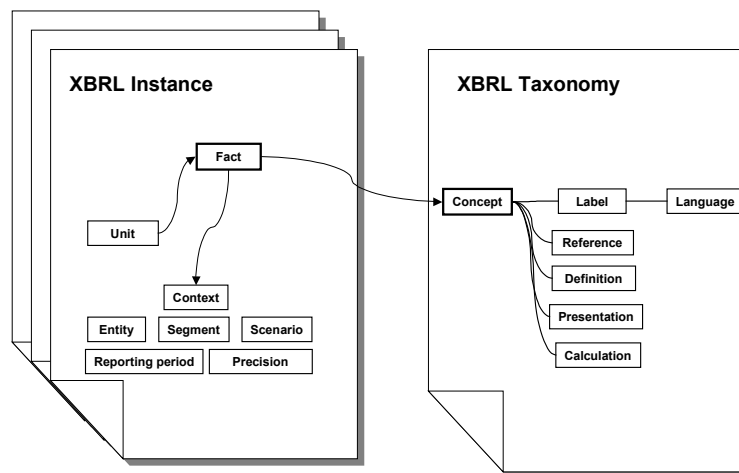
XBRL is not a software application, nor is it a new accounting standard. XBRL is a so-called semantical data format and an open and free electronic language which – in colloquial terms – provides each data element with a tag that identifies it unambiguously. A revenue figure in a spreadsheet, say, carries its own electronic identification tag saying

"this is the revenue for Q3 for entity ABC".

XBRL is not only a data format per se, but also comes with a technical framework, with which data exchange formats, so-called taxonomies for any economic information (not just financial data) can be defined. A taxonomy is a structured directory or system for classification which contains procedures and rules (technically: meta-data) which are necessary to safeguard that from sending end to receiving end data and to identify where that data belongs in their analytical spreadsheets. XBRL taxonomies are being developed globally by XBRL International and its more than 22 jurisdictions.

The data to be reported e.g. balance sheet figures are input into an XBRL Instance document. All XBRL documents, instance documents as well as taxonomies can be read as plain text documents. An XBRL Instance document is validated by a taxonomy whereby a cross-check is electronically carried out to determine if the company's data adheres to the taxonomy rules. In the mean time financial reporting taxonomies are in place for 20 different languages and for accounting standards in the UK, in the USA (US GAAP), Canada, China, Germany, New Zealand, Netherlands and also IFRS (the taxonomy was published by the IASC Foundation in London).

The following graphic shows the relationship between data, meta-data, instance document and taxonomy.



Graphic 1: The relationship between corporate financial data (XBRL Instance document) and meta-data on the application of balancing rules (XBRL Taxonomy)

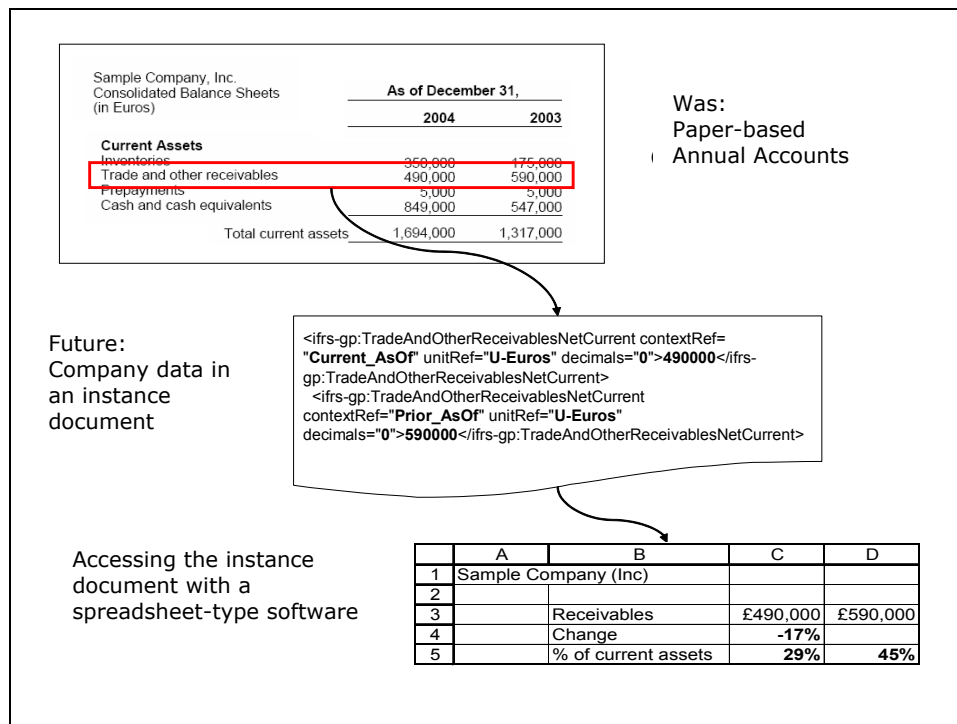
Taxonomies' are beneficial for user-oriented, specific data reporting because they are modular and can be extended according to the corporate specifics (without losing their standardisation); they are multi-lingual without losing their validation-rules, they are IT-platform independent and are available for free.

### **XBRL and Excel-based Spreadsheets**

The beauty of XBRL shows when working with Microsoft® Excel® spreadsheets which are the common tool for financial modelling and financial analysis. With XBRL financial data, key ratios, quantitative extra-financial elements such as share-of-market data "automatically" find their way into the Excel cells – without any manual

correction that heavy users of Excel are acquainted with e.g. that lines or columns which do not match the sending database' format will inevitably lead to a data-chaos. Although this sounds trivial, financial analysis and financial modelling heavily depend on manual data entry, be it by the investment professional him/herself, be it through offshore keying e.g. in India where a research-support industry has established in the last 5 years. XBRL has the power to revolutionise the data management process.

The following graphic exemplifies an XBRL Instance document with corporate financial data for a balance sheet item „Receivables“ and shows how an Excel-based spreadsheet accesses the XBRL Instance document.



Graphic 2 XBRL Instance mit sample data showing spreadsheet access

### Examples for Applying XBRL in Financial Analysis

Performance Reporting and Recognition is one of the main topics in the Conceptual Framework discussion currently taking place between the two global standard setters IASB and FASB. When trying to determine what a company's "earnings" signify it becomes very clear how different opinions and positions can be between sell- and buy-side, even between equity sell-side analysts covering the same industry, even working for the same broker..

Defining Earnings per Share (EPS) starts with the challenge to identify and discount so-called non-recurring items from the bottom-line results. One-off items such as restructuring costs have to be identified in order to arrive at a „pure“ result which is based on income from ordinary activities and ordinary cashflows from the company's core business model – not from some activities and financial gains which may say nothing about a

company's abilities to generate net profit. Numerous bad examples exist of companies with phantom income from venture capital funding but no identifiable revenue streams. The problem is, however, that there is no well-defined standard for identifying non-recurring items. Moreover, typically non-recurring items have to be identified in a company's financial report i.e. annual reports have to be thoroughly reviewed, IR-Officers have to be interviewed - a potentially time-consuming jigsaw activity (bearing the high risk of still not getting it quite right).

With XBRL, non-recurring items can be systematically and safely downloaded from financial reports, can be consolidated, discounted by the user, which saves investment Professionals much from searching the small print and the footnotes. Moreover, each user can decide at how deep a level or how aggregated a level he/she wants to use data on non-recurring items, depending on the job on hand: e.g. when analysing a peer-group or when analysing

time-series over periods. Because a data „drill-down“ is possible at any time, all the power is with the person analysing the company.

Other examples include identifying changes in operating profitability in order to spot early indicators of revenue dilution. This helps minimise analysis faults and contributes to keeping inconvenient and cumbersome analyst „inquisitions“ to a minimum.

There are plenty of areas in financial analysis in which XBRL can add enormous value for financial analysts and professional investors – provided companies do not only report aggregate figures but also the constituent items which add up to the compound item. (Despite its power XBRL cannot overcome over-conservative disclosure policies.)

### **XBRL can Add Value even under Current Disclosure Practices**

Even if companies do not modify their accounting and disclosure practices financial reporting under XBRL can produce significant added value. The current practice of investment professionals is to use financial data from global data vendors. Financial data received directly from companies is typically more up-to-date than data from vendors because most of the time there is a time-lag between the date of publishing financial reports and the availability of data in databases. This is due to the fact that most data vendors deploy off-shore keying to enter financial data into their databases. Even more important, reports and data directly from companies are perceived more authentic and allow the company to include forward-looking statements such as targets and forecasts.

### **XBRL as a Tool to answer Investment Professionals Needs**

XBRL offers companies the opportunity to adequately answer investment professionals' needs and to enrich the basic IFRS taxonomy containing financial data with additional information. Company-specific extension of taxonomies include things like segment reporting which from a technical standpoint can be seamlessly integrated. XBRL has the power to revolutionise the scope of application for investors, analysts and banks. However, companies should not decide about which details to report ad-hoc. Rather, the scope of data to be supplied should be part of a consistent financial communication strategy which addresses issues such as:

- What additional requirements do investors and analysts have?
- Which optional data is management prepared to provide?
- How deep should the level of transparency be? (Once reported chances are that companies cannot go back to a more abstract level.)
- How detailed should segments be reported?
- How much is the reporting cycle between annual and semi-annual or quarterly reporting going to be affected?

### **XBRL at the US Securities and Exchange Commission**

The US Securities and Exchange Commission (SEC) set an important milestone for XBRL in autumn 2006. The SEC decided to modernise its EDGAR filing system to enable users to download interactive data. SEC will invest 54 Mill. US-Dollars in order to convert EDGAR – a system from the 1980s – from a form-based archive to

a dynamic, interactive and real-time system under XBRL. This change of paradigm will enable users to make peer comparison on the level of individual balance sheet items via internet-access as well as fully automated dataflows and analyses in a short time after publication (RSS Feeds and ATOM).

### **XBRL and Speed**

There is another important advantage with XBRL: speed i.e. speed of transmission and speed of analysis. Through internet connectivity investors and analysts can link permanently and easily into databases which update their receiving application whenever new data has been published. Companies reporting to the SEC's Voluntary Filing Program can already offer such service to their investors, an RSS Feed (Really Simple Syndication) has been implemented.

XBRL data allows faster analysis because of automation. Both advantages – speed of transmission and speed of analysis – show the potential of XBRL. Response time of capital markets will reduce dramatically.

### **XBRL and Transparency**

Financial reporting will see a change of paradigm which will take place in the next couple of years. Change will affect speed and transparency. Financial reporting will be taken to a higher level: moving away from paper and hardcopy, arriving at real-time, interactive reporting; overcoming linear, inflexible presentation of financial reports by hyperlinked syntax of the internet. The success of the web is closely connected with its intuitive structure, its network-like, scaleable and modifiable navigation which allows for iterative and non-linear ways to read and digest information. The web was the first information system which gave users the opportunity to process information in exactly the same way that somebody reads a paper or runs through the shelves of a supermarket: you can browse, can have a quick glance and then continue, you can scan and drill down back and forth into the content as and when needed.

Similar to the web XBRL can support iterative and initially often intuitive information processing of financial analysis which often, although not always, is based on comparing a limited set of financial figures or ratios within peer groups which then are interpreted by analysing complementary information e.g. from the annual report or the IR homepage. Here, especially financial analysts have to switch back and forth within a company's reports to find supportive data for their investment recommendations.

In the area of equity strategy XBRL can support the time-consuming search for under-valued stocks in lesser penetrated capital markets again on a limited set of ratios (not complete balance sheet information).

„Googling“ undervalued stocks via search engines and XBRL-data is not a vision of the future, it is possible today. Technology and taxonomies exist to make this possible. The missing link is the demand from investment professionals which is an important lever when changing corporate reporting behaviour. Companies will begin to report in XBRL formats when investors and analysts start demanding interactive data. Companies will quickly realize that it also dramatically reduces their direct and indirect costs associated with their disclosure. It is obvious that direct costs such as disseminating hardcopy information will decrease through XBRL. However, indirect costs such as expenditures associated with answering analysts requests for additional information will also decrease.

### **XBRL at Stock Exchanges and Regulators**

Stock exchanges and regulators play an important role in implementing transparency standards. Many regulators and stock exchanges worldwide are currently in the process of implementing XBRL-based filing schemes. Projects range from fully implemented schemes to programs which are in their beginning stage.

The Spanish regulator– **Comisión Nacional del Mercado de Valores** (CNMV) – has been using XBRL since July 2005 for its mandatory filing program. **Shanghai Stock Exchange** (SSE) as of 2003 has been receiving annual reports, semi-annual and quarterly reports under XBRL i.e. more than 800 instance documents continuously are filed at SSE. Currently SSE is working on enhancing applications for analysis i.e. for analysts and investors, integrating ad-hoc publications or mutual fund data.

The **US Securities and Exchange Commission** (SEC) started an XBRL-based program for voluntary filing of corporate financial reports in April 2005. In the meantime more than 40 companies participate in this program including 3M Company, General Electric Company, Microsoft Corporation, PepsiCo Inc., Pfizer Inc., United Technologies Corporation and Xerox Corporation.

**Canadian Securities Administrators** (CSA) launched its XBRL Voluntary Filing Program on January 19, 2007. As of May 2007 companies can file their financial reports in XBRL in the SEDAR System (System for Electronic Document Analysis and Retrieval). It is the goal of CSA to gain experience in the adoption of XBRL in the Canadian market in order to take prepare for mandatory filing under XBRL.

## Appendix:

### Important Websites

International Accounting Standards Board (IASB): <http://www.iasb.org/xbrl>  
US Securities and Exchange Commission (SEC): <http://www.sec.gov/spotlight/xbrl.htm>  
XBRL International: <http://www.xbrl.org>  
15. XBRL International Conference in München  
vom 3. bis 7. Juni 2007: <http://conference.xbrl.org>  
Interactive Financial Report Viewer  
US SEC: <http://69.56.156.236/viewer>