XBRL Benefits and Challenges

With Discussion of Canadian Implications

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# Table of Contents

Executive Summary ............................................................................................................. ii

1  Introduction to XBRL ........................................................................................................ 1

2  Current XBRL Implementations and Benefits ................................................................. 2
   2.1  Initial Promoted Benefits of XBRL Implementation ..................................................... 3
   2.2  Achievement of Intended XBRL Goals ......................................................................... 3
   2.3  XBRL is Value Added .................................................................................................... 4

3  Future of XBRL and Internal Benefits ............................................................................. 5
   3.1  Open Data ...................................................................................................................... 5
   3.2  Internal Reporting ......................................................................................................... 6
   3.3  Integrated Reporting ...................................................................................................... 6
   3.4  Reaching Future Benefits ............................................................................................. 7

4  Canadian XBRL Implementation ....................................................................................... 8
   4.1  Challenges to XBRL Implementation .......................................................................... 8
   4.2  CPA Canada’s Role ....................................................................................................... 10

5  Conclusion on the Position of XBRL .............................................................................. 11

Works Cited .......................................................................................................................... 13
Executive Summary

This report presents the benefits and challenges of XBRL implementation, with focus on the implications of XBRL for Canada.

Research studies and journal articles on XBRL’s value, its implementation in global markets, and its status in Canada were reviewed. Other ideas derived from personal interpretation of the current XBRL situation and personal understanding of the Canadian accounting profession.

Results of research show that XBRL implementation provides benefits to both internal and external users of corporate information, such as in the form of cost reduction and analysis-ready data. However, challenges surrounding XBRL adoption exist due to financial constraints and limited understanding of XBRL, leading to a lack of incentive to pursue XBRL implementation for business reporting. For Canada, the market is in a good position to implement XBRL in order to reap its benefits for Canadian businesses. CPA Canada is in a prime position to support the government and spearhead XBRL promotion to its members and businesses nationwide. In doing so, CPA Canada assists businesses in overcoming implementation obstacles which will improve the quality of information in the Canadian market.

The report finds XBRL implementation to be beneficial in the short term and long term, and identifies XBRL as the future direction of business reporting. Actions by both government and CPA Canada are required to overcome the identified challenges for successful widespread Canadian implementation. CPA Canada should encourage and support the government in this endeavour. Recommendations for CPA Canada include:

- Collaborating with XBRL Canada and provincial professional associations to build member knowledge and understanding of XBRL and its benefits
- Working with the government to establish a plan for incremental introduction of XBRL, eventually reaching all sizes of businesses
- Partnering with software developers to develop and provide tools that support the XBRL format and XBRL data analysis

The report also considers limitations of the research conducted, which includes:

- Future benefits of XBRL are speculative since global implementation examples have not existed for long enough to confirm the existence and magnitude of such benefits
- The Canadian XBRL implementation speculation is based on XBRL implementation in comparable markets, not actual observation, thus require future study of empirical results
1 Introduction to XBRL

Extensible Business Reporting Language (XBRL) is machine-readable language, and is a variant of Extensible Markup Language (XML) for Standardized Business Reporting (SBR). XML is a language that identifies data through marking it up with tags, so that the data can be interpreted by both computers and humans. XML is an open language—the format for it is publicly available, and it is widely used on websites for data identification. Like many other coding languages, a set of tags are utilized to identify the different components of the language. XML uses tags defined by the author, and the language is considered extensible because there is no limitation on the number of tags defined. SBR looks to code business reporting data using XBRL so it all becomes one standard format, which facilitates fulfilling compliance and regulatory filing requirements, streamlines data collection, and reduces data redundancy.

XBRL identifies financial statement items using a taxonomy, which is a dictionary of pre-defined tags that gives each financial statement item meaning and relationship to other tagged items. Once the data is tagged it can be read by software and analyzed, to be presented in appropriate formats for numerous audiences. One XBRL file is then able to provide information to multiple audiences. Currently, countries have adopted general XBRL taxonomy to suit local accounting and reporting standards, and many countries have taxonomies recognized by XBRL International. XBRL International is a not-for-profit organization that spearheads the promotion of XBRL usage globally; many countries have national counterparts established.

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1.1 Considerations

XBRL is still in its infancy, which represents great opportunities and risks. The long-term future benefits of XBRL adoption are still speculative—future research and study are needed to confirm and valuate XBRL’s long-term impact on businesses. Further, speculations for Canadian XBRL implementation has been based on comparable market adoptions, such as the Australian adoption program. Actual benefits and impacts to Canadian businesses await study of empirical results, which will only be available after widespread implementation has matured.

2 Current XBRL Implementations and Benefits

Currently XBRL is used around the world in countries such as Korea, the United States, Australia, China, and the UAE. In Korea, a taxonomy was developed based on the IFRS taxonomy, and since 2007 all public firms have been required to report financial statements in XBRL format. In the United States, the U.S. Securities Exchange Commission mandated in 2009 for public companies under U.S. GAAP to file their 10-K and 10-Q using XBRL format, based on a U.S. GAAP taxonomy. For those under IFRS, the SEC has not yet approved a taxonomy for filings, hence listed companies using IFRS are still exempt from the mandate.

Australia started its SBR program in 2007, building its taxonomy based on the IFRS taxonomy. Australian business reports officially began filing using XBRL in 2010. The Australian adoption of SBR and XBRL is voluntary for regulatory purposes unlike in Korea and the United States, as the government believes inherent SBR/XBRL benefits will provide reason enough to adopt. “The potential savings for the Australian program is estimated to be nearly $800 million once it is fully implemented.”

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13 Ibid.
Globally, XBRL has enjoyed a handful of years since initial implementation, meaning there is now sufficient empirical data available to review and reflect on the short-term benefits of XBRL implementation and usage. The question of whether XBRL implementation has achieved intended goals can now begin to be answered.

2.1 Initial Promoted Benefits of XBRL Implementation

The intended benefits of XBRL initially included improved reporting efficiency, increased transparency, and increased quality of information. The idea was that companies file their information using XBRL once, and the data can then be manipulated and analyzed by software directly without need to re-key the information from a traditional Excel spreadsheet or PDF file. This increases data integrity and reduces time cost for both businesses and regulators. Often, businesses are faced with multiple reporting and filing requirements from various regulators and government agencies, which results in burdensome demand on resources in order to reach compliance. By utilizing XBRL format, data is tagged once and can be delivered to multiple agencies to fulfil their regulatory requirements using the same source file.

2.2 Achievement of Intended XBRL Goals

In Yoon, Zo, and Ciganek’s study “Does XBRL adoption reduce information asymmetry?” the Korean stock market was reviewed to determine whether XBRL adoption reduces information asymmetry as had been initially suggested. Information asymmetry was measured using regressions of bid-ask spread, and based on the impact that XBRL filings had on these regressions their conclusion arrived at that XBRL adoption:

- Reduces the time and cost to publicize corporate financial information
- Increases the transparency and quality of corporate information, and
- Facilitates corporate disclosure.

For businesses, this means better representation of their financial position on the market and better circulation of their corporate data in the public domain. This showed that in an established

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14 Yoon, Zo, and Ciganek, "Does XBRL Adoption Reduce Information Asymmetry?" 157-163.
public market, adoption of XBRL for financial statement reporting has yielded the objective benefits of XBRL adoption. Efficiency is gained through reduction of data redundancy, and transparency and quality are gained through improved disclosures and information circulation. All this collectively leads to reduced information asymmetry.17

In study “Do XBRL filings enhance informational efficiency?” by Jap Efendi, Jin Dong Park, and L. Murphy Smith, post-earnings announcement drift (PEAD) is used as a proxy measure for informational efficiency. PEAD is “a market anomaly that stock return drifts in a positive (negative) direction subsequent to a positive (negative) earnings surprise.”18 It was found that PEAD was lessened post-XBRL implementation for the sample of firms that announced good news. This finding suggests that the users of the XBRL data—investors and analysts—access analyzable data in a timely fashion, which they are able to then utilize to direct their decision-making. The finding was not as strong for the sample of firms that announced bad earnings news, though this could be attributed to extraneous factors such as impulsive investor behaviour and market overreaction to bad news.19 It may also suggest that bad news earnings announcements require more attention and analysis, which delayed investor reactions. Given the higher quality of information thanks to XBRL, it seems logical that some rational users may wish to take the extra moment to further scrutinize the data in order to make a better-informed decision. However, the impact of XBRL on bad news announcement situations requires further research and analysis to confirm.

2.3 XBRL is Value Added

Based on these studies and the global adoptions of XBRL, it can be concluded that XBRL has yielded the short-term benefits as promised—transparency, efficiency, simplification of compliance filing procedures—which results in reduced costs for businesses and improved quality of information for the markets. Further, XBRL is still in its infancy and the future direction could yield more benefits as implementation matures and becomes further integrated

17 Yoon, Zo, and Ciganek, "Does XBRL Adoption Reduce Information Asymmetry?" 157-163.
19 Ibid.
into internal and external business reporting. These findings suggest that XBRL is a worthy area of exploration and implementation in capital markets such as that of Canada.

3 Future of XBRL and Internal Benefits

Apart from reducing information asymmetry, there are other valuable reasons for XBRL adoption which should be noted. So far, focus has been on providing better information faster to governing bodies and the public market, and reducing the burden of regulatory compliance on businesses. The cost/benefit analysis has largely been driven by the proven efficiencies and reductions of information asymmetry. In actuality, there are many valuable benefits of XBRL for businesses internally, such as the leveraging of open data for analytical purposes, providing better information for enterprise risk management, and enabling integrated reporting.

3.1 Open Data

“Open data is a concept that promotes free access to data…XBRL is the bridge that can be used to achieve this goal.”\(^{20}\) Currently, a lot of the XBRL data gathered is not yet publicized, but once regulators publicly publish what they have they will open up new analytical opportunities for the public market. “Apart from SEC filings, the repositories are only available to the regulatory body that receives them.”\(^{21}\) For the early adopters of XBRL, regulators have now accumulated a number of years of data for there to be enough historical data upon which to perform analysis. By making the data freely accessible, different users can perform analytics on larger sets of data and be able to share results, creating opportunity for synergistic improvements on analytical models and practices, or even identifying new trends and correlations.\(^{22}\) This is particularly beneficial to smaller businesses that would otherwise not have the resources to gather data, or have the resources to invest into finding useful data trends.\(^{23}\) The publication of XBRL data aligns with the aim for transparency as well.


\(^{22}\) Brands, "Happy Birthday," 56-57.

3.2 Internal Reporting

XBRL can also be used for internal reporting purposes, streamlining data management and analysis to provide senior management with timely information. XBRL format information can be read by software and presented for human interpretation in numerous ways, incorporating calculations for non-financial statement items—performance measures, key performance indicators, or risk indicators are all possibilities. Simply stated, XBRL can greatly support enterprise risk management (ERM). In “XBRL and ERM”, Jeffrey C. Thomson and Uma Iyer highlight that “XBRL can facilitate the development of an inventory of risks relevant to an organization.” Senior management seek to mitigate their strategic and operating risks, and by producing XBRL format reporting information they can do so with increased efficiency. As previously mentioned, XBRL increases data integrity by reducing the times that data needs to be transposed for computerized analysis and interpretation. Further, XBRL is not limited by any one software’s analytical tools since it is platform-free, meaning management could use multiple tools to analyze their own company data to get the best information for risk monitoring and planning.24

3.3 Integrated Reporting

XBRL can be utilized to support an integrated reporting framework that provides investors with better information that captures the past, present, and future of a business. The International Integrated Reporting Council (IIRC) is a network including companies, investors, regulators, accountants sharing interest in promoting the next step of corporate reporting—Integrated Reporting.25 The IIRC describes <IR> as “a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.”26 The integration aspect is about incorporating the organization’s strategy and performance into a business report that captures future prospects as well as past performance, contrasting from the traditional historical financial

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The approved International <IR> Framework was released on December 8th, 2013, and the IIRC has since been promoting its pilot program.28

Reviewing the goals and benefits of <IR> found on the IIRC’s website “About <IR>” page, some are in alignment with the goals and benefits of XBRL identified above:

- Improve the quality of information available
- Promote a more cohesive and efficient approach to corporate reporting, and
- <IR> is about better reporting.

Further, XBRL was explicitly identified in the consultation draft of the <IR> Framework as a possible platform for integrated reporting,29 confirming XBRL’s ability to align with tomorrow’s reporting frameworks that seek to provide improved corporate information to the capital markets.

“XBRL improves the way information is created, processed, distributed and analyzed by providing standardized definitions, labels, calculations, references and contexts applicable to individual numbers and narrative text.”30

In turn, XBRL data can be greatly leveraged to provide business information that demonstrates the integrated thinking behind business strategy.

3.4 Reaching Future Benefits

Before future benefits can be reaped, XBRL implementation needs to become much more widespread. This is fundamental since increased implementation will increase the demand for support resources such as expert personnel, guidance documentation, and analytical software. XBRL support is required to bring companies on board and commit them to investing in the implementation project until maturity.

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30 Ibid.
4 Canadian XBRL Implementation

Given the proven and proposed benefits, there is strong case for XBRL implementation in Canada. A voluntary program was established in 2007 for the use of XBRL filing; however since then the adoption process has been stagnant. This may be related to lesser attention on XBRL by IFRS, as the IFRS was laggard in development compared to other taxonomies such as the U.S. GAAP taxonomy. "IFRS-based XBRL filings are mostly for tax and banking/insurance regulation reporting, not for statutory financial reporting of publicly listed companies." Comparing accessibility between U.S. GAAP taxonomy and IFRS taxonomy, the U.S. GAAP taxonomy is "readily accessible through an easy-to-use Web-based browser called Yeti," while the IFRS taxonomy online tool is only accessible through a fee-based subscription to eIFRS content. Many countries have yet to adopt XBRL also because the IFRS XBRL taxonomy is lacking, and the benefits of XBRL are still unrecognized by many users. For other Canadian reporting standards, a “Canadian Financial Reporting According to Canadian GAAP” taxonomy has been acknowledged since 2010 but has not yet been approved by XBRL International. This means the taxonomy is in compliance with XBRL specifications, but has not seen enough use to verify its adequacy in order for approval.

4.1 Challenges to XBRL Implementation

XBRL promoters attribute hindrance of widespread XBRL usage to financial constraint, lack of education on the topic, and poor perceived ease of use. "It isn't immediately obvious that financial executives or the consumers of the company's data will ever reap the promised benefits." Hence, businesses do not want to be the loss leader, but this reluctance creates a

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33 Ibid.
vicious cycle where XBRL data availability is limited, which limits the analytical potential of XBRL data. Joseph Howell in “What’s XBRL Reporting Got to Do With Bar Codes?” identifies that “until a critical mass of properly labeled XBRL data is accumulated, it will be challenging to build a critical mass of end users of the data.”

Companies also struggle to arrive at a supportive cost-benefit analysis for XBRL implementation because many users are still not knowledgeable about the internal benefits of XBRL. They have only heard XBRL being promoted for improved market transparency and reporting efficiency, which don't provide enough return on investment value for companies to voluntarily partake in XBRL adoption. “XBRL is currently perceived as a technology-driven innovation rather than a useful organisational tool and that this seriously inhibits the demand for the technology.” Future potential benefits of XBRL, as previously discussed, are often unknown due to their achievement uncertainty.

Further, XBRL and its analytical software need to have a high enough perceived ease of use and perceived usefulness such that new users will be willing to invest time and money to integrate XBRL into their business reporting. Many companies have had to outsource XBRL work due to software complexity and lack of in-house expertise, which detaches the XBRL process from the financial reporting process, leading to XBRL perceived as an expense as opposed to an investment. Harmonization of taxonomies and development of better, more user-friendly software will help to eliminate this perception. Taxonomies need to be standardized to accommodate more industry-specific reporting items and reduce the judgement required for tag choices, which will also improve comparability of XBRL data. Software needs to accommodate for users with no previous coding knowledge, and provide sufficient guidance to help managers understand what is to be accomplished with XBRL tags.

For Canadian XBRL implementation to be successful and widespread, there needs to be clear-cut objectives for the project coupled with a proper incentive scheme that encourages

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41 Howell, "What's XBRL Reporting Got to do with Bar Codes?" 52-54.
companies to partake in XBRL adoption. Further, adequate support needs to be provided to companies to lower costs and service fees for XBRL adoption. Lastly, an incremental strategy should be adopted to allow time for businesses to learn and utilize XBRL. Clearly, strong government support is required, but professional associations provide ancillary support that bridges the knowledge and skills gap to ultimately brings successful implementation.

4.2 CPA Canada’s Role

In the 2013 Pre-Budget Consultation prepared by CPA Canada and CGA Canada, one of CPA Canada’s suggestions for the federal government was to:

“Explore opportunities to adopt Standardized Business Reporting that involves coding data in a standard format, normally, XBRL (eXtensible Business Reporting Language) to reduce red tape and taxpayer compliance costs and enhance data collection.”

CPA members are in the perfect position to take on the duty of promoting XBRL to businesses, having the necessary understanding of financial reporting and the ability to increase their focus on technological integration as a knowledge area for the accountancy profession. “From a practical perspective, results suggest that professional associations…can play a significant role in increasing XBRL adoption.” CPAs can develop their technical skills to bridge the gap for businesses that seek the expertise and guidance on understanding and applying XBRL to their unique reporting process. In fact, CPA Magazine recently hosted a webinar with speaker Gianluca Garbellotto on SBR and its benefits for Canada, highlighting that “SBR is a global reality” and that SBR holds significant potential to achieve cost-saving benefits for Canadian businesses. CPA firms that develop XBRL expertise now will champion in providing reporting services, and along the way collect valuable data for client trend analysis, which can be leveraged in other professional services such as consulting.

44 Ibid.
45 Ibid.
To further CPA Canada's suggestion, the institution can help promote XBRL by:

- Collaborating with XBRL Canada and CPA’s provincial counterparts to provide seminars that build SBR/XBRL knowledge and understanding for members
- Working with government to propose a plan to incrementally introduce XBRL to all sizes of businesses with a new incentivized XBRL adoption program
- Partnering with software developers to develop and provide tools that support XBRL format reporting and data analysis
- Developing publications to explain, discuss, and promote XBRL, targeting industry and professional audiences
- Offering workshops that teach XBRL analytical tools to members

5 Conclusion on the Position of XBRL

XBRL brings internal and external benefits to businesses in the form of regulatory compliance cost savings and amassing of analyzable data for improved decision-making. Many believe that XBRL will see widespread implementation in time, since its benefits will outweigh the costs in a short timeframe of a few years, and perceived ease of use is improving. However, many businesses do not yet see the operational and strategic benefits of XBRL adoption: data analysis that could bring risk management to a new level, and a completely streamlined and automated reporting process. Financially, XBRL represents long-term cost savings and improved business information available to the public, which will translate into lower cost of capital and investor confidence.

CPA Canada has recently sparked the discussion for government involvement in Canadian XBRL implementation and should continue to promote XBRL’s benefits to both members and businesses. Once CPA Canada convinces the government to provide support of XBRL, it gives businesses the necessary incentive to adopt XBRL and start gathering data necessary to reap analytical benefits. Greater adoption will drive the demand for expertise and software, which can be provided by CPAs and software developers. CPA Canada needs to act

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now to spearhead the XBRL adoption in light of future benefits that will streamline the entire business reporting process.
Works Cited


http://www.theiirc.org/the-iirc/about/.


http://www.xbrl.org/AboutXBRL.


http://www.xbrl.org/FRTaxonomies.