

# Tag, You're It:

## A Winning Strategy For Automating XBRL Compliance



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**Executive Summary:**

Winning the financial reporting race under the rules of XBRL compliance “tag” will require a strategic solution. The preparation of financial information is already a manually intensive, people-dependent process that will be further burdened with new filing requirements. Increased effort and responsibilities due to XBRL mandates have increased the need for — and value of — an embedded solution to automate the financial reporting process. XBRL compliance will be a recurring obligation for the foreseeable future, and a requirement that will only continue to increase in scope.

Companies that have not adopted a strategy for automating financial reporting processes should consider XBRL as a trigger event to evaluate solutions to minimize costs and efforts for compliance, greatly reducing the risk of error.

**Key Findings:**

- By 2010-2011, companies will be required to tag nearly 3,000 data elements in financial reports
- Increasing staff headcount or work hours will not be sustainable or cost-effective
- Recurring and repetitive tasks for XBRL tagging can be automated to reduce costs, time and errors
- XBRL automation is provided through either “bolt-on” applications or is “embedded” in a financial reporting system
- Automation yields both immediate benefits for active reporting periods and recurring benefits for future reporting
- Bolt-on XBRL solutions are short term solutions: typically less expensive than embedded, but with significantly reduced benefit
- Embedded XBRL solutions offer greater opportunities for benefits throughout the financial reporting process, including workflow management, improved controls, revision tracking and re-use of tagging effort in future reports

**Recommendations:**

- Assign XBRL tags as near to the source Close activity and reporting data as possible
- Distribute responsibilities for XBRL tagging to respective owners of the financial data
- Evaluate benefits from additional automation for “upstream” financial processes

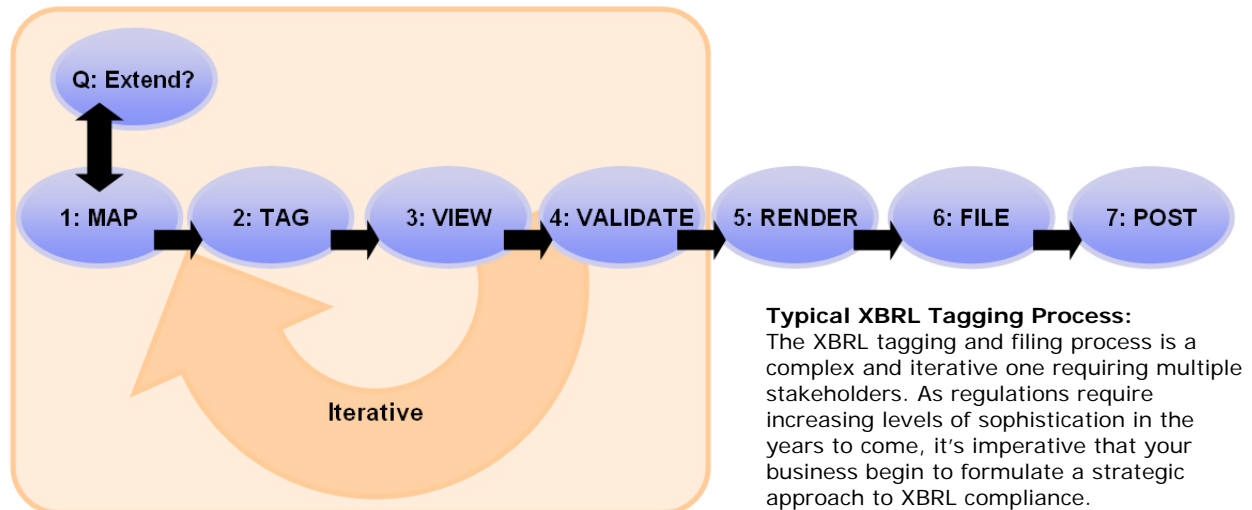
## Introduction

XBRL compliance is yet another in a series of SEC mandates aimed at increasing transparency in financial reporting by companies. For financial reporting managers and others like you involved in the financial reporting process, XBRL can be a game-changer.

Typically the financial reporting process is a time-pressured one which is highly dependent on a small but mighty group of individuals who manually gather the needed information from a large number of stakeholders, ensuring the appropriate rules are applied and reports delivered in the required formats.

XBRL compliance requires that all disclosure elements in your financial report — every numeric value and supporting reference, including footnotes — must be identified with specific “tags” according to a standardized system. These XBRL tags define the context for your disclosure elements, so that they can be analyzed as structured data.

While the concept is simple, compliance is anything but. By 2010-2011, filing companies will be required to tag nearly 3,000 such disclosure elements with every report.



As with other SEC rules mandating increased financial reporting transparency, such as SOX, you have limited influence over the complex rules being imposed through XBRL. Rather, these financial transparency initiatives have been driven by investors and regulatory bodies seeking more accountability and visibility into corporate reporting.

If your company files with the SEC, you've been tagged to follow the burgeoning set of rules for XBRL reporting. Since you cannot control what you have to do, it is vital that you control how you do it. The process often lacks the agility to absorb new requirements without the risk of error, turnover or delivery delays. For most companies, adapting to XBRL requirements will be a catalyst for a re-evaluation of your current financial reporting processes and systems. Long-term requirements need more than short-term tactics — they need a strategy.

## Strategic XBRL Compliance

From a pure business perspective, XBRL's transparency offers few immediate benefits to filing companies, and plenty of immediate challenges. Consequently, your strategic game plan should focus on complying with current requirements efficiently and cost effectively. In

addition, you need the ability to adapt to the inevitable evolution in requirements quickly and inexpensively.

- Minimize costs of labor for tagging, data entry and revisions
- Minimize increase of existing financial close and reporting workload
- Minimize delays that reduce available “close-to-filing” time
- Increase time available for more meaningful analysis of results

Though XBRL rules increase your reporting requirements, they do not increase the time available for filing. For many companies, annual and quarterly filing windows have decreased by 25%-33% within the last five years — a trend that’s likely to continue. Your company can’t afford to sacrifice time from the financial close process to make up for the increase in reporting effort due to XBRL.

It’s also clear that simply increasing staff or work hours to handle the increased work will not be a sustainable or strategic solution. Additional staff adds to the cost and complexity of the entire process and the manual effort doesn’t scale. Overworking existing staff adds risk and delays from the inevitable creation of and correction for errors.

XBRL compliance is a recurring technical requirement, and consequently requires a technical solution to achieve strategic goals. That solution is to automate as many of the recurring and repetitive processes required for tagging of financial report content as possible.

### The Benefits of Automation

Just as spreadsheets have streamlined your financial and accounting processes, enabling efficiency through basic automation of repetitive calculations and data entry, similar strategic benefits are achieved by automating the management of XBRL tags.

Within a spreadsheet, formulas and formats are assigned to cells and automatically reused, updated and validated as source data changes. Automation of XBRL compliance works in much the same way, assigning context for the values and information in the “cells” and body of a financial report.

Such automation enables “cascading benefits” that carry through your entire financial reporting process. Initial assignments of XBRL tags and attributes can be retained as values are revised and updated during the review process, and be re-applied for subsequent quarterly and annual reports. Automation also enables intelligent validation and cross-checking of values through the entire report. The further upstream this automation can be implemented, the more the benefits accumulate as they flow through your financial processes.

### XBRL: eXtensible Business Reporting Language

XBRL, an initialism from eXtensible Business Reporting Language, is a technical standard for the description of financial and related data. XBRL provides a means to assign standard “tags” to data in financial reports and systems, such as “Net Profit,” so the values can be understood in context and analyzed through software.

The first phase of the SEC mandate for XBRL filing has already begun. Large domestic and foreign accelerated filers — primarily “Fortune 500” companies — must now submit XBRL data with their financial reports. These companies are currently required to identify approximately 300 disclosure elements through XBRL. Explanatory footnotes must also be tagged as supporting references to values.

All filing companies will be required to submit similar XBRL data beginning in 2010.

Immediately after this initial phase, the scope of XBRL tagging will increase for all companies. Within the next year, the number of required disclosure elements for the large filers increases from 300 to nearly 3,000. Tagging of all financial values, including those within explanatory footnotes, will be required. These requirements will apply to all filing companies beginning in 2011.

More significant reporting and XBRL changes are also expected as the SEC begins the transition from traditional reporting standards based on US Generally Accepted Accounting Procedures (GAAP) to International Financial Reporting Standards (IFRS) within the next five years.

## XBRL Automation Methods

There are several approaches to tackling XBRL through automation. In its 2009 report on financial disclosure initiatives, Gartner Research categorized automated solutions for XBRL compliance into two groups: “bolt-on” and “embedded.”

Bolt-on solutions are “helper” software utilities that assist with the assignment of XBRL tags on consolidated reports. With bolt-on solutions, XBRL tags are typically added as a near-final step in the financial reporting process, since they use the final consolidated report as the data source. Though guided, the process of applying XBRL tags is often largely manual. The system requires human intelligence to define the appropriate tags for each value.

Embedded solutions include XBRL capabilities within an automated financial reporting system. Such systems allow XBRL tags and context to be assigned against source data from the financial close process. Consequently, with an embedded system, XBRL tags can be defined early in the reporting process and do not require re-assignment when values change, as they are not dependent on a final report. Additionally, embedded systems have more “awareness” of the context of values and can provide more automation and validation in the initial selection of XBRL tags.

## Evaluating XBRL Solutions

Even without XBRL, the financial reporting process is already unavoidably complex.

It’s the absolute “last mile” in the race to the filing finish line, and has only the time window that remains after the financial close process to get there. It is a highly iterative process, with multiple rounds of editing from multiple contributors with diverse perspectives. Finance, legal, management, the board of directors, review committees, and auditors all provide input and revisions that must be converged to a single, accurate report.

When evaluating XBRL automation solutions, you’ll need to look at many factors that impact how a system will benefit your company. Some solutions will enable you to achieve XBRL compliance faster, easier or cheaper than others.

The benefits of an automated XBRL solution fall into two broad categories: immediate benefits, which are realized with the current report; and recurring benefits, which are realized with every subsequent report. When evaluating solutions, consider how well each can deliver on these benefits.

### Immediate Benefits

The primary benefits of automation include reductions in manual labor and a more efficient way to validate the financial data being gathered from across your business, facilitating efficient XBRL compliance. It should be possible to perform XBRL tagging quickly and cost effectively, with minimal manual re-keying, tag selection and completion. Any re-keying of data or manual tagging should be evaluated as sources of potential errors. Similarly, once items are tagged, it should not be necessary to repeat the work when the data source changes, or as new revisions and draft reports are generated during the review process.

#### IMMEDIATE BENEFITS:

- Reduce Manual Labor
- Increase compliance
- Tag once
- Tag the source
- Validate early and often
- Simplify complexity

Where possible, XBRL tags should be assigned as close to the primary Close activity and data source as possible. When tags are based on source data, the automated software can

have greater context awareness when automatically tagging or presenting tag choices, simplifying the selection process and reducing incorrect tagging. Additionally, tag assignments based on source data can “cascade” into any revision of the report, even as disclosure items are added or removed from the report itself.

Another benefit to applying XBRL tagging as far “upstream” to the data source as possible is that the tagging process can often be performed in parallel with other reporting stages. This prevents XBRL tagging from becoming a bottleneck to submission of the final report, and can enable distribution of the tagging effort to financial content owners, who have the best knowledge of the proper context of the data.

Since XBRL tags describe not only the context and type of data items, but also the relationships between them, seek solutions with robust XBRL validation tools that will provide rapid error detection and troubleshooting early in the process. The sooner those issues are identified, the sooner they can be corrected.

Lastly, evaluate the simplicity and familiarity of the XBRL tagging interface itself. A solution that is unfamiliar or inconsistent with the other software used in your financial reporting process, or that presents users with complex options during tagging, will deliver lower efficiency benefits, and may limit the ability to distribute tagging to content owners.

### Recurring Benefits

In addition to the immediate benefits of an automated XBRL solution, there are some key benefits and capabilities that apply over the long term.

First, it’s essential that previous XBRL tagging efforts can be carried over to subsequent reports. While the information in each subsequent filing report varies, the output structure and source data are typically very similar. Effort that has gone into tagging these elements and their attributes should be retained across reports as much as possible. Look for the ability to assign tags through templates from past reports.

Also, as described above, consider whether tags can be assigned to the source of data, rather than to output. When an item such as “Gross Annual Revenue” is tagged at the source, an automated system should automatically detect and update the value, currency, year, and other related tag parameters.

Secondarily, the ability of the system to adapt to changes over time will greatly affect its long-term benefit. The number of disclosure items required to be tagged is increasing dramatically, and the automated system should gracefully expand to support that additional detail. Similarly, industry-specific and other new tags are still being added to the standard XBRL classifications, including those necessary for “voluntary” disclosure items. The system must adapt to these continual changes in the XBRL, and help users apply the changes appropriately.

#### ASK YOUR VENDOR:

- Can I tag a block of text or footnote once, and publish my financial statements often, without having to re-tag the data?
- Can tagging be tied to “pre-close” activities? Can I “drill down” within the application to discover “who did what, and when” to assist auditors?
- Can reporting and tagging templates be re-used from period to period or do I have to start over from scratch each time?
- Do the validation capabilities highlight errors for each Disclosure?
- Can the tagging process be distributed to those responsible for individual Disclosures? Or must the process be managed centrally?
- Can my Printer access the system in the event I still outsource the tagging process?

## Further Benefits

Another important consideration for an XBRL automation system is its integration with your other financial systems and processes. Beyond the fundamentals of XBRL tagging, some automation systems offer components or extended capabilities that provide additional benefits for more efficient and better-managed financial reporting.

One example is workflow management, which enables improved collaboration and “parallel progress” towards tagging, through all the complex iterations of the financial reporting process. Other important background capabilities that could benefit your company include automated security, permissions and approvals for creation, deletion and revision of report content, with built-in audit trails and version tracking.

Automated production of the final, formatted report, with support for common file types such as PDF, Microsoft Word, and HTML adds further benefits in efficiency and reduction of errors.

Automation can begin even further upstream, in your financial close processes, prior to the start of financial reporting, enabling similar efficiencies, cost reductions and error reduction. Automation also allows you to redirect resources to more meaningful analysis of the financial results, providing enhanced information and analysis to executives for more informed decision making and more accurate commentary on performance to the financial markets. In fact, automation can begin at account reconciliation and carry seamlessly through financial close to reporting, compounding benefits along the way.

## Conclusions

In reviewing the capabilities and potential benefits of the two categories of XBRL automation, bolt-on and embedded, the limitations of the bolt-on approach become more apparent.

Bolt-on XBRL solutions, by their nature, yield lower immediate benefits other than very low purchase cost. As they are not closely integrated with financial reporting systems, they are often more complex to use. They are dependent on the financial report as their data source, and typically require more manual re-keying and tag assignment, particularly as the report is revised. Bolt-on solutions may require delaying application of tags until the financial report is final, preventing distribution of the workload, adding a great deal of risk for meeting filing deadlines, and little room for correction of any errors discovered in the process.

Bolt-on solutions also yield fewer recurring benefits, as relatively little of the tagging effort from previous reports carries over to future reports.

In contrast, embedded XBRL solutions offer far greater immediate benefit, and nearly all past tagging effort applies to future reports. Further, embedded solutions enable other efficiencies and error reduction through sharing of tagging effort, context-awareness of source data to assist in tag selection and validation, and presentation through a software interface that’s already familiar to your users.

### ASK YOUR VENDOR:

- What is your product roadmap? How does your solution anticipate planned and future mandates around XBRL compliance?
- Can multiple people tag the same document at the same time?
- What workflow features support collaboration across dispersed geographic or functional groups?
- How intuitive is the tagging, editing and workflow interface? Does it use familiar tools or proprietary editors which may have a steeper learning curve?
- What automation, tagging and workflow features are available for “upstream” financial processes, including the financial close?

The primary advantage of a bolt-on solution — a lower initial cost — is very quickly lost when compared to the higher immediate and recurring benefits from an embedded solution.

### **Summary**

Winning the financial reporting race under the rules of XBRL compliance “tag” will require a strategic solution. The increased effort and responsibilities due to XBRL mandates have increased the need for — and value of — an embedded solution to automate the financial reporting process. XBRL compliance will be a recurring obligation for the foreseeable future, and a requirement that will only continue to increase in scope.

Companies that have not adopted a strategy for automating financial reporting processes should consider XBRL as a trigger event to evaluate solutions to minimize costs and efforts for compliance.