

GLOMIDCO

XBRL:

TRANSFORMING YOUR BUSINESS INFORMATION SUPPLY CHAIN
WITH THE USE OF REAL-TIME FINANCIAL DATA

INTRODUCTION

EXtensible Business Reporting Language (XBRL) plays an increasingly important role in the fast-paced business environments of today. This white paper examines the need for increased transparency, efficiency and accuracy in financial reporting and how the “XBRL response” is capable of providing organizations with this. Companies, investors, analysts, financial institutions, regulators, and all users of financial business information will be interested in XBRL, as the technology greatly increases the effectiveness and efficiency of the recording and transferring of financial data.

This paper concludes that organizations would be wise to extend their current standard business reporting practices with XBRL, as value can be added significantly in four key areas, namely: transparency, compliance, continuous auditing and governance.

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THE NEED FOR TRANSPARENCY, EFFICIENCY AND ACCURACY IN FINANCIAL REPORTING

In our current dynamic business environment, having an efficient and effective business information supply chain is crucial for success. Each day managers face complex problems in which decisions need to be made based on the acquisition, communication and dissemination of business information. An important part of the information flowing through enterprises is the financial data. Today's ever-increasing amount of information and the diverse formats in reporting business and financial data form a major challenge for organizations worldwide to collect and spread the data to stakeholders. This results in stakeholders being unable to acquire corporate information that they need to perform various analyses of corporate data. Financial information, including statements, footnotes, management discussion, analysis and forecasts need to be circulated among various stakeholders for an economy to be efficient and for information symmetry to occur. The lack of transparency in corporate financial reporting leads to more difficult decision making processes for both management and stakeholders.

When it comes to financial reporting, many companies face problems pertaining to both data collection and processing. Financial reporting generally suffers from a lack of transparency, efficiency, and accuracy. These problems are, at least partially, due to the lack of interchangeability in the methods in which financial data is collected, stored, processed and reported. Commonly used formats (e.g. HTML, PDF, MS Excel) do not support automated analysis of financial data, as the content has been standardized for human review, not for automatic location, acquisition, arrangement and classification. As financial data is often spread out over multiple enterprise applications, information is difficult to find. This makes the realization of an efficient and effective transparent outcome hard to come by. Effective and in-depth auditing of financial statements can eventually be time-consuming, labour-intensive and prone to human errors.

THE XBRL RESPONSE

GLOMIDCO aims to tackle these problems through the “XBRL Response”. The value added for companies that have adopted XBRL and make use of interactive financial data that it provides is divided into four key areas, namely:

- › **Transparency** throughout the financial information supply chain;
- › Automated **compliance** to financial reporting standards mandated by regulatory agencies;
- › Support for risk management and handling on exception through **continuous auditing**;
- › Improved **governance**-related decision-making processes based on enriched financial information.

EXtensible Business Reporting Language (XBRL) is an XML-based business reporting language, which enhances the efficiency, reliability, and accuracy of financial reporting. It can be used for the preparation, exchange and integration of financial data among various computer platforms and software applications. Data in XBRL does not need to be converted between applications because standard tags for data items are used. Each item tag in a financial report tells standard software what the item represents and how it relates to other items. The content within each line item remains the same, but the data becomes considerably easier to import and export to a diverse set of information consumers, thus enhancing communication along the business supply chain.

An important component of XBRL is the taxonomy. Taxonomies are standardized lists of accounting concepts, relationships, and business rules that are used to locate and identify each item in the financial statements. XBRL uses the taxonomy as defined by the regulatory bodies and is implemented in such a way that all the needed information for each financial report which needs to be produced is readily defined through the definitions, relationships and business rules of each item on the financial report. In this way, validation can be done on both data level and information level, meaning that not

only the validity of the data format is checked, but also the rules that are defined between different data items (e.g. calculations). Using the taxonomy, the financial information in XBRL format can be sorted and rendered into different forms such as an annual report, a tax return, a filing to the Stock and Exchange Commission (SEC) etc. The taxonomy ensures that no different interpretations of concepts and definitions can occur through standardization.

A well-known taxonomy for financial reporting for commercial and industrial companies within the United States is the one under the Generally Accepted Accounting Principles (GAAP), which was released in 2000. Nowadays, there are approximately 13,000 GAAP-approved XBRL tags for financial data tags in the United States.

1. TRANSPARENCY

XBRL's biggest advantage is the increased transparency within organizations' financial information streams. XBRL enables organizations to retrieve and analyse information more efficiently and effectively with a reduced chance of error within the data. As (near) real-time financial information can be retrieved through XBRL, organizations can increase their financial reporting transparency, which is the extent to which a company provides complete and fair disclosure of clear, relevant, reliable and timely information with as little discrepancies as possible. Users will be able to find financial information faster, rather than searching through lengthy year reports. Using XBRL, information is reused and is less likely to duplicate.

By adopting XBRL, a reduction of information asymmetry will be achieved; resulting in improved auditing processes and forecasting accuracy. Companies with a high level of data complexity become more transparent to the public and are therefore easier and less risky to audit, which in turn leads to easier access to the financial market. Lastly, the format gives more users the ability to access and analyse a particular company's performance and compare it to other companies.

Through XBRL adoption, companies with a high level of data complexity become more **transparent** to the public and are therefore easier and less risky to audit, which in turn leads to easier access to the financial market.

Achieving **compliance** using XBRL saves a tremendous amount of time, as it enables a financial report that meets all requirements by jurisdictions to be produced within seconds.

2. COMPLIANCE

The SEC, along with the many regulatory bodies of other nations, feel that a standardized financial reporting format is needed and that XBRL meets the criteria to do so. Financial regulators are the most demanding XBRL users, they require organizations under their jurisdiction to report the following in XBRL; Common Reporting (COREP)/ Financial Reporting (FINREP); Capital Requirements Directive (CRD IV); Solvency II; EDINET; and US-GAAP.

Due to this move towards standardization in financial reporting, it becomes more and more important for organizations to keep up with the required reporting standards, as management is legally liable for the financial reports that an organization produces. Creating these financial reports as defined by jurisdictions and/or other regulatory bodies is currently time-consuming and complex. As many elaborate processes need to be put into place to achieve compliance, companies often spend a lot of money on auditing.

Achieving compliance using XBRL saves a tremendous amount of time, as it enables a financial report that meets all requirements to be produced within seconds. This also results into a substantial decrease in auditing costs, as checking the financial reports will now require less time. Complying with standards and requirements thus becomes easier and more cost efficient for organizations with this technology.

Some examples of the application of XBRL mandated by regulatory authorities world-wide:

- › Jurisdictions all over the world have supported the development of XBRL. Stock exchanges, taxing authorities and/or other regulatory agencies in Belgium, France, Germany, Denmark, Ireland, Norway, Luxembourg, The Netherlands, Spain, Sweden, The United Kingdom, Canada, New Zealand, Israel, China, Singapore and Thailand have imposed the use of XBRL on organizations that report to them.
- › In 2004 and 2007, China and South Korea respectively started with filing annual reports in XBRL. In 2005 and 2008, Spain and Israel respectively mandated the switch to XBRL to coincide with the adoption of the International Financial Reporting Standards (IFRS). In 2008, Luxembourg, Japan and India also switched to XBRL filing.
- › In the United States, the Securities and Exchange Commission (SEC) mandated a phase-in process for essential reporting with XBRL for the roughly top 500 public organizations. Since 2011, all US public organizations are obliged to use XBRL.
- › International Financial Reporting Standards (IFRS) have been adopted by over one hundred economies worldwide, with the IFRS taxonomy—the XBRL set of tags for IFRS—having been made available and continuously updated since 2001

3. CONTINUOUS AUDITING

XBRL enables organizations to continuously audit their processes and financial transactions through (near) real-time information. Using the current information and XBRL's ability to seamlessly transfer business information, accounting information can be consolidated from disparate systems used by different business units. This can be done in a quick manner, as after a onetime mapping process the consolidation can be automated. This enriched information can be used for management to redefine KPIs and to keep track of and control over these.

An organization's risk management is also supported in a continuous manner with the adoption of XBRL. Exceptions and anomalies can be identified as soon as they occur, patterns and trends can be analysed and control and risk assessments can be performed. The (near) real-time aspect of XBRL allows financial information to be evaluated on its integrity and checked constantly for errors, fraud and inefficiencies. In combination with Business Process Management (BPM), this enables the organization to handle on exception, rather than checking all the information by keying and transferring data to all destinations manually, leading to substantial decreases in costs.

Aside from KPI improvements and enhanced risk management support, continuous auditing also enables financial analysts to collect, load, sort and analyse the data easily and free of errors. (Near) real-time financial information that continuous auditing provides enables management to proactively respond to changes in the business environment to avoid profit losses and to identify business opportunities. Current methods involve many manual processes such as copying and pasting, reformatting and making decisions based on incomparable financial information. XBRL, on the contrary, offers financial statements that are more searchable and comparable, thus making the indexing and searching of lengthy documents significantly easier. XBRL results in more time analysing and using financial information and less time physically and manually processing data.

Continuous auditing using XBRL enables management to proactively respond to changes in the business environment rapidly to avoid profit losses and to identify business opportunities.

4. GOVERNANCE

For today's enterprise, the issue of understanding financial report consolidation and the controls that exist around these reports is a critical part of corporate governance. XBRL technology will improve the manner in which information is produced, verified and disclosed, making building a corporate culture of accuracy and accountability easier. XBRL supports the set of decisions that are made by individuals about how the organization is managed and how the interest of stakeholders can be protected. However, one must realize that for financial information to be truly value adding in the field of corporate governance, it needs to be more than just a distributed stream of data. XBRL can enable data to be disaggregated, reformatted and rendered by the user in a way that can lead to new insights and decision relevant knowledge.

Atop of that, providing XBRL integration in a BPM layer gives insight into the audit trail of a financial report, providing relevant information about who has had access to sensitive financial information, who last edited it, who approved it etc. In combination with analytical software, decision-making processes related to governance can be executed more efficiently and effectively for both stakeholders inside and outside the enterprise using XBRL-generated information.

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GLOMIDCO'S XBRL ADAPTER FOR SOFTWARE AG

With our company's 15 years of experience in integration, the combination of XBRL and middleware manifested itself into GLOMIDCO's XBRL processor as a solution for current problems in the field of business reporting. GLOMIDCO has spent the last 3 years researching the complexities and opportunities of the XBRL technology. Our expertise reaches beyond the XBRL technology to the specific applications within the financial field.

What makes this XBRL processor unique is that it is built from the ground up with high volume messaging in mind. The XBRL processor implements the various XBRL standards and is able to create an XML representation to work with existing applications and make full use of the investments in the current IT infrastructure.

Reporting financial information that is spread out over disparate enterprise applications (e.g. SAP and Oracle Finance) and all other information throughout the whole enterprise is easily accessed and retrieved to be mapped to the XBRL entry point. Our solution makes it possible to validate and compose financial reports real-time. These reports can then be used to achieve those four value-adding areas that GLOMIDCO's "XBRL Response" defines: transparency, compliance, continuous auditing and governance.

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