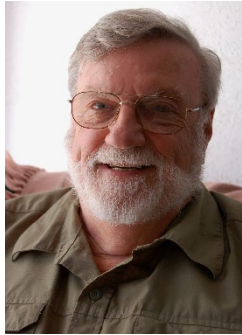


## Transforming Regulatory Filing Technologies

By Gerald Trites, FCPA, FCA



*Jerry is a retired partner of KPMG, and a former tenured Professor of Accounting and Information Systems at a Canadian university. He also served for 12 years as Director of XBRL Canada and has published 12 books and numerous articles and papers.*

*He is Editor in Chief of ThinkTWENTY20 and is currently writing a book on Corporate Financial Reporting on the Internet.*

A novel addition to regulatory reporting is transforming the way companies file with their regulatory authorities. And, once most of those authorities are on board, it should make life easier for corporate filers everywhere.

### **A Bit of Backstory**

Corporate filings with regulators are a major part of the reporting cycle. Preparing them is time consuming and the whole process is complicated by the fact that companies often have to file with different regulators using different technologies.

Income tax departments are a prominent and well known recipient of filings for all companies and individuals. For public companies, filing with regulators and stock exchanges is an additional significant activity. Some industries are more regulated than others. For example, in Canada, a typical bank has to file reports with the Office of the Superintendent of Financial Institutions (OSFI), the Canada Deposit Insurance Corporation (CDIC), the US Securities and Exchange Commission (SEC), the Canadian Securities Administrators (CSA) and, of course, the Canada Revenue Agency. With US banks, the list includes the Federal Deposit Insurance Agency (FDIC), SEC, IRS and a host of local, regional and national governments.

Each of these agencies has its own format for receiving data, and most have developed their own proprietary systems for processing the filings. Therefore, preparing the filings often must include steps necessary to enable the files to be accepted and processed – steps that differ for each filing agency.

To help deal with this issue, numerous agencies and government departments around the world have adopted eXtensible Business Reporting Language (XBRL) as the electronic format required for filing corporate financial reports with them. More recently and more specifically, they have adopted Inline XBRL (iXBRL), which is a more advanced form of XBRL.

XBRL was developed in the early years of the 21<sup>st</sup> century by a small group of accountants led by Charles Hoffman, a practitioner from Tacoma, Washington, with the cooperation of the American Institute of Certified Public Accountants (AICPA). They, along with some others having

the needed technical skills, developed the first iteration of the standard, which was published in July 2000.

“XBRL is a standards-based way to communicate and exchange business information between business systems. These communications are defined by metadata set out in taxonomies, which capture the definition of individual reporting concepts as well as the relationships between concepts and other semantic meaning.”<sup>1</sup> What this means in practical terms is that the concepts referred to are financial statement items, such as cash, inventory and sales revenue. The relationship between these concepts defined in the taxonomy is the relationships they have in compiling financial statements; for example, accounts receivable is one concept and allowance for doubtful accounts is another. The allowance is deducted from the accounts receivable (the relationship) to get net receivables.



Metadata is added to the concepts, such as the date, valuation method and accounting standards used to measure and disclose the concept. The concept of inventory might have, for example, metadata that shows the inventory is work in process for X Company Ltd. as at December 31, 2020, and is valued at lower of cost and net realizable value. This metadata always travels with the data, which adds to its usefulness. Without the metadata, the data would constitute a meaningless number. In preparing financial

information in XBRL format, the concepts and related information are gathered together in one document, called the instance document.

XBRL was never meant for human consumption, but just for other computer systems to read. An XBRL instance document can be read by a human, but only after extensive education in the intricacies of XBRL. It is certainly not suitable for human investors unless it is fed into systems that can render it into ordinary language. XBRL is very useful, however, because the computer systems that receive it can process it; for example, filings with the government, such as the SEC, can be readily checked without using valuable human resources. Only after this process is completed are the humans brought in to investigate apparent errors or other anomalies. This was one of the main reasons the SEC required XBRL filings in the first place.

But, because XBRL files cannot be read by humans, filings with regulatory authorities have had to be accomplished by two sets of files – conventional reports in a human readable language and XBRL files.

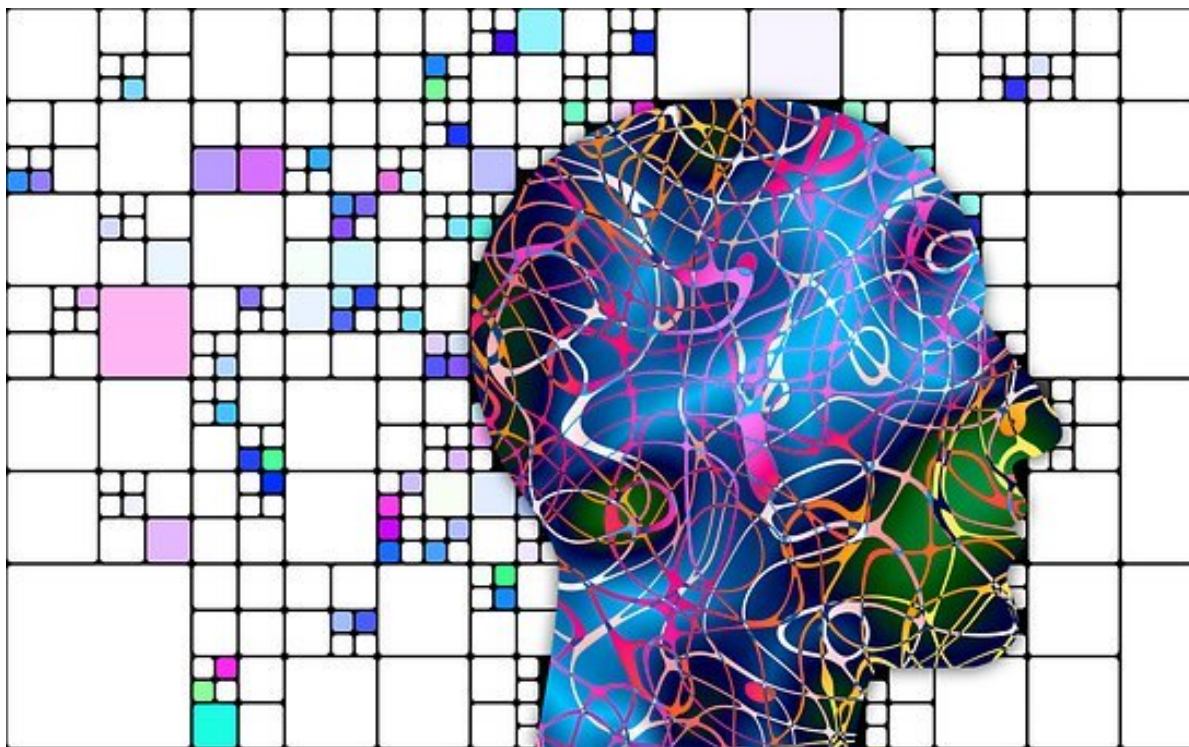
### **The iXBRL Solution**

Enter Inline XBRL or iXBRL. iXBRL is a form of XBRL that is readable by both machines and humans. This is useful in coping with the SEC requirements under which two reports needed to

be filed – the traditional filing in HTML and the separate XBRL filing. With iXBRL, only one report needs to be filed, an HTML document that can be read by people and incorporates XBRL tags, so that the same file can also be machine read.

One of the first and most successful implementations of iXBRL was carried out in the UK by Companies House (the UK Registrar of Companies) and HMRC (the UK tax department). In September 2009, HMRC and Companies House issued a joint statement announcing a common approach to the online filing of company accounts utilizing iXBRL. To help companies comply, they developed dedicated applications to make the compilation of the filings easier. The new legislation meant that most companies would have to file their Company Tax Returns, financial accounts and other computations in iXBRL for accounting periods after March 31, 2010.

In June 2018, the SEC passed a motion to amend their filing requirements to make a transition to iXBRL. The plan was to phase in the requirements so that large accelerated US GAAP filers would comply beginning with fiscal periods ending on or after June 15, 2019, accelerated filers for fiscal periods on or after June 15, 2020 and all other filers on or after June 15, 2021. The SEC also introduced an open source Inline XBRL Viewer to enable filers and the public to review and analyze the XBRL data more efficiently. Interestingly, the requirement for companies to post the XBRL data on their websites was eliminated at that time.



The EU issued a directive in 2004 that set standards for companies listed to offer securities within the EU. In Sept 2018, guidelines setting out the details of the new European Single Electronic Format (ESEF) were issued. This standard included a requirement to file with jurisdictional regulators using iXBRL based on the new ESEF taxonomy (an adaptation of the IFRS taxonomy) for financial years beginning on or after January 1, 2020.

iXBRL was adopted in other countries as well:

- Japan's Financial Services Agency mandated XBRL in 2008, replacing it with iXBRL in 2013.
- The Revenue Commissioners of Ireland initiated a voluntary program in 2012 for all tax payers to file their financial statements in iXBRL. Mandatory filing was introduced in 2014.
- The Danish Business Authority introduced iXBRL in 2015.
- The Australian Securities and Investments Commission began its iXBRL filing program in 2015.
- The Companies and Intellectual Property Commission in South Africa mandated iXBRL to go into effect from July 2018.
- The Companies Commission in Malaysia also passed a peremptory decree for qualifying companies to file in iXBRL

### **The Challenges of iXBRL**

Since iXBRL is filed as one single report, the audit opinion auditors express on the financial statements must be applied to the whole file, including the XBRL mark-ups or tags. Until then, the audit issue could be avoided by having the auditors express their opinion on the traditional financial statements and not on the XBRL files. Some companies did get an opinion on the XBRL files, but this was rare.

The problem was that, in expressing an opinion on the XBRL files, more audit work would be required, including:

- Determining that the appropriate taxonomy was used.
- Ensuring that the human-readable layer of the financial statements is identical to the audited information.
- Determining whether the information embedded in the electronic report is marked up in compliance with the regulatory requirements.
- Evaluating any significant judgments made in reviewing tagging and use of taxonomies. For example, the matching of financial statement items to the appropriate taxonomy items often requires the exercise of judgment.
- Ensuring that the audit procedures involve using the auditor's understanding of a company's disclosure and business model to ensure that the right tags are being selected.
- Ensuring that inappropriate extensions are not being used and that relevant extensions are properly anchored to the taxonomy.

The Committee of European Auditing Oversight Bodies published, in 2019, important guidance<sup>2</sup> for auditors reviewing financial reports published in accordance with the new ESEF regulations.

To provide an opinion on whether or not financial statements comply with ESEF requirements, auditors must ensure that the human-readable layer of the electronic report is audited *and* must determine whether the information embedded in the report is marked up in

compliance with ESEF requirements. The guidelines state that, “taking into account the defined materiality, the auditor should express an opinion (sometimes called ‘positive’ conclusion) on the compliance of the marked up information with the ESEF requirements.”

In cases where the mark-ups are materially misstated, auditors should express a qualified or adverse opinion regarding this compliance. The conclusion will depend on the severity and pervasiveness of the misstatement(s).

A disclaimer of opinion on this compliance should be expressed when auditors are unable to obtain sufficient appropriate evidence in this regard. This step should improve both data quality and audit consistency for ESEF filings.

### **Adoption of XBRL and iXBRL**

When XBRL was first conceived and discussed by the financial and accounting professions, there was a degree of excitement that this new reporting format had the potential to revolutionize financial reporting. There were visions of investors receiving their financial statements in XBRL format directly into their computers and then launching sophisticated analyses themselves. There were visions of all financial reporting using XBRL and, therefore, being comparable and consistent – the traditional bane of financial reporting. All accountants would learn XBRL and teach it to their clients and employers.



It didn't quite work out that way. Companies found that implementing XBRL involved buying new tools and training staff in their use. Also, to do the tagging required, they had to add new procedures to their financial reporting process. Given that XBRL files could not be read by people, the output of the process was often regarded as limited in usefulness.

The use of XBRL in regulatory filings was an exception to these concerns. The regulators had long ago established standard types of filings. And they had the resources to provide assistance to filers preparing their filings in XBRL. They also had the resources to develop and use advanced processing and analytical programs.

In the case of the UK and EU regulators, for example, the assistance to filers took the form of providing filing systems that automate much of the tagging and formatting required to complete the XBRL files. In the case of the SEC, the assistance was less extensive and involved providing some support to developers who created the tools necessary for filing. On the other hand, the SEC led the way in developing analytical programs that were used to analyze the filings and reveal any anomalies and errors.



In most cases, the filings were displayed on the regulators' websites, which substantially enhanced the volume and usefulness of financial information disclosed on the internet. Some companies also have disclosed the XBRL information on their own websites and, in some cases for several years, were required to do so.

Adoption in Canada has taken a different tack. While the US, UK and EU regulators have taken the lead on introducing advanced technologies for regulatory filings, Canadian regulators have done nothing. Although XBRL is used by Canadian companies, it applies only to those that are registered with the SEC, as a result of SEC requirements.

One consequence of this state of affairs is that there are many Canadian companies for which XBRL data are not available. Over time, this will become a disadvantage to these companies as XBRL becomes more widely used and such data are more widely expected to be available for analysts and others. Another consequence is that Canadian regulators are denying themselves the advantages of automated processing of the filings, which is faster and makes less use of valuable human resources. Also, Canadian regulators do not have the ability to use the advanced techniques available for analyzing the data from filings to identify anomalies and errors. The SEC has developed several tools for such analysis, which have proven to be very useful.

We can only hope that the situation for Canadian regulators and filers will improve as they learn from the experience in other countries.

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<sup>1</sup> XBRL International.

<sup>2</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/191128-ceaob-guidelines-auditors-involvement-financial-statements\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/191128-ceaob-guidelines-auditors-involvement-financial-statements_en.pdf).