An Overview of XBRL Compliance

Understanding the Risks and Liabilities

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In 2009, the SEC mandated the use of Extensible Business Reporting Language (XBRL) to improve and enhance the functionality of its electronic Data Gathering, Analysis, and Retrieval (Edgar) database. XBRL is based on Extensible Markup Language (XML), a widely accepted technological standard that defines a set of rules for encoding documents in a format that both humans and machines can read.

XBRL, used to present and define information in a company's SEC filings, provides an identifying tag for each individual item in the financial statements. Taxonomy tags include individual items in the financial statements and in the note disclosures. Furthermore, a company can create and define new tags that are unique to its own circumstances and business operations (extensions).

SEC regulations do not include any type of audit or assurance requirement for client-prepared XBRL files. Moreover, CPA firms cannot perform meaningful analytical procedures on XBRL-tagged data sufficient to achieve the level of assurance needed to form the basis for a review engagement. A registrant may, however, engage a public accounting firm to perform an agreed-upon procedures engagement to help management evaluate the completeness, accuracy, and consistency of its XBRL submission.

The ensuing discussion provides a brief overview of the XBRL tagging process and implementation; it also considers risks, internal controls, compliance considerations, and some best practices for XBRL submissions by publicly held companies.

The XBRL Tagging Process

XBRL tagging allows computer programs to read financial information in order to help investors and analysts access the financial information in a standardized and consistent manner. The SEC requires that registrants tag their financial statements—and the notes to their financial statements—with elements from a taxonomy or with tags that the company has created (due to special characteristics and requirements of its business [extension]) that define the corresponding reporting concepts.

The SEC's requirements for the conversion to XBRL by companies reporting under U.S. GAAP were phased in over time. The largest companies began providing XBRL information in 2009; by June 2011, all registrants were subject to XBRL reporting. After an initial public offering or spin-off, newly formed public companies are required to begin complying with the XBRL requirements in their first quarterly filing on Form 10-Q (http://www.sec.gov/spotlight/xbrl/xbrlsummaryinfophase3-051011.shtml).

Companies have gradually moved from what is referred to as "block tagging" to "detail tagging." In block tagging, a tag is applied to each individual number in the primary financial statements and to each note, taken as a whole (i.e., a block of text). In the more complex "detail tagging," tags must be applied to each individual number that appears in the notes. Many companies observed an increase in the number of tags used, from 200 to more than 1,000, when they moved from block tagging to detail tagging. Some complex sets of financial statements require more than 10,000 individual tags in a detail-tagged submission.

The Financial Accounting Foundation (FAF) and FASB have assumed responsibilities for the U.S. GAAP financial reporting taxonomy, originally developed by XBRL US Inc. under a contract with the SEC. A key objective for moving the taxonomy development and maintenance

CHECKLIST FOR XBRL-RELATED CONTROLS

Tag Selection Controls

Rule 405(c)(1)(iii) of Regulation S-T states, "Each data element contained in the Interactive Data [XBRL] File is matched with an appropriate tag from the most recent version of the standard list of tags specified by the EDGAR Filer Manual." The following is a controls checklist for XBRL tagging process:

- Assign a team for preparation, review, and approval of XBRL submissions.
- Obtain an in-depth understanding of a company's financial statements and business environment.
- Develop a thorough understanding of sections 6.6.23 through 6.6.29 of the Edgar Filer Manual.
- Provide due diligence and an approval process for a selection of new elements due to any changes in the financial statements and related notes or due to the implementation of a new taxonomy.
- Perform benchmarking with the XBRL filings of other public companies.
- Develop a robust review process by establishing documentation controls and procedures and utilizing tools such as XBRL validation, SEC validation, or XBRL US consistency check.

Submission Controls

The late submission of XBRL files may create complications.

The following is a controls checklist that companies should follow for their XBRL submission:

- Prepare a filing calendar for quarterly and annual filings, and allow time for emergencies.
- Plan to have the HTML and XBRL files ready for submission at least two days prior to the statutory deadline in each reporting period.
- Engage IT personnel for timely posting of the XBRL files on the company's website.
- Review the third-party vendor process for XBRL preparation and filing.

Controls for Transition to a New Taxonomy

A new taxonomy has a new structure, and companies might need to significantly restructure their tags for reporting purposes. For example, a company might have to change its approach toward member tags (dimensions) by using line-item tags instead of dimensions, or vice versa, or the company might use a combination of line-item and dimension, rather than a line-item, tags.

The following is a controls checklist for transition to a new taxonomy:

- Ensure that the new accounting standards updates, reflected in the new-released taxonomy, are properly updated in the XBRL files.
- Ensure that deprecated tags are removed and replaced with new tags in the XBRL files. XBRL concepts become deprecated, for a variety of reasons, with each version of the taxonomy; nevertheless, they remain in the taxonomy to satisfy the legacy and conversion requirements.
- Ensure all new tags and changes to the taxonomy have been incorporated in the XBRL files. FASB adds new tags to improve the taxonomy based on public comments, leading reporting practices, and other input from constituents. Companies should review the deprecated tags and replace them with the new tags.

Companies preparing a transition plan and review process should keep in mind a few tips:

- Review and fully understand the new adopted accounting standards.
- Read the new updated taxonomy and fully understand the revisions required by new accounting standards.
- Review FASB's and XBRL US's list of significant changes related to XBRL, especially those that claim to have resulted from "Best Practices, Public Comments, and Internal Analyses" (http://xbrl.us/research/Pages/BestPractices.aspx).
- Determine the role that the third-party providers will play in the transition.
- Review the existing tag extensions for possible replacement with new tags.
- Identify when member tags (dimensions) are needed and use them properly. Dimensions represent complete financial reporting concepts when combined with line-item tags; however, understanding when the use of dimensions is appropriate can be challenging.

responsibilities to the FAF and FASB was to achieve a greater level of integration with FASB's standards-setting responsibilities.

XBRL Implementation

A company may prepare its XBRL files internally, engage a third-party service provider to prepare them, or use a combination of both approaches. The following are three different approaches for XBRL implementation:

- *Built-in approach*—integrates the XBRL preparation process into a company's existing financial system.
- *Bolt-on approach*—entails the acquisition of additional software, implemented on top of a company's existing financial system.
- *Full-service approach*—allows companies to outsource XBRL tagging and reporting to a third party (e.g., a filing agent, financial printer, or consulting firm).

A company that prepares its XBRL files internally benefits from having full control over the process, which includes building a thorough knowledge of tagging, taxonomies, and the tools and software used. But companies following this approach might incur significant expenses in order to train personnel.

A company that outsources the preparation of XBRL files, on the other hand, benefits from its third-party service provider's expertise; however, a third-party service provider might have a limited understanding of the company's business, which could lead to multiple iterations in the tagging process and additional review time. Even if companies elect to outsource the preparation and submission of their XBRL files, they still need to provide basic XBRL training to personnel and acquire appropriate software tools in order to review the third-party provider's work.

The next generation of XBRL is Inline XBRL (iXBRL), which defines how XBRL metadata (e.g., type of data or the reporting period) can be embedded within HTML or XHTML documents, merging the files to create a single document for rendering purposes. Adoption of iXBRL will bring the XBRL function within the scope of internal controls over financial reporting because XBRL is part of a company's financial presentation (http://mike2.openmethodology.org/wiki/Inline_XBRL_-_An_Introduction).

There are no current plans to mandate the use of iXBRL, even though its adoption would significantly improve compliance. The SEC has not yet determined the conditions under which iXBRL may be accepted or how the processing can be integrated into the Edgar validation and interactive data viewer processes (http://www.sec.gov/spotlight/xbrl/staffinterps.shtml, Question B.4).

2013 U.S. GAAP XBRL Taxonomy

The SEC approved the 2013 U.S. GAAP financial reporting taxonomy in May 2013. Because the SEC supports only two versions of the U.S. GAAP taxonomy at a time (currently 2012 and 2013), the 2011 U.S. GAAP taxonomy will no longer be supported. The SEC encourages companies to always use the latest version. (For more information, see the following resources:http://www.sec.gov/spotlight/xbrl/staff-interps.shtml, Question D.8; http://www.sec.gov/info/edgar/edgartaxonomies.shtml; http://www.sec.gov/spotlight/xbrl/staff-interps.shtml.)

As part of their XBRL compliance programs, companies must review the contents of the new taxonomy using FASB's online taxonomy viewer or similar tools. FASB has recently released a series of proposed new guidance for XBRL implementation. The objective of the U.S. GAAP taxonomy implementation and reference guides is to provide additional and supplemental guidance for the creation of XBRL documents. The proposed guidelines deal with subsequent events, segment reporting, other comprehensive income, and the insurance industry (http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176160665046).

XBRL Compliance Risks

The following sections discuss XBRL compliance risks that companies should be aware of.

Inaccurate XBRL submissions. The primary risk associated with XBRL is providing data that are inconsistent with the corresponding Edgar HTML files. Typical risks include incorrect tagging, inconsistencies in amounts, and missing data. A secondary risk is that the XBRL files might fail to comply with the complex rules contained in the Edgar Filer Manual.

The SEC granted companies a two-year modified liability period, under which a company would not be liable for inaccuracies in its XBRL submissions as long as it made a good faith effort to comply with the regulations and promptly corrected the failure after becoming aware of it. For the largest companies that began providing XBRL information in June 2009, the modified liability period ended with their 10-Q filing for the quarter ended September 30, 2011. Most other companies' modified liability periods ended either for the quarters ended September 30, 2012, or September 30, 2013, depending upon when they first started providing their XBRL information. The modified liability period will expire for all registrants after October 31, 2014.

XBRL US, the organization that developed the architecture and concepts for the U.S. GAAP reporting taxonomy, published a white paper in 2010, Avoiding Common Errors in XBRL Creation (http://xbrl.us/research/documents/avoidingerrorswhitepaper.pdf), based on over 1,400 XBRL submissions by public companies; the white paper identified the following common errors in XBRL submissions:

- Use of negative values that should have been positive
- Report of erroneous values in lieu of required values
- Report of values that should have been zero or undisclosed
- Report of values that should have been zero or undisclosed if another value is not reported
- Unreported values that should have been reported
- Use of deprecated and superseded elements (concepts that have been removed from the taxonomy)
- Use of positive values that should have been negative
- Use of duplicated values that do not match.

In addition to the above errors, the following common mistakes have also been noted in companies' XBRL submissions:

- Submission of XBRL files prepared based on a preliminary rather than final HTML draft
- Use of an extension when an appropriate element exists in the standard taxonomy
- Presentation of elements in the XBRL and HTML submissions inconsistently.
- Use of elements in XBRL submissions from period to period inconsistently.

- Improper use of calculation linkbase, resulting in calculation inconsistencies.
- Use of different numeric values in XBRL versus HTML submissions.
- Inclusion of improper trailing zeros to the numbers in XBRL files.

Timely submissions. A company that fails to submit its XBRL file on the filing due date will temporarily lose its status as a timely filer; consequently, it will no longer be eligible to use short Forms S-3, F-3, or S-8. The SEC rules also clarify that, under Rule 144, such a company will be deemed to have inadequate information available to the public until it submits the required XBRL files.

But the SEC does allow for two 30-day grace periods (Regulation S-T, under 17 CFR section 232.405[a]) for initial tagged and detail-tagged submissions. Companies that take advantage of these two grace periods should submit their XBRL files on an amended form (e.g., Form 10-Q/A or Form 10-K/A). Similarly, if a company misses the filing deadline and submits a late filing, the submission should be made on a Form 10-Q/A or Form 10-K/A, as applicable.

The SEC's Rule 12b-25, as amended, specifically does not apply to the submission or posting of a company's XBRL files. Rule 12b-25 gives a registrant 15 additional calendar days to file a late Form 10-K and five additional calendar days to file a late Form 10-Q.

Other risks. A company is also required to post its XBRL file on its corporate website for a period of at least 12 months, no later than the end of the calendar day that the information is filed or required to be filed with the SEC (whichever is earlier). Alternatively, a company's website may link directly to its XBRL file, which may reside on a third-party non-SEC website for no charge. Unlike with HTML submissions, however, companies cannot satisfy this requirement by simply providing a hyperlink to the SEC's website.

There is also a risk when companies utilize outside service providers to process their XBRL submissions. They must remain cognizant of the risk associated with the qualifications of the third-party providers for safeguarding the company's confidential information.

As discussed previously, XBRL tools and technology can be integrated into the business information processing of registrants. If this integration occurs, the financial reporting and XBRL tagging processes can become interdependent. This scenario would make XBRL internal controls an essential component of a company's internal controls over financial reporting.

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Protection from Liabilities

XBRL files are subject to the federal securities laws in a modified manner under the new SEC Rule 406T. If a company submits an XBRL file within 24 months of the time it is first required to submit XBRL files—but no later than October 31, 2014—the filer may have limited protection from liability for failure to comply with the tagging requirements. The following two conditions must exist for companies to meet this statutory requirement: 1) the failure occurred despite the filer's good faith effort, and 2) the filer corrected the error promptly after becoming aware of it.

For most companies, the process of XBRL filing currently falls under the definition of "disclosure controls and procedures." The SEC rules specifically exclude the XBRL submissions from the officer certification requirements of Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934. The objective is to avoid unnecessary costs incurred. Nevertheless, management of publicly held companies remains responsible for the completeness, accuracy, and consistency of its XBRL submissions to the SEC. Furthermore, the exclusion of the XBRL files from the officer certification requirements does not mean that a company can exclude controls and procedures related to XBRL submissions from its evaluation and disclosure of its controls and procedures. A company that submits an XBRL file with its Form 10-K or Form 10-Q still must consider controls and procedures related to interactive data in complying with Rules 13a-15 and 15d-15, as well as with Item 307 of Regulation S-K. The SEC rules also state that the SEC will monitor XBRL submissions and, if necessary, make appropriate adjustments in the future regarding officer certifications. (http://thecaq.org/members/alerts/CAQAlert2009_55_06012009.pdf)

The Role of Auditors

A company's independent auditor is not required to have any involvement with the interactive data file included in the XBRL exhibit to the filing. Furthermore, the SEC regulations do not require any type of audit or assurance requirement under section 404(b) of the Sarbanes-Oxley Act of 2002 (SOX) for XBRL submissions. Therefore, the auditor of a public company is not required to apply the AICPA auditing standards to the company's XBRL submissions; however, a company is not prohibited from voluntarily obtaining some form of auditor assurance on its XBRL submission (http://thecaq.org/members/alerts/CAQAlert2009_55_06012009.pdf).

Agreed-upon procedures. A company may engage a public accounting firm to perform an agreed-upon procedures engagement to help management evaluate the completeness, accuracy, and consistency of its XBRL submission. In such an agreed-upon procedures engagement, the management or audit committee engages an accounting firm to perform certain procedures. The accounting firm's report identifies the procedures performed and their results. Agreed-upon procedures reports do not express an opinion; they state that the accounting firm makes no representations regarding the sufficiency of the procedures. The use of these reports is restricted to the client and specific parties named in the report.

To provide guidance, the AICPA issued Statement of Position (SOP) 09-1, *Performing Agreed-Upon Procedures Engagements That Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data*. This guidance is applicable when a company engages a public accounting firm to perform certain procedures on the accuracy and validity of its XBRL tagging, preparation, and submission. The AICPA's Assurance Services Executive Committee (ASEC), which developed the original guidance, is in the process of updating SOP 09-1 to include illustrations that reflect the SEC's newly adopted criteria regarding XBRL.

Review procedures. Public accounting firms' review engagements, based upon the AICPA's Statement on Standards for Accounting and Review Services (SSARS) 19, Compilation and Review Engagements, generally consist of independent accountants' inquiries and analytical procedures to provide a moderate level of assurance (i.e., negative assurance) in a specific engagement; however, the feasibility of such a review engagement for an XBRL tagging process is rather problematic, because an independent accountant cannot perform any meaningful analytical procedures on XBRL submissions (http://thecaq.org/members/alerts/CAQAlert2009_55_06012009.pdf).

Internal audits. An internal auditor can help a company understand the risks associated with XBRL reporting by evaluating whether these risks have been appropriately addressed and how to improve the quality of XBRL internal controls and processes. Furthermore, internal auditors can assist management in implementation of the following best practices for XBRL preparation and submission:

- Internal auditors should take steps to understand the reporting process and how XBRL risks are currently being addressed.
- Internal auditors should understand and evaluate the role of independent auditors in evaluating the XBRL submissions.
- Internal auditors can play an important role in design of XBRL-related controls.
- Internal auditors can ensure that these controls are operating effectively.
- Internal auditors can bring value-added ideas on how to improve the XBRL processes.

Furthermore, internal auditors should review the control reports from service provider organizations and weigh in on their adequacy. The AICPA has developed guidance in the form of service organization control (SOC) reports for providing a highly specialized examination of a service organization's internal controls. These SOC reports are internal control reports that relate information about the XBRL services provided by a third party (see Josef Rashty, "New Guidance for Cloud-Based Service Control Reports," *The CPA Journal*, October 2011, pp. 68–71).

XBRL Controls

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as "a process, effected by an entity's board of directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations" (http://www.coso.org/resources.htm).

Control framework. The AICPA formed an XBRL Assurance Task Force, under the direction of ASEC, that has been identifying issues and proposing solutions for the PCAOB's consideration. In August 2012, the AICPA XBRL Assurance Task Force published its guidance, *Principles and Criteria for XBRL Formatted Information* (http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/PRDOVR~PC-APCXBRL/PC-APCXBRL.jsp).

This guidance discussed the following four attributes applicable to the XBRL tagging process:

- *Completeness.* All required information should be formatted at the required levels, as defined by the entity's reporting environment.
- *Mapping.* Elements selected should be consistent with the meaning of the associated concepts in the source information, in accordance with the requirements of the entity's reporting environment.
- *Consistency.* Amounts, dates, other attributes (e.g., monetary units), and relationships (order and calculations) in the instance document and related files should be consistent with the source information, in accordance with the requirements of the entity's reporting environment.
- *Structure.* XBRL files should be structured in accordance with the requirements of the entity's reporting environment."

These four attributes provide a general framework for preparing, processing, and submitting XBRL files (http://blog.aicpa.org/2012/08/new-tools-to-help-companies-and-auditors-evaluate-xbrl.html). The sidebar, Checklist for XBRL-Related Controls, provides useful advice for companies.

Looking to the Future

Management is responsible for the accuracy and reliability of XBRL submissions. The SEC has stated that it expects registrants to take the initiative and develop practices to promote an accurate and consistent tagging process. In the early stages of XBRL submissions, most companies have focused on the preparation and timely submission of XBRL files; however, as levels of sophistication increase, companies will focus more on procedures, internal controls, and best practices surrounding XBRL submissions.

The SEC will be less lenient on XBRL submissions in the future because the limited liability provision for the accuracy of XBRL submissions will be completely phased out on October 31, 2014. The SEC has indicated that it continues to identify serious and recurring errors in XBRL exhibits and plans to issue comments soon; this might cause companies to issue amended returns. Many analysts and third-party users have not been able to fully utilize the XBRL information as a result of errors and inconsistencies in companies' XBRL filings. Moreover, the number of errors in XBRL filings might increase because small companies have become subject to full XBRL tagging of their financial statements. ❑

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