XBRL

By Kristine Brands, CMA, CPA

Peer Review: An Internal Control for the XBRL SEC Tagging Mandate

In 2009, the U.S. Securities & Exchange Commission (SEC) issued a mandate requiring that U.S. public companies submit their 10-K, 10-Q, and 8-K filings using eXtensible Business Reporting Language (XBRL). The final of the three phases of this mandate became effective for smaller filers with year-ends after June 15, 2011—approximately 5,000 companies. Now all U.S. public companies are required to use the U.S. Generally Accepted Accounting Principles (GAAP) Financial Reporting Taxonomy (UGT) to meet this requirement. Compliance requires tagging these financial filings with XBRL tags for each account (element) on a company's financial statements. The requirement also applies to footnote disclosures.

The mandate has provided more transparency in corporate reporting but at a cost to the companies trying to map their accounts to XBRL while trying to achieve full financial disclosure. Some of the problems the SEC identified were the creation of extension elements when existing elements existed, using the wrong element, and the need to add an extension element because an element necessary for disclosure didn't exist. For example, in 2009, United Airlines needed to disclose high fuel costs, but the UGT didn't have a term for it. To satisfy the disclosure, the company needed to add an extension for fuel costs. In response to the weaknesses of the 2009 UGT, the Financial Accounting Foundation (FAF), parent of the Financial Accounting Standards Board (FASB), released the 2011 UGT in February 2011. It includes more than 4,000 changes to address accounting standards changes and 1,900 new elements, which increases the number of elements to more than 15,000. While the improvements to the UGT will help U.S. filers improve the quality of their filings, the scope of this requirement continues to challenge those working to accurately map their accounts to XBRL. Some filers, such as Microsoft, have adopted XBRL peer review to help them make informed tagging choices. Let's take a look at how Microsoft uses the peer review process and Rivet Pivot software to do this.

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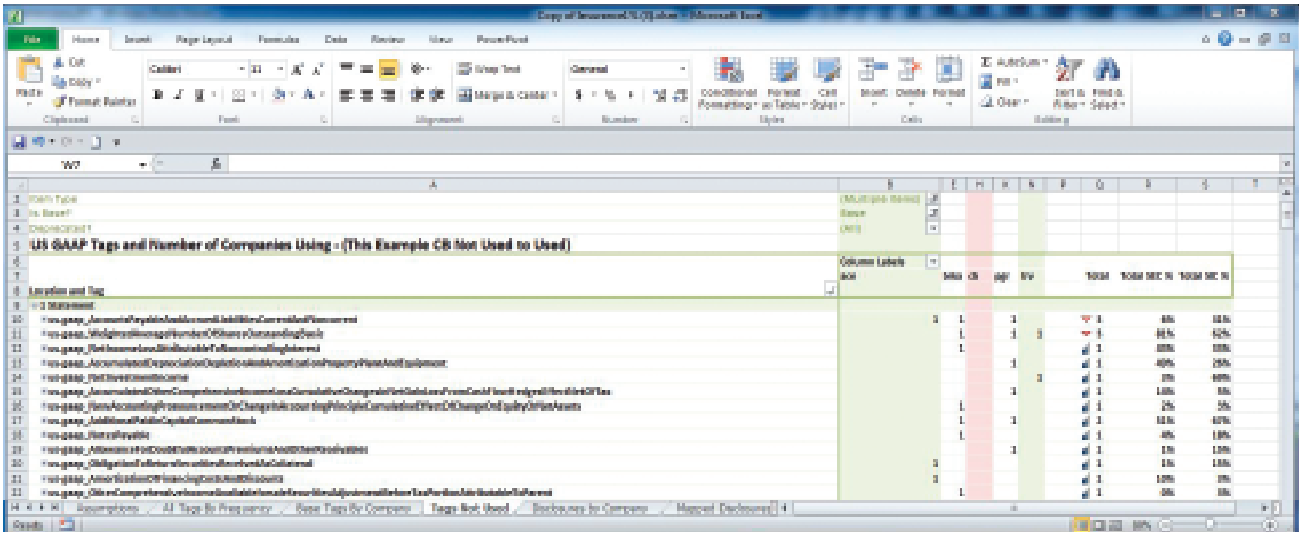
Peer Review

Companies are beginning to perform a review of their industry peers to compare tagging choices in their XBRL filings. This simply means comparing a company's financial statement tagging elements to those selected by the company's industry peers as well as all filers. Microsoft has taken the lead in peer review and uses a report designed by Rivet Software, Rivet Pivot, to automate this process. Because SEC financial filings are public records, all that a company needs to do is choose the peer company filings and dates and download them from the SEC website.

According to Paige Hamack, Microsoft's SEC Reporting Group accounting manager: "An integral part of our XBRL reporting process at Microsoft is a quarterly analysis of the XBRL tags used by an alternating group of peer companies. This peer review helps us ensure that our XBRL reporting is complete and accurate and meets one of the most important



RIVET PIVOT PEER REVIEW TAGGING EXAMPLE, COURTESY OF RIVET SOFTWARE

objectives of XBRL, which is comparability of similar information across companies. To perform this review, we use a custom report created by Rivet." Each quarter they perform the XBRL peer review to review the tags used by their peers but not used by them and vice versa, and to review reporting disclosures they make annually but that their peer group makes quarterly and vice versa. The key differences of the peer review are summarized and presented to senior management for review.

Benefits of peer review analysis include having meaningful conversations with their peers about XBRL tag usage, explaining and defining XBRL judgment areas to senior management for review, and improving the quality of tagging, which will reduce questions from XBRL data users. While many companies have chosen to outsource their XBRL tagging to third-party providers, that doesn't excuse a company from accurately tagging the data. Peer review is an important internal control to review the accuracy of XBRL tagging. Although there's a two-year limited liability for XBRL filings after a company complies with the SEC mandate, it's always in a company's best interests to create high-quality filings to reduce the number of questions asked by stakeholders: analysts, the SEC, investors, and the Internal Revenue Service (IRS).

Ted Stavropoulos, director of business development at Rivet Software, believes that the early benefits of XBRL SEC filings are enabling the SEC to analyze the filings by using decision rules to analyze the data to generate reports that identify outlier information. In the past, there was too much data to allow comprehensive analysis of inbound reporting by the SEC. Now that barrier has been removed, and the SEC can use a risk-based approach to analyze the XBRL data to quickly identify companies that report outlier data. Think about the SEC using this data as the basis for additional questions in comment letters.

Peer review provides you with valuable insight into your filings because you can compare your data to your peer group's data. Regardless of whether you use a software tool like Rivet Pivot or download your company's peer group from the SEC to an Excel spreadsheet and perform your own review, peer review will help your company improve the quality of SEC XBRL filings. **SF**

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