IROs Need a Seat at the XBRL Table

Simple Steps You Can Take to Be Prepared Now

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Occasionally, I start my XBRL talks with a joke. It goes something like this: Stephen, a recent college graduate with an accounting degree, goes on a job interview. At the interview, Stephen is asked to solve a simple equation: 4 + 4. He answers, “Nine.” The owner of the company thanks Stephen for his time and concludes the interview. On the ride home, Stephen realizes his gross error. The following morning the telephone rings, it is the owner of the company. To Stephen's surprise, he is offered the job. On his first day, the owner comes by to see how it is going. Stephen proclaims all is well and thanks the owner again for the job. He then says to the owner, "Sir, why did you hire me after I answered nine, incorrectly?" The owner responds, "Well, Stephen, because frankly you were the closest."

I tell this story because it is analogous to the glaring distortion in the marketplace for financial data -- towards which most people seem to take a *laissez-faire* attitude. Here's a quick glance at how financial reporting sausage is made. First, your organization compiles material financial content, which is most likely culled from an amalgam of internal automated and manual processes. Once complete, your firm disseminates this information (e.g., earnings release, Form 10-Q, Form 10-K). Third party intermediaries retrieve this data and parse your documents, structure the information using proprietary taxonomies and then sell the information to your constituents. These third party parsing processes often reclassify your disclosure concepts and omit key company-specific disclosures. In the end, the financial community is left with Franken-financials.

As much as everyone likes to chide the financial fallout whipping boy, former SEC Chairman Christopher Cox, you have to give credit where credit is due. He saw this salient point clearly. Cox stated in 2006 that "Most people think that the numbers analysts and investment professionals work with come directly from SEC filings. Even some CEOs think this. But it's not true. An entire industry has developed to extract information in the financial statements that companies file with us. The error rate from this process is unacceptably high." The error rate Cox references is 28 percent.

Fortunately, eXtensible Business Reporting Language (XBRL) will solve many of these issues. XBRL enables seamless reporting of unambiguous data directly through the financial reporting supply chain. Unfortunately, it appears IROs at most public companies will play a bit role in XBRL implementation. Most IROs are solely focusing on the SEC IR website reporting requirement (i.e., XBRL exhibits posted on the same calendar day as the filing for at least 12 months).

This particular facet of the mandate, in my opinion, is the least important component and will take you, someone in your company or your IR website vendor no more than several minutes to upload the XBRL exhibits. There is no requirement for a fancy XBRL rendering system or expensive auto-posting tool. Post the exhibits and you are done -- that's it.

Therefore, I argue strongly that IROs must look beyond the website posting requirement and not only understand XBRL, but also play a role in the tagging process. At a minimum, IROs must understand the thought process that went into the tagging of each line item.

I like to say XBRL is an easy concept until it isn't. On the surface XBRL is straightforward; however, dig into a complex statement of cash flows or multidimensional segment reporting and you can quickly get deep into the weeds. Consequently, IROs possess one of the toughest jobs out there when it comes to XBRL. The onus will be on IROs to explain to the financial community why GAAP, Industry-Specific and Company-Specific items in your face financials and footnotes (Year Two) have been tagged the way they were.

In order to be prepared, there are several simple steps you can take in the short-term. First, if you do not understand XBRL (or as I like to say, how to spell XBRL…), reach-out to any one of the myriad service providers. Another resource is your corporate auditor. Most of the large firms (e.g., Deloitte, Ernst, GT, KPMG, PwC) possess explicit XBRL know-how. Visit the XBRL U.S. website for additional information and educational opportunities. Take note: The XBRL community is highly knowledgeable and is more than willing to share its expertise and insight with you.

If your company is well underway with XBRL, reach out to the accounting or financial reporting individuals responsible for the project. Request a meeting to review how each item was tagged and the rationale behind these decisions.

In the long run, you will need to think more broadly about XBRL. Ask yourself these key questions:

- How does XBRL help our organization convey its message?
- What unique company concepts would our organization like to highlight?
- Do stakeholders better understand our information due to XBRL?
- Are we assessing whether our tagging is understood internally and externally?

Two final notes to keep in mind: XBRL will speed up the flow of information exponentially. Once you disseminate an XBRL-enabled earnings release or EDGAR filing, it will take milliseconds in this new environment for the data to be consumed and acted upon. Second, be prepared for a bumper crop of armchair financial analysts. With XBRL data readily available from your IR site and SEC.gov, end-users will have instant access to a robust set of your financials. Running ratio analysis, in real-time, from the comfort of one's home will not be unheard of.

In conclusion, IR is an integral component of the financial reporting supply-chain and should be treated as such, particularly when it comes to XBRL. XBRL will increase not only the efficacy of the IR function, but also its accountability. Therefore, I argue that it is imperative for the investor relations community to become more involved in the corporate XBRL process. IROs are on the front-line for investor questions and it is highly likely that any new interpretations of data due to XBRL compliance will be pointed towards the IR department. Anticipate XBRL calls from the financial media, retail investors and institutional investors alike, and leverage resources from within your organization and the greater XBRL community in order to be prepared.

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