



# CUG.COMments

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## *In this issue...* XBRL: A Revolution in Regulatory Reporting?

**A**mong the key tools of D&O insurance underwriters are the publicly-filed documents required by the Securities and Exchange Commission (SEC) that provide details of public companies' finances and operations. Probably the most important of these are Forms 10-K and 10-Q.

Such is the level of reliance upon these documents that D&O underwriters will often deem these forms to be attached to the policy as part of the application. Although they are essential underwriting materials, few would argue that these documents are easy to read: exhaustive amounts of numeric and textual information, footnotes, addenda and appendices, all densely packed into filings that run to dozens or even hundreds of pages. Navigating around these documents can be challenging. However, the world of regulatory data reporting may be about to experience something of a revolution.

The unwieldy name of this possible revolution is XBRL (usually pronounced "ExBrill"), short for Extensible Business Reporting Language. This issue of CUG.COMments looks at the meaning and implications of XBRL.

### **What is XBRL and how does it work?**

Already in various stages of use in twenty countries including China, France, Germany, Japan and the U.K., XBRL is a technology standard (not an accounting standard) used for reporting business and financial information that should provide accurate data faster and with more flexibility.

XBRL's methodology is to "tag" individual data elements on a financial or business report with a series of relevant identifiers. For example, take the data element of \$250,000 which represents a company's net profit in the second quarter of 2006, in U.S. dol-

lars. The \$250,000 can be tagged with these XBRL labels: 2006; Second Quarter; Net Profit; U.S. dollars.

Each tag refines the data element until its uniqueness is pinpointed; put another way, there may be many data elements that correspond to any given tag assigned to them. For example there are plenty of "Second Quarters," but there is only one data element that corresponds to all the tags assigned to it. It is like an address on an envelope where each line narrows down the possible address until the final element, the house or apartment number, identifies it precisely.

Once it has been tagged — which XBRL professionals equate to its being bar-coded — this \$250,000 data point can be electronically extracted, sorted and reused in almost any chosen context. Currently, SEC documents are submitted in a format that does not easily permit sophisticated data retrieval and processing, so to make it available with computerized search and report functions, the data must usually be re-keyed into appropriate electronic platforms such as Excel spreadsheets. XBRL bridges that gap by making elements of the filed data immediately compatible with computer programming language. Perhaps even more significantly, XBRL will also enable footnotes to be tagged and extracted.

### **XBRL and the SEC**

The SEC firmly supports the XBRL initiative, which it usually refers to as "interactive data." Since 2005, a pilot XBRL filing program has been in place with several dozen large companies participating. On May 14, 2008 the SEC commissioners voted unanimously to propose mandating that all public companies adopt XBRL within a three year phase-in pro-

gram. As a general rule, for most of the largest companies (market cap over \$5 billion) this could begin with filings made in early 2009; other "large accelerated filers" are scheduled to be brought in to the program after December 2009, and the remaining filers, the smaller companies, will begin after December 2010. The SEC is in the process of accepting public comment on this proposal and the comment period will end August 1, 2008. After reviewing the comments the SEC will decide how to proceed. This could involve moving forward as planned, perhaps modifying the phase-in period or amending other proposed features. Few however, believe the initiative will be greatly curtailed.

In remarks made in May 2008, SEC Chairman Christopher Cox declared, "...if we embrace [XBRL's] potential, it can truly revolutionize the benefits that investors derive from corporate disclosures. It will enable analysts at the SEC and in private industry to vastly improve their comparative capabilities. It will replace the current time-consuming methods involved in retrieving corporate shareholder information and put that information at the fingertips of every investor within seconds, exactly as they wish to see it."

It is important to note that interactive data is planned

to be part of the current, traditional SEC filing documents, and is not intended to replace them.

### Summary

Almost everyone who is aware of it seems enthusiastic about the XBRL initiative, after all, who could possibly be opposed to faster, easier and more accurate access to information? But the awareness level is currently low: A recent survey of public companies found that 77% of respondents had nobody well-versed in XBRL on staff. Companies still recovering from the demands of Sarbanes-Oxley might view mandated XBRL reporting as yet another onerous regulatory imposition, and the SEC's proposed timetable could encounter resistance as some companies realize they have just a few months to comply.

XBRL discussions do not have the same fascination as massive financial scandals or executives going to prison, however the initiative that this awkward acronym describes, if it performs as promised, will almost certainly transform the search, compilation, reporting and analysis of public company data. Not least affected by this will be the D&O insurance community; what the D&O insurance community will do with this enhanced ability is another question. ❖

**Resources:** For a detailed review of the SEC's proposal, the SEC's own publication, "Interactive Data to Improve Financial Reporting," is recommended. This document includes discussion of the background to XBRL, the expected benefits, the proposed phase-in, the cost to filers of adopting XBRL, accuracy concerns and other issues such as the ultimate viewing of the interactive data.

<http://www.sec.gov/rules/proposed/2008/33-8924.pdf>

The XBRL US web site is also helpful: <http://www.xbrl.us/Pages/default.aspx>



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