

# PKF PERSPECTIVES

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## FOR OUR SEC CLIENTS AND THEIR AUDIT COMMITTEES

### THIRD PHASE OF XBRL IMPLEMENTATION

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*Our Securities and Exchange Commission (SEC) clients are well-aware of the directive to use XBRL (eXtensible Business Reporting Language), concurrently with their ASCII or HTML formatted filings, in certain sections of their financial statements. This publication provides the background and terms of the SEC mandate and may serve as a platform for Audit Committee inquiry of management if the Committee has not already done so.*

The third phase of the SEC's XBRL implementation program took effect June 15, 2011 with nearly all public companies using U.S. generally accepted accounting principles (GAAP) now required to submit data in the fully searchable, digital format.

Over the past two years, the largest SEC reporting companies have begun submitting financial information in XBRL. The first phase, which took effect in 2009, required companies with a worldwide public equity float of \$5 billion to file in XBRL; the second phase, for the next-largest tier of public companies, took effect in 2010.

XBRL allows computers to read financial information and use it in analytical tools, much like barcodes applied to merchandise are used for computerized inventory controls. In order to create an XBRL submission, filers must select tags from the U.S. GAAP taxonomy<sup>1</sup> that best represent their financial reporting concepts.

The selected tags are then attached to the filer's financial information by software programs or third-party service providers to complete the XBRL

submission. XBRL helps to provide investors access to financial information in a form that's ready for analysis and can help companies automate checks on the data quality in their reports. In addition, XBRL has helped companies enhance and streamline their reporting process.

More and more companies are realizing this benefit and, as a result, there is demand to adopt XBRL across other reporting streams. Two bills currently are pending in the U.S. Congress – S. 904 and H.R. 1745, the **Jobs, Opportunity, Benefits and Services Act of 2011** – that designate data reporting standards such as XBRL be used for the reporting of certain information under the Social Security Act.

In a company's first year of XBRL compliance, each amount in the primary financial statements is tagged in XBRL, and each note to the financial statements and certain financial schedules is individually tagged as a block of text. In the second year of compliance, more detailed information is required, including: each accounting policy, each table and each amount in the notes and financial schedules also must be tagged separately in XBRL.

The SEC is not requiring or permitting XBRL tagging of Management's Discussion and Analysis (MD&A), executive-compensation disclosures or other financial, statistical or narrative disclosures.

The only companies the XBRL rules do not apply to are investment companies registered under the Investment Company Act, business development companies and other entities that report under the Exchange Act and prepare their financial

<sup>1</sup> Dictionary of financial concepts in which each concept is defined and assigned a relationship to other concepts

statements in accordance with Article 6 of Regulation S-X, according to the SEC. In addition, since the SEC has not yet approved the taxonomy for foreign private issuers that report under IFRS, these companies will not be required to submit XBRL exhibits.

For new XBRL filers, the rules include two permissible grace periods: a 30-day grace period for a company's initial, basic tagged submission and, in the following year, a 30-day grace period for a company's initial, more detailed tagged submission. The rules also include modified liability provisions for the first two years a company is required to provide XBRL submissions. The modified liability provisions are eliminated on October 31, 2014 and the XBRL exhibit will be subject to the same liability provisions as the related official filing at that time.

An issuer can tag its own financial statements using commercially available software, or it may out-source the tagging process to a service provider. Companies using a service provider must review the tagging and all files to ensure that the XBRL financial statements are accurate and consistent with the information the company presents in its traditional-format filing.

The SEC final rule does not require assurance from your auditors on XBRL exhibits, and it specifically states that auditors are not required to apply AU section 550, *Other Information in Documents Containing Audited Financial Statements*; or AU section 722, *Interim Financial Information*; or AU section 711, *Filings Under Federal Securities Statutes*. The process for tagging the XBRL financial statements or XBRL-tagged data are not covered in the auditor's report under the scope of the audit of financial statements.

Issuers, however, may obtain third-party assurance voluntarily if they so choose. In 2009, the AICPA issued SOP 09-01, *Performing Agreed-Upon Procedures Engagements that Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data* for that purpose.

If not already accomplished, some of the topics that the Audit Committee should discuss with management include:

- What has the company done to prepare for the use of XBRL?
- What are the company's issues in fulfilling the SEC mandate?
- What impact will XBRL have on company costs, benefits, risks and reporting requirements?

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For more information on XBRL filing, see the [final rule](#) on the SEC's website, visit [xbrl.org/us](http://xbrl.org/us) or see the [EDGAR Filer Manual](#).

For additional resources, visit [the AICPA's XBRL resource center](#). This site includes links to additional articles, webcasts, events and other helpful information.

Items in this publication should not be considered official statements of position, nor advice for individuals or organizations without consulting a professional advisor. This information is not intended to be, nor can it be, used by any taxpayer for the purpose of avoiding tax penalties. For more information, please contact Theo Vermaak, Director of Accounting & Auditing.

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June 2011