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Achieving the Potential of XBRL for Investors and Analysts

Thank you for inviting me to speak here today. So let me quickly introduce you to our organization, CFA Institute, for those who don't know it. We are a global organization representing more than 90,000 investment professionals in 131 countries around the world. Our members participate in CFA Institute through 134 local societies located in 55 countries. The New York Society of Security Analysts, at over 10,000 members, is our largest and one of four founding societies. This year, we are celebrating our 60th anniversary and holding our Annual Conference next month, here in New York City. Nearly all of our members hold the Chartered Financial Analyst[®] (or CFA[®]) designation.

We strive to be the organization for investment professionals who are dedicated to meeting the highest standards for ethical behavior, education, and excellence of practice in the profession. The CFA charter is viewed by many as the gold standard credential and the preferred designation globally for investment professionals.

Why is CFA Institute so interested in XBRL? When I first learned about XBRL, my immediate impression was that XBRL is an excellent opportunity to improve the accessibility, accuracy and transparency of financial reporting. I believe XBRL holds the potential to significantly improve the quality of our global capital markets. The implementation of XBRL thus ties in perfectly with the advocacy efforts of CFA Institute and its Centre for Financial Market Integrity as well as a basic orientation of CFA Institute to help our time-constrained members

work more efficiently. In addition, any student of markets knows that significant advances in our field are often preceded by the availability of high quality data to analyze, compare and test. The imagination runs wild with what fundamental investors, technicians, quants and academics could do with a robust and accurate detailed financial and non-financial database. Finally, with the push given to this by SEC Chairman Cox, XBRL has moved out of the evangelical phase towards global implementation. XBRL will happen. If CFA Institute does not step up, XBRL will still happen but with little input from the “users” of financial statements.

Why do I believe XBRL has such potential? When I started in the investment business 30 years ago, the process of assembling company data for analytical purposes was very cumbersome. I can still recall looking at my colleague in the cubicle to my right filling out historic and five year forward financial spreadsheets by hand. Soon after I started, Lotus 123 arrived and instead of putting pencil to paper and copying the data from the 10K, we put fingers to keyboard and entered the data into electronic spreadsheets. It was still a manual process, but now at least we could automate the calculations. XBRL has the potential to move the process another step forward, manual re-keying (with the corresponding loss in granularity and accuracy) can be consigned to the same drawer as my old slide rule. With XBRL, the process of extracting and analyzing data will be streamlined by having direct access to the source document – 10K or 10Q.

How does XBRL improve transparency of financial reporting? While a major benefit of XBRL is automation, a major challenge is ensuring that the electronic information is classified or “tagged” in a manner that maintains consistency and comparability. Currently, investors copy data from a SEC EDGAR html filing and paste it into a spreadsheet. However, with this process, a manual step is necessary in order to give meaning to the information. We have to take the reported data as labeled and enter this data into our model. XBRL holds promises to improve the process

by creating specifically defined tags, or elements in a taxonomy, for each data item. The manual labeling step will be eliminated, and data will be delivered in the appropriate context.

In addition, XBRL will also improve the speed, accuracy, and accessibility of the information by combining the electronic filing of documents, as currently done through EDGAR, with **electronically** interactive data by using XBRL. Today, an investor cannot quickly and easily access data without considerable cost and effort. Regardless of whether you are a retail or professional investor, there is a time lag between disclosure of data and electronic availability of that data. There also remains the risk of data entry error. With XBRL, data becomes available to all investors—**electronically**—as disclosed by the company and immediately upon release.

Implemented properly, XBRL will enable investors and analysts to perform the key process of comparative analysis with greater ease and accuracy. Investing is an activity of comparative analysis. Despite talk of absolute returns, all investing is done in the context of exploring alternatives. Accounting and other data for a company is gathered, analyzed, and compared against similar data from other companies to determine whether the investment hypothesis underlying the economics holds true. In short, XBRL can improve the investment-decision making process by enabling investors to do more detailed comparative financial analyses of various companies at a lower cost – both time and money.

Why is it taking so long for XBRL to catch on? Given XBRL's potential, the first question anyone from the XBRL world asks me is: "Why are investors and analysts not deeply engaged and interested in XBRL?" Last year, when surveying CFA Institute members as part of my monthly electronic newsletter, I discovered that more than half of those who replied indicated, "I am not familiar with XBRL." So clearly there is a lack of awareness of this very promising technology. On the other hand, the good news is that of those members who are aware of XBRL, almost 90 percent support it and believe CFA Institute should support its development and use.

Another reason that XBRL has been slow to catch on in the investor community is its incomplete status. Simply put, XBRL is not ready for broad rollout because the current taxonomy used in the SEC's voluntary XBRL program is not yet complete. While lack of awareness and low level of filings limit the usefulness of this technology, it also gives us the opportunity to provide input into the development of the taxonomy before it moves in direction that does not meet the needs of end-users. An unacceptable outcome would be if users found weaknesses and these weaknesses were not resolved. As investors and analysts, we have an opportunity to influence the development and implementation of XBRL for our benefit. However, certain implementation issues must be addressed:

- Structure of the taxonomy: When a company reports using tagged data, it starts with the XBRL taxonomy. However, since every company believes they have unique reporting issues, they must have an ability to customize or "extend" the XBRL taxonomy to meet their needs. A drawback to this flexibility is companies creating "customized" XBRL tags for reported items even though an XBRL tag already exist in the taxonomy. Companies may do this because of different naming conventions or because the item is presented in different sections of the financial statements and/or note disclosures. Therefore, a protocol must be developed to ensure that XBRL tagged data remains as consistent and comparable among companies as possible.
- Current presentation of financial statements: The presentation that we are all familiar with was designed in the 1940s, when the mode of delivering information was with a paper document, which limited the amount of information presented to whatever would fit on a page. At the time, Regulation S-X provided needed improvement to financial reporting. It introduced the minimum requirements and a standardized approach for presenting certain financial information on the primary statements. Unfortunately, Reg. S-X has not kept

pace with the needs of users or with changes in financial reporting standards. Issues such as intangible assets, structured financial instruments, complex business structures, and so on are not addressed adequately. Currently, FASB is undertaking a project to update financial statement presentation, and it would make sense that FASB's efforts consider the potential of XBRL, such as improving the comparability of information and providing more disaggregated data. Essentially, we are recommending that 20th century presentation formats designed for paper documents are updated for the 21st century we all live in.

How is CFA Institute working towards achieving the optimum solution for investors?

CFA Institute, through its Centre for Financial Market Integrity, has formed an XBRL Working Group of nine members from diverse investment professional backgrounds and expertise. Tom Larsen, CFA is chairing the Group, which has been charged with three main tasks:

- First, draft a position paper on the use of XBRL tagged data in financial reporting from the end-users' perspective. This paper will have a broad view – it will address the international use of XBRL in financial reporting, the development and application of XBRL taxonomies, and the on-going maintenance and oversight of updating XBRL taxonomies.
- Second, survey CFA Institute members about the key elements needed to develop and maintain a high-quality XBRL system for delivering information to investors and investment professionals.
- Third, provide detailed implementation feedback to the SEC and to XBRL US Inc., the primary contractor for the development of the XBRL taxonomy for financial statements and note disclosures provided for SEC filings.

Although much of the Working Group's immediate focus will be addressing the SEC's initiative for developing an XBRL taxonomy, due to the short timeframe, its mandate is broader. The use of

XBRL tagged data is not just happening in the US – there is an international push to use XBRL for financial reporting. As further commitment, I recently accepted an appointment to the Board of Advisors to XBRL International Inc., the global not-for-profit organization overseeing and attempting to coordinate individual country taxonomies and work. In this role, I provide an “end-user” perspective and input into the strategic direction of setting the international standard taxonomy for using XBRL-tagged data in financial reporting. XBRL International is in the process of moving to create a functioning governance structure and to put in place staff and office space— basically moving from a virtual to a real organization.

What can you as “end-users” do? XBRL is a global effort with the potential to transform the practice of financial analysis and valuation. As I mentioned, the investor and analyst community has a unique opportunity to influence the design and implementation of XBRL toward our needs. The SEC and XBRL organizations have opened the door and we at CFA Institute have accepted the invitation. I believe that each of you, either individually or collectively, can make a difference in how quickly and effectively XBRL is implemented. I challenge you to take advantage of every opportunity you have – during conference calls or other interactions with companies’ management – to ask, “What is your company doing about implementing XBRL for financial reporting?” Many companies, the providers of financial statements, argue that you, the professional investors, have no interest in this level of detail. Both, those of you who are detail oriented from a financial statement standpoint, and those of you who rely on others to provide that fundamental base, need to convince company management that you, the end-user, want XBRL in order to drive its the implementation forward.

In closing, the CFA Institute is enthusiastic about and committed to developing a high-quality implementation of XBRL that meets the needs of our members and other end-users on a global basis. If we want XBRL to deliver on all of its great promise, it must be delivered in a

robust format. If registrants find that it does not work as promised, they may resist the efforts to encourage them to file through XBRL. If investors discover that it does not help them in their data gathering and analysis (because either the functionality is absent or the quality and breadth of data is lacking), they will simply not use it and continue working with the 20th century data gathering and analysis techniques they use today.

CFA Institute is committed to helping the organizations involved, particularly XBRL International, the SEC and the XBRL US organization, to design and implement XBRL in a manner that adds value to the investment community. This evening is one of many steps in that process. In short, we want to make sure that XBRL lives up its potential for investors, and we are putting our organization's resources into achieving this goal.

I look forward to the panel discussions and answering questions.

Thank you