Towards the Globalisation of Financial Information
Jaume Freire
Expansión
04/03/05

The new international accounting standards have created problems when managing financial information and making it compatible with computer systems.

The recent application of the International Accounting Standards and Basle II, together with the progressive introduction of the XBRL (eXtensible Business Reporting Language), a new standard for the transfer of accounting information, is changing the way in which financial information will be implemented, transferred and analysed on a worldwide scale.

Two initiatives that strengthen the need to standardise financial reporting came into force at the beginning of this year. They are Basle II, which directly affects banking institutions and indirectly affects companies, and the IAS (International Accounting Standards), which affects all the listed companies in the European Union and aims at improving the transparency of the international financial markets.

It can happen that the one company has different valuations depending on the legislation applied to it. This makes it difficult to understand the financial situation of a company in another country. For this reason, these new standards try to create a reporting framework whereby the financial state of a company can be understood no matter which country it is in and without taking into account the national accounting legislation it belongs to. Both initiatives have boosted the use of the XBRL standard for financial reporting.

In fact, in the context of financial information, difficulties arise when different types of computer applications in a company have to process the same data. In most cases this information has to be dealt with manually in order to pass it from one programme to another as each software accepts certain document formats: the XBRL standard intends to do away with this problem.

The XBRL is an open standard that enables the interchange of financial information between applications and over the Internet. Being extendable gives it flexibility to adapt to any regulated environment. What is more, there is no need to pay for it because it is an open source standard.

Universality
The XBRL is an adaptation of XML (eXtensible Markup Language), a standard created in 1998 to improve the exchange of information over the Internet. XML contains meta-information, that is, it has implicit information about the type of data the document
contains. In this way, any computer application and user can understand the document and process it correctly, irrespective of the format it is in. This means greater control and enables the automatic creation of different documents, in different formats for all users of financial information (investors, analysts, auditors, bankers, regulators, etc.). Therefore, each user will have the information he or she requires without the company having to fill in individual specific forms. This lets users compare information from any source and format and so making both the internal and external reporting process much more efficient.

In 2003, just 3% of directors knew the XBRL standard well, according to an online survey carried out among 353 participants by SmartPros, the financial website. That is why there is a concerted effort to make XBRL better known and, as time goes by, more and more resources are devoted to its adoption on a global scale, which shows the confidence that institutions, enterprises and the markets have in this new standard. This is also shown by the setting up of XBRL International, a world-wide consortium made up of institutions and companies from several countries with the aim to promote the introduction and development of XBRL. Spain is represented through the Bank of Spain, the CNMV (The Financial Services Authority) and AECA (The Spanish Association for Accounting Principles) to name but a few. Moreover, the European Commission has recently allotted one million euros to promote the development and adoption of this standard for the exchange of financial information in member states.

All these initiatives make one think that in the near future all enterprises will have to adopt XBRL, in spite of the major costs involved with implementation. In the long term, the expected increase in productivity will easily offset the initial investment.

**Will the XBRL consolidate itself as a standard in other areas of financial reporting?**

**It is Good for all Concerned**

**Ahmad Rahnema, IESE professor**

Beyond the regulation of the corporative financial reports, the potential of XBRL makes it highly attractive to other areas of financial reporting, especially to financial report consumers. External users –investment analysts, banks and shareholders- will find that XBRL has reliable and instant information that will coherently integrate all the data from different models.

Being based on the Internet, the XBRL enables rapid searches of a document or extract needed to carry out a certain analysis, as well as labelling securities so that they can be automatically identified by other systems and in other contexts.

For internal users –financial directors or other analysts within the organisation-, XBRL provides greater usability of balance sheets: it lets one extract the relevant information and, in general, improve speed, precision and quality. This is without taking into account what it means in terms of time and money to contrast the information from different systems and applications to make sure that all of them are up to date and use the same definitions.

**Accounting Risks Decrease**

**Elena Mendoza, Senior Manager at PwC**
XBRL provides an ideal support for the transfer of financial and business information that favours the transparency in the process of information distribution, allowing degrees of connectivity never before achieved: between companies, regulators, analysts, investors, etc. This language enables enterprises to break down the existing internal barriers in order to consolidate the information, speed up the process of creating reports and publishing them in different means and formats so that up-to-date information can be made available to the different stakeholders on time.

Apart from that, it will enable a much easier and much more exact comparison of the behaviour of any company, in any country, in any sector. Therefore, getting funds at more competitive costs will be easier since the difficulty of making those comparisons disappears along with the calculation of the risks due to the different national accounting rules and the absence of agreed, common rules for all sectors.

In general it will help companies save time and money.