

## STAFF QUESTIONS AND ANSWERS

IAASB

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

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*Committed to developing international standards in the public interest.*

### XBRL: THE EMERGING LANDSCAPE

This Questions & Answers (Q&A) publication is issued by staff of the International Auditing and Assurance Standards Board (IAASB) to highlight the growing interest in, and use of, XBRL and raise awareness about how XBRL-tagged data is prepared and how it may affect financial reporting. It also clarifies that the IAASB's auditing pronouncements currently do not impose requirements on auditors with respect to XBRL-tagged data or the representation of this data. Finally, this publication describes the IAASB's planned consultation activities which may lead to the development of a new international pronouncement addressing XBRL.

This publication does not amend or override the ISAs,<sup>1</sup> the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs. The publication is not meant to be exhaustive and reference to the ISAs themselves should always be made. This publication does not constitute an authoritative or official pronouncement of the IAASB.

A Glossary of Key Terms used in this publication is included as an Appendix.

#### Key Messages

- XBRL is an electronic business information format expected to provide benefits in the preparation, analysis and communication of business information.
- The use of XBRL can vary by jurisdiction and may be driven by regulatory requirements or voluntary application.
- Under the current International Standards on Auditing (ISAs), auditors are not required to perform procedures or provide assurance on XBRL-tagged data in the context of audited financial statements. Accordingly, the auditor's report in accordance with the ISAs on the financial statements does not cover the process by which XBRL data is tagged, the XBRL-tagged data that results from this process, or any representation of XBRL-tagged data.
- The IAASB is currently undertaking a consultation to determine the needs of preparers and users of XBRL-tagged data. This consultation will assist the IAASB in assessing whether it is necessary and in the public interest to develop a pronouncement addressing association with and/or assurance on XBRL-tagged data.

### QUESTIONS AND ANSWERS

#### Q1. *What is XBRL?*

XBRL, eXtensible Business Reporting Language, is a language for the electronic communication of business and financial data that is changing business reporting around the world. XBRL is a royalty-free, international information format designed specifically for communicating business information. Fundamentally, XBRL requires that all individual disclosure items within business reports be assigned unique, electronically readable tags (like a barcode). These tags are mapped to taxonomies that have been and are being developed by market constituents (such as regulators, accounting standard setters, and others) and are publicly available. Taxonomies are, in essence, dictionaries that contain the terms used in financial statements and other business reports and their corresponding XBRL tags.

<sup>1</sup> All references to ISAs in this publication are to the clarified ISAs that come into effect for audits of financial statements for periods beginning on or after December 15, 2009.

## INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

XBRL is a powerful and flexible version of XML, which has been defined to meet the requirements of business and financial information. It enables unique identifying tags to be applied to items of financial data, such as “net income.” However, these are more than simple identifiers. They provide a range of information about the item, such as whether it is a monetary item, percentage or fraction. XBRL allows labels in any language to be applied to items, as well as accounting references or other information.

### **Q2. *What is an XBRL taxonomy and how is a taxonomy developed and used?***

XBRL taxonomies, which are made publicly available<sup>2</sup>, are the dictionaries that the language uses. Taxonomies specify the tags to be used for individual items of information, such as the tag for the line item “cash and cash equivalents.” Taxonomies also identify relationships between terms, for example, the term cash and cash equivalents is related to the term current assets. Business rules can also be expressed within a taxonomy, such as “the beginning balance of cash and cash equivalents plus the net changes in cash must equal the ending balance of cash and cash equivalents.” In some jurisdictions, reporting entities may add to the dictionaries of terms, relationships, and business rules (that is, create extensions in the taxonomy).

National jurisdictions often have different accounting regulations, so each may have its own taxonomy for financial reporting, for example, a Dutch taxonomy. Taxonomies can also be international and relevant for the preparation of general purpose financial statements in XBRL, for example, the International Financial Reporting Standards (IFRS) taxonomy developed and issued by the International Accounting Standards Committee Foundation. Organizations who establish taxonomies may make changes in the taxonomies from year to year to reflect changes in the underlying accounting framework and preparers of XBRL-tagged data need to be aware of the most current taxonomy so that data produced from XBRL is consistent and comparable.

While standardized taxonomies exist, tagging financial statements can require a significant amount of judgment on the part of the preparer. There may be multiple tags that could be seen as applicable to a particular financial statement line item, and preparers who are not well-acquainted with the taxonomy may not be aware of the tags that exist and may create extensions to the taxonomy when they are not needed. This affects the comparability of XBRL-tagged data and undermines the usefulness of XBRL as originally intended.

Since taxonomies are periodically revised and updated, preparers need to ensure that the appropriate taxonomy has been used to tag the financial statements.

### **Q3. *How do entities generate XBRL tagged-data?***

There are a number of ways to generate XBRL-tagged data:

- Financial statements can be manually tagged in XBRL using XBRL software tools designed for this purpose.
- XBRL-aware accounting software products are becoming available which will support the export of data in XBRL format. These tools allow for XBRL tags to be applied within the software package at the transactional or trial balance level, for example through the use of the XBRL Global Ledger taxonomy.
- Currently in the United States, specialized entities provide XBRL services to financial statement issuers whereby the entire process of mapping financial statements to the taxonomies and creating the XBRL files that are submitted to the Securities and Exchange Commission’s (SEC) EDGAR system is outsourced by the issuer to these providers.

The route which an individual entity may take will depend on its requirements and the accounting software and

<sup>2</sup> XBRL International is a not-for-profit consortium working to build the XBRL language and promote and support its adoption. Taxonomies that are recognized by XBRL International can be found at <http://www.xbrl.org/Taxonomies/>.

## INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

systems it currently uses, among other factors. At present, the majority of entities are using “bolt-on” applications which consist of using software to apply XBRL tags to the traditional financial statements as a separate process (the first bullet point above).

Preparers generally devise controls to be applied to their XBRL-tagging activities. The nature of these controls will differ depending upon the way XBRL-tagged data is generated.

### ***Q4. How may XBRL affect financial reporting?***

The use of XBRL is expected to provide benefits in the preparation, analysis and communication of business information. It offers potential cost savings and improved accuracy of information for those involved in supplying or using financial data. XBRL currently is being put to practical use in a number of countries and implementations of XBRL are expanding around the world.

Sharing of information in XBRL format is intended to increase the speed of handling of financial data, reduce the chance of error and permit automatic validation of information. Users of financial data, including investors, analysts, financial institutions and regulators, likely can receive, find, compare and analyze data more rapidly and efficiently if it is in XBRL format. XBRL can handle (and translate) data in different languages and accounting standards. It can be adapted to meet different requirements and uses.

The demand for the benefits promised by XBRL is underpinned by the ever-present need of all those in the information supply chain for more extensive financial and non-financial information, produced on a timely basis, in an easily acceptable form, and where possible, tailored to specific needs. It is XBRL's ability to both speed up the reporting cycle and provide more, and re-useable, information in a cost-effective manner that may ultimately respond to those needs.

XBRL is an enhancement of traditional modes of financial reporting. As currently used, it does not provide more data than standard financial statements; it provides the data in a format that computers can sort, group, and categorize.

When used correctly, XBRL changes the appearance and improves the delivery mechanism for financial statements, but it does not alter their meaning. However, financial information provided in XBRL instance documents is only as reliable as the underlying financial data used and the accuracy, consistency and completeness of the tagging applied to that data in creating the XBRL files.

### ***Q5. What level of involvement do auditors of the financial statements have with XBRL-tagged data?***

The IAASB's current auditing standards were not developed with XBRL in mind and, accordingly, do not impose an obligation on the auditor with respect to XBRL-tagged data.

ISA 720,<sup>3</sup> the IAASB's standard dealing with the auditor's responsibilities relating to other information in documents containing audited financial statements and the auditor's report thereon, defines other information as “financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon.” XBRL-tagged data does not represent “other information” as contemplated in ISA 720, because it is simply a machine-readable rendering of the data within the financial statements, rather

<sup>3</sup> International Standard on Auditing (ISA) 720, “The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.” At its December 2009 meeting, the IAASB approved a project to revise ISA 720. The project proposal can be accessed at: <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5139>.

## INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

than “other information,” as it is defined.

Further, the ISA notes that the phrase “documents containing audited financial statements” refers to annual reports (or similar documents), that are issued to owners (or similar stakeholders), containing audited financial statements and the auditor’s report thereon. In the most commonly used model of XBRL reporting at present, the financial statements are tagged in a separate process and filed with regulators or with tax authorities. Because the filing of this XBRL-tagged data is not a discrete document, the IAASB’s discussions at its September 2009 meeting indicated that the Board is not of the opinion that the requirement of ISA 720 for the auditor to “read” the other information for purposes of identifying material inconsistencies or material misstatements of fact would be applicable to XBRL-tagged data. The requirement in the IAASB’s standard dealing with reviews of interim financial information<sup>4</sup> to read other information that accompanies interim financial information equally would not apply to XBRL tagged-data either.

### **Auditor Association with XBRL**

Current ISAs do not require auditors to perform procedures on XBRL-tagged data as part of the financial statement audit. Accordingly, the auditor’s report in accordance with the ISAs on the financial statements does not cover the process by which XBRL data is tagged or the XBRL-tagged data that results from this process, and no assurance is given on the accuracy, consistency and completeness of the XBRL-tagged data itself.

The IAASB’s reporting standards do not preclude the auditor from evaluating the needs of users of the auditor’s report and, if considered necessary, clarifying the association with XBRL-tagged data in the auditor’s report. This may be done, for example, by identifying what financial information is covered by that report, or including an Other Matter paragraph in the auditor’s report.

Requirements relating to assurance and auditor involvement with XBRL-tagged data will likely depend on the regulatory frameworks in which such data is filed. At present, it is unclear whether assurance is likely to be required on XBRL-tagged data in the future by regulators<sup>5</sup> or requested by preparers, or by investors or other financial statement users.

### **Q6. *What types of engagements might practitioners be asked to perform with regard to XBRL?***

While auditors are not required to be involved with XBRL-tagged data and do not provide assurance on such data in the context of an audit of financial statements, there may be a demand for services to be performed by practitioners. Such services may include:

- Agreed-upon procedures engagements on XBRL-tagged data, to assist management in its evaluation of the XBRL-tagged data and the audit committee in its oversight role.
- Assurance engagements, for example, assurance on the controls related to the XBRL-tagging process and examinations of the accuracy of the XBRL-tagged data itself.

<sup>4</sup> International Standard on Review Engagements (ISRE) 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”

<sup>5</sup> For example, U.S. SEC Release No. 33-9002 does not currently require any auditor involvement regarding the submission of XBRL-tagged data provided as an exhibit to a company’s quarterly or annual reports or registration statements. The final rule specifically notes that “an auditor will not be required to apply AU Sections 550, 722, or 711 to the interactive data provided as an exhibit in a company’s reports or registration statements, or to the viewable interactive data.” These U.S. auditing standards address other information in documents containing audited financial statements, interim financial information, and filings under Federal Securities Statutes, respectively. However, the SEC has stated that it expects preparers of tagged data to take the initiative to develop practices to promote accurate and consistent tagging.

## INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

- Assurance engagements on financial information as presented in particular pre-defined instance documents.
- Advice on the XBRL implementation process, where not prohibited by relevant independence requirements.
- Preparation of the XBRL-tagged data, where not prohibited by relevant independence requirements.

### ***Q7. What is the IAASB doing in the area of XBRL?***

In March 2009, the IAASB approved a project proposal<sup>6</sup> relating to XBRL and has embarked on a consultation process to determine the needs of users of XBRL-tagged data and others. This consultation will assist the IAASB in assessing whether it is necessary and in the public interest to develop a pronouncement addressing XBRL.

The XBRL Task Force is currently liaising with national standard setters, XBRL International's Assurance Working Group, IFAC member bodies, and other regional organizations that are currently progressing XBRL initiatives. The information gathered during these informal consultations will be used to develop a more formal public consultation anticipated in mid-2010.

### ***Q8. What are the areas that need further consultation?***

As part of its consultation process, the IAASB will need to consider a number of issues to assess the perceptions about, and the potential demand for, auditor association with XBRL-tagged data, including assurance needs. Such issues include how XBRL is actually being used in different jurisdictions as it relates to the filing of an entity's financial statements, for example:

- Whether XBRL data is required to be filed in addition to an entity's paper or electronic filing with the relevant authority or in lieu of such filings. If the latter is contemplated, it will be important for the IAASB to understand the timeline and how this will change the audit reporting model. Regardless of how XBRL is currently used, the nature and extent of its use by investors and regulators in the future may change how auditors are associated with XBRL in the future.
- The extent to which assurance on information disseminated in XBRL format is required by law or regulation or demanded in a particular marketplace.

In addition, consultation with practitioners and preparers will be important to understand whether practitioners are being requested to perform non-audit services with regard to XBRL-tagged data and what the assurance needs are.

In advance of developing a new pronouncement or guidance, it will be also critical for the IAASB to explore whether it is feasible to develop a pronouncement that will be relevant in a global context given the evolving landscape of XBRL.

At its December 2009 meeting, the IAASB discussed how best to approach this consultation.<sup>7</sup> It was agreed that targeted consultation with key stakeholders, complemented by a broader public survey, would serve to inform the IAASB's views in anticipation of its June 2010 discussions.

### ***Q9. Where can I find more information about XBRL?***

Visit the project history on XBRL at <http://www.ifac.org/IAASB/ProjectHistory.php?ProjID=0093>. Readers are welcome to comment on any matters explained in this Q&A or on XBRL broadly, or alert the IAASB to relevant developments on XBRL in their particular jurisdictions.

<sup>6</sup> The project proposal can be accessed at: <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4614>.

<sup>7</sup> The proposed consultation plan can be accessed at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5097>.

## INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD

### ABOUT THE IAASB

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. For more information about the IAASB, visit its home page at <http://www.iaasb.org>.

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### APPENDIX

#### Glossary of Key Terms Used in This Publication

*XBRL-tagged data* – Information that has been expressed using XBRL and included in one or more electronic files. For purposes of filings with regulators or tax authorities, an XBRL representation typically includes the entity's tagged financial statements. XBRL provides unique electronically readable codes (tags) for each item in the financial statements or other business report.

*Taxonomy* – Dictionaries that contain the terms used in financial statements and other business reports and their corresponding XBRL tags.

*Extension* – An addition to one of the published public taxonomies. Extensions enable preparers to modify the applicable taxonomy to suit their reporting content and style.

*Instance Document* – XML (Extensible markup language) file that contains business reporting information and represents a collection of financial facts and report-specific information using tags from one or more XBRL taxonomies. The instance document is a computer file that contains an entity's data and other entity-specific information. Instance documents are generally not intended to be read by the human eye.

*Render or rendered* – To process an instance document into a layout that facilitates the readability and understanding of its contents, creating a human-readable version of an instance document and related files (that is, to transform the XBRL instance document and related files into a printed document or a screen presentation.)

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