



Compliance Analytics



Filing to the SEC in XBRL format opens the door for a new type of analysis to help keep your filings consistent and comparable. Compliance Analytics includes both pre-filing consistency checks and post-filing peer group comparisons. By taking advantage of Compliance Analytics you can help ensure that your filing is less likely to raise red flags with a regulator while being easily comparable for investors and analysts.

Introduction

In an XBRL financial reporting context, the term *analytics* is almost synonymous with *comparability*. That's because one of the obvious benefits of businesses using an agreed-upon and shared XBRL taxonomy to report financial data is that it becomes easier to produce useful peer group comparison and benchmarking reports.

From mid-2011 onwards, all SEC registered companies (some 10,000 or so) are required to submit regulatory reporting in XBRL format. This means that post-filing analytics – comparing your filings to those of your peers – will leverage a significantly larger information ecosystem. This ecosystem will be 4-5 times larger than today, and will continue to grow with every 10-Q and 10-K filing going forward.

But what is often forgotten is that XBRL also does a great job at highlighting similarities and differences in the construction of your filing submission. The focus of pre-filing analytics is less on benchmarking your results against your peer-group, and more on assuring filing consistency, both with your peer group and with your company's previous filings.

This briefing discusses the need for Compliance Analytics as an essential activity within your compliance effort. Compliance Analytics comprises both pre-filing consistency analytics and post-filing comparability analytics. Understanding Compliance Analytics is likely to be important for any financial reporting manager already filing or about to file in XBRL format to the SEC.

Start Position

Filing an SEC 10-Q or 10-K is an important stakeholder communication for most businesses - especially to the investment relations (IR) community. Your report acts as a window into your business that you can choose to make more or less opaque or transparent, and it acts as a form of calling card. Your external filings represent a facet of your corporate image and a brick in the wall of your corporate reputation.

What most businesses don't want is a public filing that is significantly different from that of their competitors. Not the actual numbers – it's great if your revenues are higher and expenses are lower – but the way you report those numbers. And the way you explain your behavior through disclosures and footnotes.

Lack of consistency in the way you report may negatively impact the comparability of your data, both period-to-period and in comparison to your peer group. This lack of consistency and diminished comparability is more likely to raise a red flag, not just with the SEC but also with savvy investors and the analysts who are paid to fully examine the numbers and beyond.

Making use of pre- and post-filing analytics enables you to take more control over your compliance effort so that you communicate the right image and enhance your reporting reputation.

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Pre-Filing Consistency Analytics

Pre-filing consistency analytics is about analyzing your proposed SEC filing submissions from a consistency perspective, in relation to other SEC filers. For example:

- How consistent is my use of the base US GAAP taxonomy?
- How consistent is my use of element extensions?
- How consistent are my disclosures and footnotes?

Because your numbers and notes are tagged to an agreed-upon, shared XBRL taxonomy (e.g., US-GAAP) it becomes much easier both to (a) compare your own previous filings to current submissions, and (b) to compare your proposed current quarter/year submission to those of your competitors who have already filed in this quarter/year, and previously.

Consistency analytics is situated within the review and approve stage of the compliance filing process. This is a pre-submission stage when your filing is reviewed by your internal subject matter experts (and those of your service provider if you fully or partially outsource your filing) and before it is sent to your financial printer for submission to the SEC. The need for consistency analytics also highlights the importance of a robust review and approval process.

Let's be clear about this: the consistency of the XBRL data that you use and file matters. Inconsistency will reduce comparability and could lead to reputational damage and unnecessary extra work on corrections.

Tagging Consistency

When you tag a number with an XBRL element, you are making a choice that will determine how that number is presented, and what it will be compared to by investors and analysts. Simply choosing the wrong tag is an error that should be picked up by your XBRL filing software, but another aspect to this decision is choosing a tag that is consistent with the choices made by your peer group.

Selecting an inconsistent choice may be completely correct in your case, but it might also raise a red flag with investors and analysts who will wonder why you chose that tag when most or all of your competitors did not. Luckily, XBRL makes it relatively easy to analyze your tag choices and compare them to your peer group. You can import their public filings into your financial content management solution and quickly analyze what percentage of your SIC code used a tag and what percentage of SEC filers overall used that tag for the same purpose in their previous filings.

Extension Consistency

Using an agreed-upon and shared taxonomy is great for comparability analytics but the concept faults as more businesses make use of extension tags in their filings. This is because extension tags, by their very nature, introduce inconsistency. An extension refers to a filer extending the XBRL taxonomy to add a new tag, specific to their filings, because they are unable to report accurately using the tags in the agreed-upon taxonomy.

XBRL was specifically designed to be an extensible language. Every XBRL taxonomy is actually only a foundation for consistent and comparable reporting. The taxonomy may be extended when a business is unable to report a specific number using the standard elements. In this case you create an extended element, add it to your taxonomy and use it to tag the troublesome number.

Luckily, XBRL makes it relatively easy to analyze your tag choices and compare them to your peer group.

The problem with extended elements is that you can use them when you don't have to, and that they are by definition another kind of red flag for investors and analysts. Again, XBRL makes it easy to identify extension tags in a filing submission and easy to compare your use of extended elements against those of your peer group. By doing this kind of consistency check, you may either identify another way to report the number using a standard tag or be reassured by the fact that others have been forced to extend as well to tag the same type of data.

Disclosure Consistency

Analyzing footnotes is an important part of the due diligence that any investment analyst should provide. The content of these notes matters. But there are many pitfalls to ensuring you produce consistent footnotes, including:

- Inconsistent numbers when compared to the main body of the report to which the footnote refers.
- Rounding or footing errors in tables that report numeric data within textual notes.
- Differences in the way data is explained or the explanation expressed in the text of the note.

All of the above are either errors or inconsistencies that again could raise a red flag from those reading or analyzing your filing.

To help with disclosure consistency you need to be able to easily find and compare disclosures, preferably side-by-side, so that you can prevent these errors and inconsistencies from spoiling your filing by creating a *devil in the detail* that is really not there. Side-by-side comparisons of footnotes can be used to analyze your own previously submitted footnotes with those of the current pre-submission or your current pre-submission to those of your peer group current or previous filings.

Post-Filing Comparability Analytics

Once you have submitted a filing that is consistent with your previous filings and with those of your peer group, you and any stakeholders interested in analyzing your data can easily benchmark your data against previous and peer group filings.

It's important to remember that all of your SEC filing data is publicly accessible and provided for free. Information consumers do not need to subscribe to any special services to get access to your XBRL data, because it is provided by the SEC via an RSS feed. And there are many low-cost or free tools that can consume this feed data to help you analyze it – including Rivet's own Crossview.

Post filing analytics is primarily concerned with comparing your data to that of your peer group or with comparing your current quarter/year filed data with that of your previous quarter/year filed data. At a minimum, doing this comparison quickly and easily requires the ability to:

- Search public filings to locate the data you want to compare
- Select specific sets of data to compare column-to-column
- Derive calculated data and generate charts from the comparison matrix you create

Getting the filing information of your peers is easy. Applications like Rivet's Crossfire simply consume the SEC's RSS-based XBRL filing feed to pull filing data directly into the repository so it is immediately available for analysis with no rekeying or manual intervention.

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The Bottom Line

Successful compliance is not just about an accurate, on-time filing. It's also about consistency and reliable comparability: a filing that is consistent with your previous filings and with those of your peer group, avoiding red flags in the due diligence processes of regulators, investors and analysts.

Compliance Analytics, which integrates pre-filing consistency checking and post-filing comparability reporting, should become an important component of your XBRL filing solution. Consistency checks must form an integral part of the pre-submission review and approval process to support you in your efforts to deliver an XBRL filing.

Compliance Analytics helps you to submit a consistent and comparable filing ensuring that you maintain your corporate image and your reputation for delivering reliable financial information.

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Founded in 2002 and headquartered in Denver, Rivet Software is at the forefront of standards-based business reporting and analytics. Rivet empowers companies with control over the collection, analysis and dissemination of their internal and external financial information to help advance the transformation of business communication worldwide. This privately-owned technology company works with more Fortune 500 companies than any other XBRL vendor and emerged from Q4 of 2010 as the XBRL vendor of choice for companies in search of a cost-effective, reliable solution for SEC reporting compliance.

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