

How to Choose an XBRL Solution



An estimated 8,700 companies fall into the last wave of the SEC's XBRL filing mandate which becomes effective on June 11, 2011. Companies new to XBRL have more choices than ever when it comes to selecting a vendor to help with the new filing process. For better or worse, new financial reporting companies seem to be setting up shop on a regular basis. A Google search for "XBRL" churns out nearly a million results. So how do you filter through this clutter and noise to find a solution that will meet your needs without breaking your budget?

Introduction

Transitioning your financial reporting to include XBRL can be a complex undertaking. It is the kind of expenditure of time and resources you want to get right the first time to avoid starting over in the future. Doing the appropriate prep work will save your company time, expense and hassle in the future. In fact, those who wait until the 11th hour to find answers will likely be faced with software and services priced at a premium, coupled with the potential scarcity of true expertise.

The general consensus is that companies new to the XBRL filing process should begin planning 6-9 months in advance. This paper provides insight regarding what should be accomplished in the organizational assessment and vendor selection phases of the XBRL filing process.

The Start Point

If you are brand new to the SEC mandate requiring companies to submit financial filings in XBRL format, there are a number of free resources from independent agencies available to help you get up to speed quickly:

- ▶▶ XBRL US: national consortium with comprehensive “Learn About XBRL” section:
<http://xbrl.us/Learn/Pages/default.aspx>
- ▶▶ XBRL International: “How XBRL Works”:
<http://www.xbrl.org/HowXBRLWorks/>
- ▶▶ SEC website devoted to rules, regulations and interpretive guidance:
<http://xbrl.sec.gov/>
- ▶▶ SEC Final XBRL Rule (206-pg doc):
<http://www.sec.gov/rules/final/2009/33-9002.pdf>
- ▶▶ AICPA website, XBRL:
<http://www.aicpa.org/InterestAreas/CenterForAuditQuality/Resources/CAQAuditLibrary/Pages/XBRL.aspx>
- ▶▶ US GAAP Taxonomies, Release 2009:
<http://xbrl.us/taxonomies/Pages/US-GAAP2009.aspx>

Once you have established a working knowledge of XBRL, you can move to the “Assess Needs and Readiness” phase of getting started. Now you must determine exactly who will be managing your XBRL filing – someone on your staff, or an outside expert. The fundamental questions to answer in making this decision are:

1. *What can you afford – in dollars and time?* Can you make the initial investment necessary for bringing technology in-house? What about ongoing maintenance fees? Do you have staff with the time (and inclination) to become fluent in XBRL and “own” your filing? What is your budget for training?
2. *What are your scheduling constraints?* This is a big one. XBRL financial reporting can be painless and relatively simple once you get a system implemented. However, the initial setup and/or training can be cumbersome and time-intensive. When examining your options, be sure to give yourself enough time to get through the initial learning curve, regardless of which filing option you choose.

Once you have determined your resource and scheduling parameters, you can begin to explore the options available that align with your needs.

Option 1: Outsourcing (Full-Service)

Most companies in the first two waves of the SEC mandate chose to outsource their entire initial XBRL filing. Many of these companies plan to eventually bring the process in-house once the fundamental data has been tagged, templates are developed and a system is in place for use in future filings.

If you decide to completely outsource your SEC filing requirement, you still need to understand the specifics of the mandate as it relates to your company. The compliance responsibility is still yours. This is an important thing to keep in mind – ultimately, your company is solely responsible for the financial files you submit to the SEC, so you must be able to trust your XBRL service provider to fully support your efforts with compliance goals.

The outsourcing option enables companies to save on the costs of XBRL technology training and the extra IT infrastructure required to run the software. This includes ongoing maintenance fees associated with both the hardware and software. The degree of XBRL expertise necessary to meet a filing requirement once every quarter may be a core competency that can be more efficiently and cost-effectively outsourced for many companies.

The major drawback with outsourcing is that you are relinquishing some control of your filing, and your staff doesn't necessarily develop the expertise to examine and scrutinize the data you are submitting to the SEC.

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Pros	Cons
<ul style="list-style-type: none"> • Simplicity – outsource expertise 	<ul style="list-style-type: none"> • Less control
<ul style="list-style-type: none"> • Flexibility – can bring process in-house in future 	<ul style="list-style-type: none"> • Less opportunity to build internal expertise
<ul style="list-style-type: none"> • No additional tech investment 	
<ul style="list-style-type: none"> • No additional training investment 	



Option 2: In-House (Self-Service)

Buying technology and training your staff to meet the SEC filing requirements provides you with complete control of the final product. There is benefit to knowing the details behind the numbers in the external financial reports while selecting particular taxonomy elements for the financial statement line items.

The initial costs may be higher than completely outsourcing due to upfront investments in technology and training. However, over time the ongoing expense may be lower with a successful implementation of XBRL technology and maintaining internal expert(s). Keep in mind that if you experience personnel turnover with your external reporting group, your training costs may remain high over time.

Taking the tagging and filing process in-house gives you the most control over your filing, though there can be an element of risk in not working with outside experts with specific experience in identifying potential challenges.

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Pros	Cons
<ul style="list-style-type: none"> • More control 	<ul style="list-style-type: none"> • Requires technology investment, with ongoing maintenance
<ul style="list-style-type: none"> • Build internal expertise 	<ul style="list-style-type: none"> • Requires ongoing investment in staff and training
<ul style="list-style-type: none"> • Over time, cost-effective 	<ul style="list-style-type: none"> • Element of risk in not working with outside XBRL experts

Option 3: Outsource / In-House Combination

When you choose to outsource the technology while bringing the XBRL expertise fully or partially in-house, you are generally choosing the best of both worlds. This decision is driven by a company’s desired level of control, turnover expected in the external reporting role, and the cost vs. benefit of having in-house XBRL expertise, as opposed to outsourcing.

Using software as a service (“SaaS”) technology has proven to be reliable and continues to gain traction as an efficient, secure and dependable technology option. There are a number of advantages to SaaS, including saving money and time on additional technology infrastructure investment and maintenance. It is also very efficient in fostering a collaborative environment to work on your filing with your vendor, as it eliminates the need to exchange files via email, which can also present security risks.

To summarize this third option, you maintain control over your filing and your overhead is less than it would be if you chose a full outsource or in-house solution. This option often includes critical training and support from a dedicated team of CPAs, accountants, subject matter experts (SMEs) and XBRL techs. It is another level of “checks and balances” for your filing from outside experts with extensive, comprehensive XBRL experience.

One of the only negative aspects of this option is a perceived lack of control over financial data. If this is a concern for you, choose a vendor with a “customer empowerment business model” that allows clients to be as involved in the tagging process as they choose to be. You can have your staff fully trained, or can opt to have your vendor manage the tagging for you.

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Pros	Cons
<ul style="list-style-type: none"> • Determine and maintain level of control you are comfortable with 	<ul style="list-style-type: none"> • Requires some tech and training investment
<ul style="list-style-type: none"> • Less overhead costs, and no maintenance hassles 	<ul style="list-style-type: none"> • Requires staff allocation
<ul style="list-style-type: none"> • Simplicity of outsourcing expertise 	
<ul style="list-style-type: none"> • Ability to build internal expertise 	



Choosing an XBRL Provider

Once you've established some parameters for a solution that will work for your schedule, staff and budget constraints, you can begin an informed search for a vendor to assist with the process. The remainder of this document shines light on some mission-critical areas to consider in your quest.

Support

XBRL financial reporting is in its infancy, relatively speaking; therefore true experts are few and far between. There are a handful of XBRL companies that have earned stripes through years of experience coupled with significant R&D investment. These pioneers and early adopters of XBRL have, for the most part, spent time building their troops. The best of this group are staffed with teams of CPAs, accountants, subject matter experts (SMEs), XBRL techs and software engineers. These are the people you want to learn from. This is the collective know-how you want from the team working on your behalf. And should something go wrong the day before you are scheduled to file live, you want to be able to talk immediately with someone in this group who is very familiar with your numbers.

Competition is generally healthy for any marketplace, but newer companies sometimes fall short because they simply don't know what they don't know. Staffing and workflow synching result from best guesses, and client work can suffer, especially in deadline situations. Sales reps are more focused on numbers than service, and IT professionals outnumber financial experts in many XBRL companies. You don't want to find yourself talking with a recent Computer Science grad on another continent when you have a taxonomy question.

It is crucial that you understand exactly who "has your back" before committing to a company that isn't properly staffed to get you through an SEC filing on your schedule. It's worth mentioning here to be cautious of vendors offering free or discounted first filings. As previously mentioned, this is not a process you want to start over in the future. If for any reason you are forced to start over with another provider, the cost can be steep. If you are going to try a free, trial or discounted first filing, be certain to read the fine print of your agreement. Will you own the work (i.e., taxonomy and infrastructure) invested in your filing should you choose to go elsewhere?

Ask very specific questions about support:

- Can someone there help with tagging questions specific to my industry?
- Where is the help/support team located precisely?
- What are support hours?
- Who will be in charge of my filing?
- Who will be available to answer software questions?

You should approach the XBRL selection process with the diligence you would use to find a personal physician. There are thousands of doctors out there who can perform an annual physical exam for you, no problem. But you want someone who will proactively steer you in the right direction before there's a problem, and someone who is experienced when challenges occur.

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Style vs. Substance

In October of 2010 IBM announced the acquisition of an XBRL technology company, which ignited lots of chatter in financial reporting circles. When a technology superpower like IBM makes a move of this nature, people notice (media, investors, other business superpowers). This acquisition served as a very public validation that venturing into the XBRL business can be both strategic and lucrative.

In some ways, this emerging market is reminiscent of the dot-com boom. New players are setting up shop fairly quickly in an effort to get a piece of the action. This is all well and good if you're shopping around on the internet for a good deal on a pair of shoes. Best case scenario: you get a pair of shoes cheap. Worse case: you lose some cash if the company fails to deliver.

Clearly, your SEC financial reporting needs require a different level of gravity, yet new XBRL companies are gaining headway in building clientele based solely on style – slick demos, rock-bottom pricing and promises that are not substantiated by any meaningful experience. Buyer beware: these companies often invest much more in sales and marketing than developing great products that work.

The questions you must ask yourself after sitting through a demo, or chatting it up with an account rep who was selling cars last month:

- 1) Does this seem too good to be true?
- 2) Do I trust these people with my company's good standing with the SEC?
- 3) Will I get what I pay for?
- 4) Where will I find money in the budget to start over if necessary?
- 5) How will I defend this choice if something goes very wrong?

The intent is not to scare, but to inform. There are several reputable XBRL vendors that have rightfully earned reputations for delivering results. There simply aren't shortcuts in this game. Success and reliability come from developing great software, growing a staff of financial and technology experts, and successfully submitting accurate XBRL files to the SEC. When you start looking for these factors, the pack dwindles substantially.

One of the advantages of operating in the new world of financial transparency is that you don't have to trust sales reps and marketing literature. If you want to know who the players are in this marketplace, the data is readily available to anyone with an internet connection. There is a publicly available website that lists information for each and every XBRL filing to the SEC. It includes information such as company name and filing date. It also lists "XBRL Software" which names the vendor used to create the filing:

- ▶▶ XBRL Cloud: EDGAR Dashboard
<http://edgardashboard.xbrlcloud.com/>

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Software Demos and Software Selection

When searching for an XBRL provider to support your SEC financial filing needs, participating in a software demonstration is extremely important. You need to be prepared to view the demo with a critical eye.

Some vendors offer a no-obligation preview of the XBRL software on their website. It is seldom interactive, and always designed for sales purposes. This is an important distinction – a sales demo will never draw attention to a product's shortcomings. They can be helpful in creating a short-list of vendors for consideration, but should never be the only criteria used for choosing XBRL technology.

Most XBRL software companies require an appointment with a rep for a product demo – either online or in person. Because XBRL is fairly new, software companies may be especially diligent in protecting their proprietary technology from curious competitors. So you may have to go through a brief screening process to qualify your company as a legitimate prospect before you see a demo. This screening process is helpful for you, too. It's the best time to identify specific criteria (functionality, budget, schedule, etc.) to determine if there is a good fit before getting further into the process.

Be prepared for your demo. Make a list of functionality and features you must have, as well as items that would be nice to have. If there are other people at your company involved in the decision-making process, include them in the demo and discuss your criteria prior to starting. You should be an active participant, asking questions and requesting clarification throughout.

Request that the demo be conducted with your company's data, if possible. This is incredibly helpful in gauging whether or not it's a good fit. Use caution in sitting through a "canned" demo with dummy data designed to showcase features and hide potential flaws. Request that the demo use your company's data (financial statement) if possible. Keep an eye out for how the software maneuvers with your data, in a way that makes sense for you. If the demo isn't addressing relevant info and processes for your company, you should feel free to redirect the conversation accordingly.

Make sure you're able to see how the software does both block and detail tagging of footnotes. Even if you plan on outsourcing your SEC filing, you want to make sure the software can handle tagging efficiently and effectively with little to no manual effort. Have the vendor demonstrate its capabilities with your current filing so you can fully understand what it will take to get the job done. Although detail tagging of footnotes is not something you need to do the first year, it is critical to select a provider that offers a complete solution to accommodate your future needs.

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DUE DILIGENCE: additional questions to ask XBRL provider

- Tag & Test:** Will the provider tag and test your next quarter's filing at no additional charge? This will give you an additional three months to ensure there are no glitches in your processes and see how well they handle your filing.
- Data Security:** For SaaS or cloud-based software, does the vendor provide the highest level of data security for storing, sending and submitting pre-published corporate financial statements?
- Implementation Timeline:** Taking your XBRL tagging solution in-house should take no more than one to two weeks with minimal IT involvement. Ask the provider what the process and time requirements will be to fully implement their XBRL solution.
- In-House Option:** Ask how you can bring the tagging process in house, if/when you decide to do so in future. Confirm that you can do so at your discretion with ongoing support if needed. Is training offered? If so, do you feel the amount of training and support will be enough to feel secure tagging and submitting your own SEC filings?
- Tagging Support:** If you decide to bring the tagging process in-house, is the software designed so accountants and other business users can easily learn and use the product? Are there any built-in features designed to make it easier to locate and choose the most appropriate element?
- Analytics Capabilities:** Does vendor provide the tools necessary to analyze interactive data so my organization can reap the benefits of XBRL. Does your provider include analytics to compare your data, side-by-side, with other SEC XBRL filers in your industry? Or compare your own internal data across your organization?
- SEC Viewing:** Does the provider offer a viewer within the product so your rendered filing documents look exactly as they will look on the SEC's website? Does the provider offer any type of viewing option?
- Reporting Capabilities:** If you need a true financial reporting solution, ensure the software can handle both internal and external reporting. Have the vendor show you the process to create financial statements for internal reporting and 10Q and 10K filing packages for external reporting.
- Integrated Solution:** When you're comparing vendor solutions, make sure you're basing your decision on a true apples-to-apples basis. Most vendors use terms such as *integrated* and *embedded* to refer to the automatic integration of your general ledger. Have the provider explain exactly what they mean when they use these terms.

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Founded in 2002 and headquartered in Denver, Rivet Software is the leader in 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 provider of choice for companies in search of a cost-effective, reliable solution for SEC reporting compliance.

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