

Standards-Based Reporting



This briefing is for those who want to learn more about standards-based reporting – what it means and why it is important. The briefing is focused on the rationale and value proposition of standards-based reporting, and specifically on highlighting what is fundamentally different about standards-based reporting applications. The briefing content refers mostly to financial reporting although standards-based reporting is equally relevant to all types of business reporting.

Introduction

Our inter-dependent global economy necessitates the need for internationally agreed-upon standards for reporting. Only by using standards can we ensure that business can be transacted reliably and effectively between business partners and that business information can be communicated in a trustworthy manner.

The International Standards Organization (ISO) claims to have *developed over 18000 International Standards on a variety of subjects and some 1100 new ISO standards are published every year [1]*. And that's just one standard-setting body among many operating either internationally or within national jurisdictions.

The Start Point

We'll begin our discussion of standards-based reporting with a definition:

Standards-Based Reporting is the production and publication of business information that references national or international standards to assure information consumers, and ensure reliable and consistent communication.

Starting from this point means that we need to be clear about the role of various kinds of standards in a business reporting context:

- The role of *Data Standards*
- The role of *Content Standards*
- The role of *Presentation Standards*

Once these roles are clear, we can outline what is fundamentally different about a standards-based reporting application. But first we need to answer the question: *why bother with standards for reporting?*

Why Bother with Standards for Reporting?

Reporting standards are not new. US-GAAP, UK-GAAP, IFRS – among many others – are all well-established reporting standards for communicating financial information. These standards are enforced by regulators and checked by auditors. So most businesses in most countries report in some way using some kind of externally created standard – either because they choose to communicate data in a way that others understand, or because they are compelled to report a certain way by regulators.

Standards-based reporting usually refers to externally-defined standards being used for externally-delivered reporting. But it can equally well apply to internally-focused reporting – for example, the company at the hub of a business partner network may have enough influence to enforce its own reporting standards on the satellite business partners who depend on it. For example, a retail hub organization like Wal-Mart in the USA or Marks & Spencer in the UK can require participants in their extensive supply chains to use specific reporting standards when communicating information. In this case the standard is internal and focused on a standardized way of communicating information within a relatively closed community, and the hub owner essentially acts as a kind of standards regulator.

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Three Types of Reporting Standard

There are at least three types of standards that are relevant to business information reporting:

- Content standards
- Presentation standards
- Data standards

The most effective standards-based reporting is likely to embrace all three, but in reality there are few examples of widespread business reporting practices that do. We'll start our discussion with content standards, as they are more prevalent than either data or presentation standards, which are both relatively new.

Content Standards

The well-known financial reporting standards previously mentioned, like GAAP and IFRS, are examples of content standards. Standards that primarily define the concepts of *what* is reported through definitions and rules. Content Standards ensure that the content of a report adheres to predefined standards. Content standards seldom prescribe either data or presentation specifications. They leave that up to the user of the standard.

A widely accepted reporting content standard is the set of sustainability indicators defined by the Global Reporting Initiative (GRI). These indicators define content for use in various industry-specific sustainability reports, but the GRI does not prescribe a data standard (for the source indicator data) nor a presentation standard (for publishing the indicator data).

Presentation Standards

Presentation standards are not as common as one might think, largely because there are so many ways of presenting business information and most accepted formats, such as a balance sheet or income statement, are themselves subject to considerable variation in practice.

But there are exceptions. One example of a well-established presentation standard doesn't come from a standards-body, but from academia – namely Kaplan and Norton's Balanced Scorecard. Even this is arguably only a template for a scorecard pattern but it qualifies as a standard because without the various defined components, it can't be called a balanced scorecard. It's a standard because when you see something called a balanced scorecard you have certain expectations of what it will communicate, and in what way via its look and feel, since that is the purpose of a presentation standard.

Data Standards

The most well-known and perhaps most widely used data standard is Electronic Data Interchange (EDI), which is not used for business reporting but for the exchange of transactional data between collaborating business partners (e.g., in a supply chain relationship).

In the world of business reporting, the emerging data standard is eXtensible Business Reporting Language (XBRL). XBRL is a data standard because it does not define the actual content of a business report (that is, the data itself) nor does it define how the data is presented. Instead, XBRL defines what the data is agreed to mean via a taxonomy (electronic dictionary) through a number of different dimensions (e.g., currency, time period, entity, etc.).

Standards-based reporting is equally important to both externally and internally focused business reporting.

Traditional business reporting applications have largely been unconcerned with standards. But today, reporting applications must be standards aware.

Both US-GAAP and UK-GAAP now have their own XBRL taxonomy, which means they qualify as both content and data standards – something that further strengthens their value proposition. The GRI indicators also have an XBRL taxonomy. There are dozens of other XBRL taxonomies either in use or in development around the world. The increasing global adoption of XBRL is likely to mean that certain XBRL taxonomies will become the primary data standard for many kinds of business reporting across a wide range of national and international jurisdictions.

Using a data standard also has other benefits as highlighted by Deloitte (Australia) [2]:

Often businesses create the information once and report it many times over. However with XBRL based reporting, once the information is standardized at the data level it can then be reused an infinite amount of time. It will deliver one source of truth, accurate at all times which can be sliced and diced according to business and government reporting needs.

So, What's Different About a Standards-Based Business Reporting Application?

Traditional business reporting applications have largely been unconcerned with standards. In order to produce a financial statement, a business reporting application is primarily concerned with acquiring the source data, aggregating and formatting it for presentation, and publishing it in various ways. The report-writing application has not had to adhere to any kind of standard – whether data, content or presentation.

But all that is changing.

Today, reporting applications must be standards-aware. That means they must be able to incorporate standards into their reporting process in order to refer to them to help businesses comply with them or standardize their reporting around them.

For example, to produce an XBRL-tagged 10-Q or 10-K report for the SEC, the application must be able to reference the US-GAAP XBRL taxonomy – a current data standard. What this means in practice is that the application must be able to import the taxonomy, extend it if necessary, update it easily and use the taxonomy directly to facilitate data tagging. Without this automated capability. The process of producing the tagged XBRL report would be manual, extremely tedious to achieve, and chronically error-prone.

To produce a GRI-compliant sustainability report requires the application to reference the GRI indicator set for the industry sector in which the business operates. This means that the application must be able to import the indicator set as a reference base for the data, and it must be able to update the indicator set as the GRI changes. Without this capability there would be a lot of cutting and pasting going on between the GRI's published indicators (currently in PDF documents) and the reporting software.

To produce a particular kind of presentation format requires the application to reference this format through the use of presentation templates that allow data to be drag-and-dropped into the template format. This means that a library of templates is stored in the application on a define-once, use-many basis so the process does not become a time-consuming desktop publishing exercise.

The nirvana of standards-based reporting occurs when a complete set of data, content and presentation standards are all in use for the same report. The standardized data complies automatically with the linked content standard and automatically populates a known presenta-

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tion standard template. Re-purposing the data for use in other reports that use different content and presentation standards is also a lot easier when a data standard like XBRL is used as the foundation for the report. By defining the data once, you facilitate many different presentations of the same data for different purposes.

As the number of standards proliferates and the number of businesses forced to comply with these standards increases, standards-based reporting will become the norm. Over time, more and more reporting processes will be standards-based and will automate the use of data, content and presentation standards to avoid the need for costly, time-consuming and error-prone manual interventions. Ultimately, using standards-based reporting should make it quicker, easier and more reliable to publish and re-purpose business data for more effective information communication.

References

[1] http://www.iso.org/iso/iso_catalogue.htm.

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[2] *XBRL standards based financial reporting to bring huge cost savings for business* (Deloitte Australia news release)

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4340 South Monaco Street, Fourth Floor, Denver, Colorado 80237

Phone: 720.249.2100 / Toll Free: 800.854.8821

Sales: 720.249.2191 / Support: 720.249.2181 / Fax: 720.249.2101

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