

XBRL: it's time to get real

Legal, audit and accounting secrets from the trenches

May 2, 2012

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Agenda

- Welcome/Objectives David Lynn, Morrison & Foerster
- Legal Considerations David Lynn, Morrison & Foerster
- The Quest for Quality XBRL Data Lucy Lee, RoseRyan
- XBRL Audit Considerations Natalie Zimmer, Ernst & Young
- Q & A All

Objectives

- The objectives for today's session are to:
 - Share practical advice and best practices on:
 - Legal considerations (limited liability, requirements; material XBRL errors)
 - Implementation (common XBRL errors and how to avoid them)
 - Audit considerations (key XBRL lessons learned; do auditors care?)
 - Amplify key points with real-world examples

Legal Considerations

David Lynn
Partner
Morrison & Foerster

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Liability

- Limitation of liability during the first two years.
 - Rule 406T provides exemptions from specified liability provisions of the federal securities laws during the first two years after a filer is subject to mandatory interactive data requirements.
- During the two year period, the interactive data is not subject to Section 11 or 12 of the Securities Act.
 - The interactive data file is not deemed “filed” or “part of the registration statement or prospectus” for purposes of Sections 11 and 12.

Liability

- Liability (including Securities Act liability with respect to registration statements) applies after the initial two-year period.
- Must evaluate whether errors in the interactive data file that do not appear in the official filing would be rendered immaterial by the correct information in the official filing.
- Evaluating the total mix of information, including both the accurate and the inaccurate information. *See, e.g., Virginia Bankshares v. Sandberg*, 501 U.S. 1083 (1991).

Liability

- Carrying out a reasonable investigation with respect to interactive data.
 - Representations and warranties
 - Interactive data from audited financial statements
 - Potential review of unaudited portions of the disclosure:
 - Information in tags (e.g., labels); and
 - Interim period financial information.
 - Use of software for detecting errors.
 - The use of attestation engagements with accountants for verifying interactive data.

XBRL in Registration Statements

- Registration statement form types that potentially requiring interactive data:
 - Form S-1 (except for IPOs)
 - Form S-3
 - Form S-4 (for the issuer/acquiring company)
 - Form S-11
 - Forms F-1, F-3, F-4, F-9, F-10
- Interactive data is not required as an exhibit to a Securities Act registration statement that does not physically contain financial statements, such as a Form S-3 or other form filed by an issuer that is eligible to and does incorporate by reference all required financial statements from its periodic reports.

XBRL in Registration Statements

- Financial statements that must be tagged:
 - Balance Sheet
 - Income Statement
 - Statement of Comprehensive Income
 - Statement of Cash Flows
 - Statement of Owner's Equity
 - Notes to the financial statements
 - Schedules
- Financial information that is not required to be tagged (because the information is not part of the issuer's financial statements, related notes or Article 12 schedules):
 - Capitalization Table
 - Selected Financial Data
 - Pro Forma Information
 - Acquired company financial statements

Incorporation by Reference

- Interactive data files that are submitted with periodic reports are incorporated by reference (as with the other exhibits) into any Securities Act registration statements that provide for incorporation by reference (e.g., Form S-1 and Form S-3).
- Incorporation by reference subjects interactive data files to civil liability provisions under the Securities Act, such as Section 11.
- Website-posted interactive data is not incorporated by reference into registration statements.

Incorporation by Reference

- Interactive data files are required when providing revised financial statements on Form 8-K to reflect, e.g.:
 - Retroactively revised financial statements to report discontinued operations occurring after the year-end balance sheet;
 - Retroactively revised annual financial statements to reflect segment reporting changes; and
 - Retroactively revised annual financial statements to reflect the application of different accounting principles in accordance with FAS 154.

Major and Minor Errors

- The SEC applies a validation procedure to incoming interactive data submissions.
 - A **major error** will cause the exhibit to be suspended
 - The remainder of the filing will be accepted if there are no non-XBRL errors
 - The filer must revise the exhibit to fix the errors and resubmit the interactive data using an amendment to the prior filing.
 - A **minor error** will *not* prevent the interactive data from being accepted by EDGAR; the interactive data is disseminated along with the filing.

The quest for quality XBRL data

Lucy Lee
XBRL Practice Lead
RoseRyan, Inc.



Agenda

- Why get XBRL right?
- SEC observations
- Common XBRL errors
- XBRL best practices
- Redesign & simplify disclosure
- Disclosure control & procedures
- Quality assurance program
- Q&A

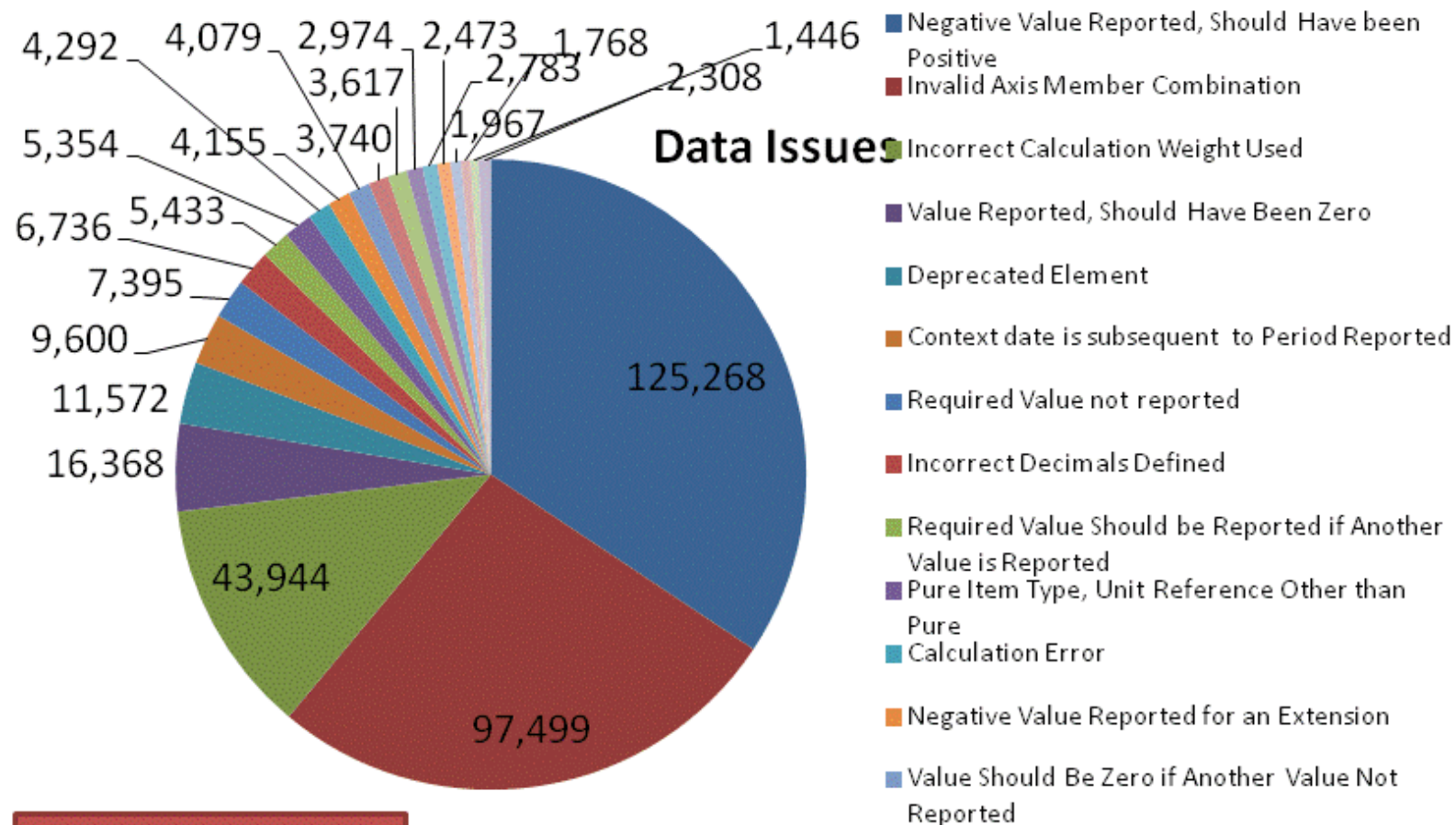
Why is it important to get XBRL right?

- Failed SEC validations not uploaded through EDGAR
- Inability to resell unregistered securities
- SEC reviews or other SEC action
- Misleading financial data – SEC and potential civil lawsuit
- SEC liability and limited liability expiration
- Market valuation

SEC Observations

- Data quality on tag selection & when to extend
- Completeness of tagging
- Viewing submissions
 - Use SEC private previewer
 - Rendering NOT required to match HTML
 - Data on viewer may not = metadata (negated label)
- Validation – validate often!

Common Problems in Filings to Date



Source: XBRL US, March 2012

SEC Observations: Detailed Footnote Tagging

- Extension
 - Software assisted search
 - Peer benchmarking
 - Borrow tags from taxonomy
- Negative values
 - Software checks
 - Read definition
 - SEC cheat sheet (two-way items)
 - Review negative raw data
- Pure Units – percentage, rates & ratio

XBRL Best Practices

- Thorough search of taxonomy before extending
- Create company “standard labels override”
- Validate early and often
- Common error & compliance checklists
- What are my peers doing? Don’t be an outlier!
- SEC private previewer - review for completeness
- Review metadata review: negative values, negated label, calculation weights
- 10-Q vs. 10-K presentation
- Simplify and streamline your disclosure
- Involve disclosure & audit committee in XBRL process

Redesign & Simplify Disclosures

- Apply your SEC S-X rules for required line items.
- Mirror footnote structure with the taxonomy hierarchy.
- Centralize your SAP under one footnote
- Convert numbers within narratives to tables.
- Reset expectations with stakeholders
- Less is indeed more!

Disclosure Control & Procedures (DC&P)

- Quality DC&P are company-specific, but you want to document your due diligence around:
 - Right tag?
 - Is it complete?
 - Is the metadata accurate?
 - Does it pass SEC and technical validation?
- Common error checklist review
- Flowchart the workflow process on mapping, validations, common errors review, approval and monitor best practices
- Periodic compliance & technical checklist
- Audit or Disclosure Committee involvement
- Internal audit involvement

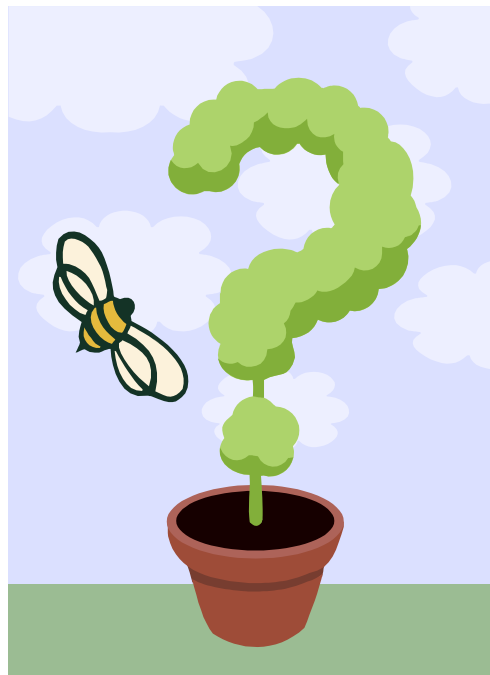
XBRL Quality Assurance Program

- Control framework - documentation is key
 - Due diligence in mapping and extension
 - Peer benchmarking, collaborate with industry groups
 - SEC Private Previewer
 - Review metadata for accuracy
 - Structural validations
- Common errors checklist
- Identify what could go wrongs (AICPA ED)
 - DIY or internal audit
 - 3rd party AUP
- Monitor evolving XBRL standards (SEC, XBRL.US, FASB)
- Scope of XBRL – registration statements, certain 8-Ks
- Process on reporting material errors

XBRL Resources

- SEC XBRL - [Portal http://xbrl.sec.gov/](http://xbrl.sec.gov/)
- XBRL glossary - <http://www.sec.gov/spotlight/xbrl/glossary.shtml>
- Edgar Filer Manual - <http://www.sec.gov/info/edgar/edmanuals.htm>
- FAQ <http://www.sec.gov/spotlight/xbrl/staff-review-observations.shtml>
- Staff observations - <http://www.sec.gov/spotlight/xbrl/staff-review-observations.shtml>
- 2009, 2011 taxonomy, 2012 taxonomy - <http://www.sec.gov/info/edgar/edgartaxonomies.shtml>
- SEC Previewer - <https://datapreview.sec.gov/previewer/>
- Preparer's Guide and Best Practices Issues & Resolutions - XBRL US <http://xbrl.us/Pages/default.aspx>
- XBRL US Consistency Suite - <http://xbrl.us/research/pages/CSuite.aspx>

Questions & Answers



Thank you!

Lucy Lee

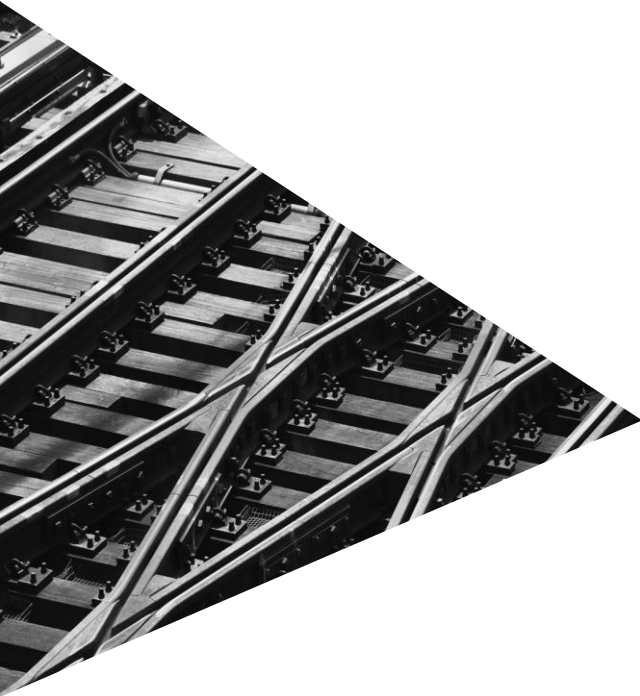
XBRL Practice Lead

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XBRL blogs:

<http://www.roseryan.com/blog/category/compliance/xbrl/>



XBRL Summit

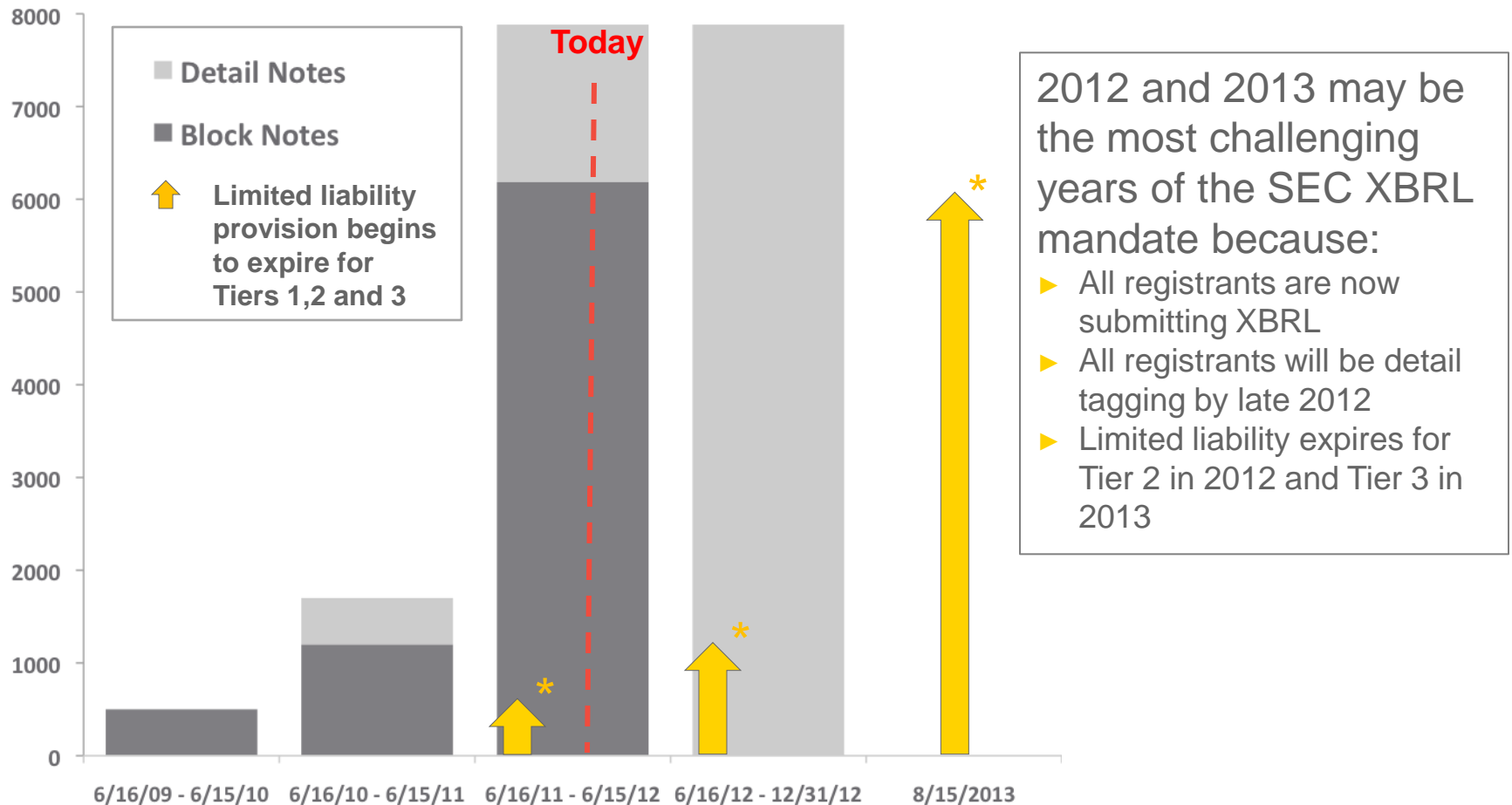
Natalie Zimmer
Ernst & Young

Agenda

- ▶ XBRL observations and challenges
- ▶ Involvement of the auditor
- ▶ Resources and links

XBRL observations and challenges

SEC rule – actual and expected submission rates



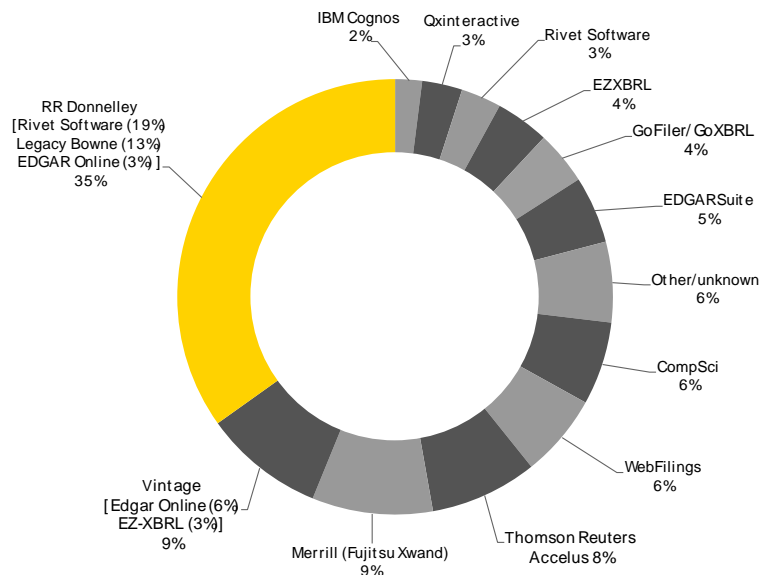
* Limited liability provision expires in mid August for calendar year-end registrants

XBRL observations and challenges

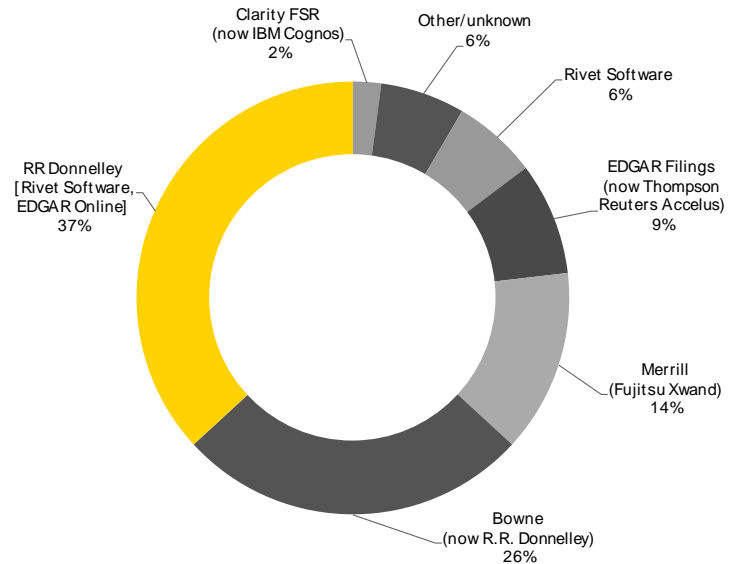
XBRL exhibit information – creation

- ▶ Although most XBRL exhibits are created by registrants' EDGAR filers, there are now significantly more non-EDGAR filer XBRL service providers and software vendors
- ▶ The transition to self creation continues with approximately 20% of registrants creating their own XBRL submission
- ▶ Successfully moving to in-house creation requires more than just vendor selection, it requires an appropriate combination of people, knowledge, process and technology

2011¹ (approx. 7,000 exhibits)



2010¹ (approx. 1,500 exhibits)



¹ This information represents XBRL submissions for the period June through August for 2011 and 2010, respectively. The above does not include all currently available software and service options. All information is approximate. Source: Ernst & Young analysis of EDGAR filings submitted to the SEC.

XBRL observations and challenges

XBRL exhibit information – observations

- ▶ Companies are taking advantage of options¹
 - ▶ Approximately 15% of 2Q 2011 exhibits used the 30-day grace period, compared to 10% in 2009 and 2010
 - ▶ Approximately 15% of 2011 submissions still used the 2009 version of the US GAAP taxonomy, the remainder used the 2011 version
- ▶ Errors in XBRL exhibits are not unusual
 - ▶ SEC staff has issued four sets of written comments and has made several comments in speeches
 - ▶ XBRL US (not for profit organization) reports that several hundred Tier 3 companies have excluded required information (e.g., calculation linkbase)
 - ▶ There has been an increase in the number of re-submitted XBRL exhibits due to issues/errors in the original XBRL exhibit

¹ This information XBRL submissions for the period June through August for 2011. All information is approximate. Source: Ernst & Young analysis of EDGAR filings submitted to the SEC.

XBRL observations and challenges

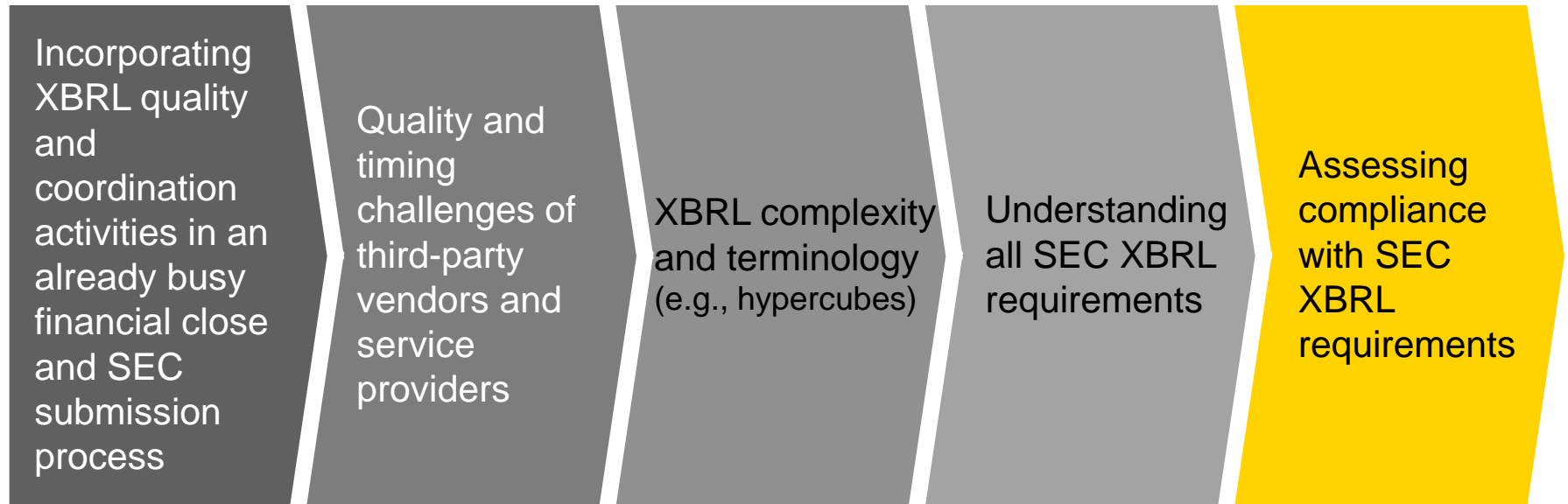
XBRL exhibit information – observations (continued)

- ▶ Detail tagging significantly increases use of extensions¹
 - ▶ The tag extension rate was approximately 8% for block text tagged submissions and 25% for detail tagged submissions¹
 - ▶ The rate of tag (e.g., line item, member) extensions can vary significantly by industry:
 - ▶ Higher rate: Construction/insurance/financial services/mining/power and utilities/oil and gas/real estate/transportation
 - ▶ Average rate: Agriculture/diversified industrial/food and beverage/life sciences/retail/technology
 - ▶ Lower rate: Consumer/manufacturing/professional services firms and services/wholesale

¹ Line item tags only. This information XBRL submissions for the period June through August for 2011. All information is approximate. Source: Ernst & Young analysis of EDGAR filings submitted to the SEC.

XBRL observations and challenges

Key registrant challenges



XBRL observations and challenges

SEC – actions and implications

SEC actions:

- ▶ Continue to release updates to the various requirements, guidance, and interpretations
- ▶ Periodically updates its validation requirements and online exhibit previewer
- ▶ Has reiterated that controls over the preparation of the XBRL exhibit should be a component of issuers' disclosure controls and procedures
- ▶ SEC staff are reviewing XBRL exhibits and are currently communicating observations on an aggregate basis. Additionally, SEC staff has said that the review of XBRL exhibits has resulted in comments being included in the Division of Corporation Finance comment letter process

Implications/suggestions:

- ▶ Certain aspects will likely require technical knowledge and a solid understanding of the SEC rules and guidance
- ▶ Registrants and third-party creators (when used) need to clearly define each party's responsibilities (e.g., mapping versus technical structuring)
- ▶ Monitor changes to the SEC EFM, taxonomy, SEC Q&As and SEC previewer/validation. Check **xbml.sec.gov** before each submission
- ▶ Design a robust review and update process that leverages your third-party service provider (as applicable)
- ▶ Incorporate/document controls over the preparation of the XBRL exhibit into disclosure controls and procedures
- ▶ Use the SEC test submission process and previewer prior to **every** submission
- ▶ Develop process/criteria to determine whether an amendment needs to be submitted for subsequently identified errors

XBRL observations and challenges

US GAAP taxonomy – update considerations

2012 update:

- ▶ 2012 taxonomy released by FAF in January 2012 and approved for use by SEC in March 2012
- ▶ New accounting pronouncements
- ▶ New references to codification
- ▶ Changes to dimension structures
- ▶ New industry-specific taxonomy content (e.g., oil and gas)
- ▶ Over 1300 new tags
- ▶ Over 600 deprecated (superseded) tags
- ▶ Number of definitions changed
- ▶ 2009 taxonomy no longer expected to be available for use by mid-2012

Possible registrant action:

- ▶ Familiarize yourself with the new taxonomy by reading the release notes and other supporting information
- ▶ Assess definition changes for current tags
- ▶ If still using a previous taxonomy version, consider utilizing element names of new tags for extension tags (if applicable)
- ▶ Identify and assess deprecated tags
- ▶ Tier 3 filers should plan to use the 2012 taxonomy for their first detail tagged submission

Involvement of the auditor

Lack of auditor involvement

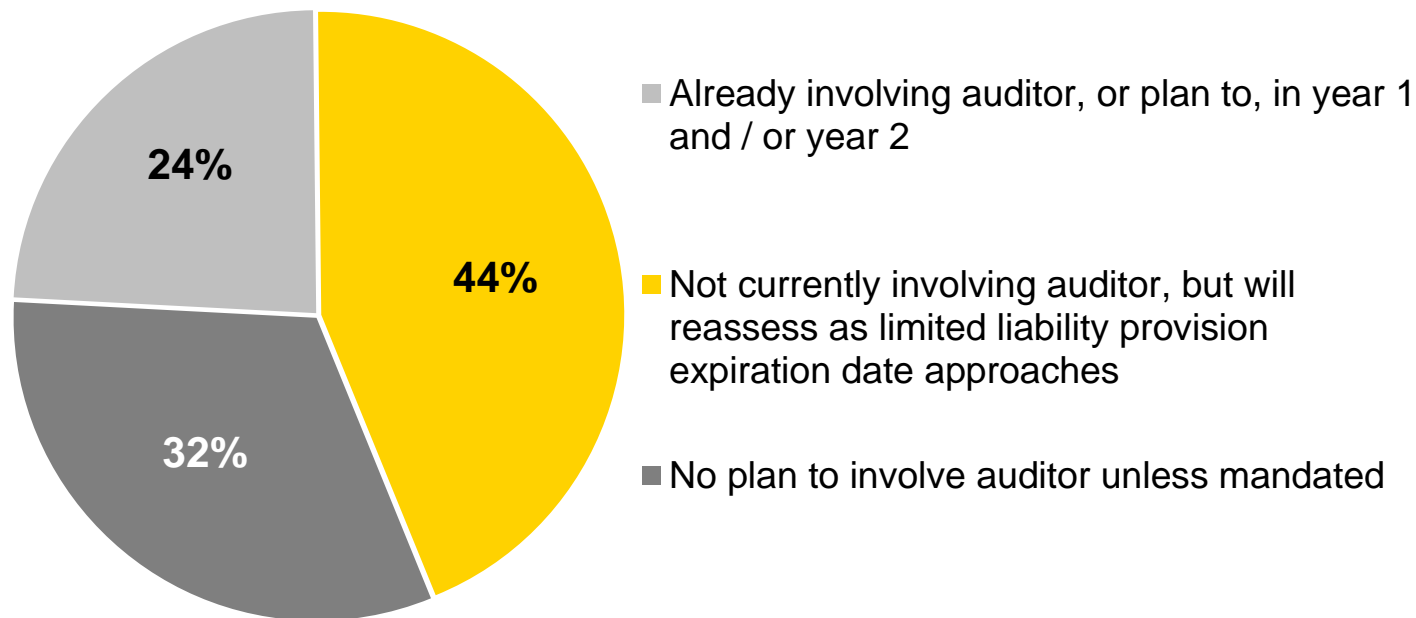
- ▶ **Auditors are not required, or expected, to:**
 - ▶ Read the XBRL exhibit for material inconsistencies with the financial statements
 - ▶ Perform any procedures on, or assess the reasonableness or overall propriety of, the XBRL exhibit as part of the audit
 - ▶ Assess the controls over the creation of the XBRL exhibit, **unless** those controls are common with the internal controls over the creation of the financial statements (i.e., XBRL is part of the creation of the financial statements)
 - ▶ Provide assurance on the XBRL exhibit or the controls over its creation

- ▶ **Hundreds of companies have chosen to engage auditors separately to perform procedures on the draft XBRL exhibits**
 - ▶ Objective is to perform procedures in order for management to evaluate the completeness, accuracy and consistency of the XBRL exhibit
 - ▶ Services are either agreed-upon procedures (AUP) engagements or findings and recommendations – no assurance is provided.
 - ▶ Findings address errors, alternatives and observations

Involvement of the auditor

Market's perceptions of optional auditor involvement

Registrants' perspectives on involving auditors with XBRL exhibits



Source: November 2010 responses from ~1,000 public company financial reporting personnel on an Ernst & Young webcast

Involvement of the auditor

Determining whether auditor involvement is desired

External

Perception of investors, analysts and other users

L M H

Potential review and comment by SEC staff

Possible auditor involvement triggered by the following events:

- ▶ Detail tagging requirement
- ▶ Limited liability expiration
- ▶ New taxonomy required

Internal

Comfort and familiarity with SEC requirements

H M L

Corporate governance policies/requirements

Skilled XBRL resources (internal and third-party)

Involvement of the auditor

Current assessment of XBRL activities and experiences

XBRL exhibit creation	Determine/implement controls over creation	Review XBRL exhibit
Activities	▶ XBRL reflects official filing (completeness)	
	▶ Tags are appropriate (including dimensions)	
	▶ XBRL exhibit requirements (e.g., decimals, units, sign, calculations)	
Experience	Efforts incurred to date, including feedback on:	
	▶ Third-party creation	
	▶ Level of internal and external effort	
	▶ Challenges encountered	
	▶ Potential concerns	
	Perspective on future state:	
	▶ Whether to take XBRL creation in-house	
	▶ Integration of XBRL creation with financial reporting	

Involvement of the auditor

Control and review considerations

- ▶ Leveraging the AICPA's Agreed-upon-procedures (AUP) SOP and draft XBRL principles and criteria
- ▶ Assessing whether XBRL reflects official filing (completeness)
 - ▶ Completeness of information
 - ▶ Meets EDGAR Filer Manual presentation requirements
- ▶ Assessing whether XBRL tags are appropriate, including:
 - ▶ Line-item captions
 - ▶ Document rationale for using extension tags
 - ▶ Navigate and search entire taxonomy for tags selected
 - ▶ Assess tag selections of other similar companies
 - ▶ Other tag criteria (e.g., proper XBRL tag type)
- ▶ Assessing XBRL exhibit structural requirements
 - ▶ Sign values (i.e., positive versus negative)
 - ▶ Decimal settings (e.g., degree of accuracy/rounding)
 - ▶ Units of measure
 - ▶ Reporting period dates

Resources and links

- ▶ **EDGAR Filer Manual**
 - ▶ March 26, 2012, Version 19

- ▶ **Staff Observations/FAQs**
 - ▶ *FAQs - updated January 2012*
 - ▶ <http://www.sec.gov/spotlight/xbrl/staff-interps.shtml>
 - ▶ *Observations – updated December 2011*
 - ▶ <http://www.sec.gov/spotlight/xbrl/staff-review-observations-121311.shtml>

- ▶ **XBRL Rendering Engine**
 - ▶ Updated November 21, 2011

Resources and links

Ernst & Young Hot topics and releases

- ▶ For additional information on the SEC's rule regarding the use of XBRL, we encourage you to read our previously issued publications, all of which are available on Ernst & Young's AccountingLink:

Ernst & Young XBRL resources	Score #	Date issued
Technical Line: Using the 2012 XBRL US GAAP taxonomy	BB2313	March 2012
Technical Line: XBRL for registration statements	CC0334	January 2012
To the Point: SEC staff observations of common XBRL submission errors	CC0326	June 2011
Technical Line: Using the XBRL US GAAP taxonomy	CC0322	April 2011
To the Point: Key insights for companies with new XBRL requirements	CC0321	April 2011
XBRL service providers and software vendors	BB2073	December 2010
Technical Line: XBRL update: 2010 observations and insights	2010-17	November 2010
Talkin' Tags: XBRL – common mistakes and insights webcast	Webcast	November 2010
Hot Topic: Annual re-assessment of compliance with SEC XBRL phase-in	CC0300	July 2010
Hot Topic: XBRL update	BB1786	June 2009
Implementing XBRL – Developing a roadmap for the SEC mandate	BB1710	March 2009
Technical Line: SEC publishes final rule requiring XBRL	CC0275	February 2009

Closing remarks

- ▶ How to get the presentation
- ▶ CPE credits
- ▶ Thank you!!!

Contact Us

■ Contact us:

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- Lucy Lee, RoseRyan – llee@roseryan.com
- Natalie Zimmer, Ernst & Young – natalie.zimmer@ey.com

■ 1 CPE credit: Please sign up at registration desk

Thank You.