Response to the Request for Feedback and Comments on "Options Paper: Use of Standard Business Reporting (SBR) for Financial Reports"

March 13th 2013

Dear Sirs,

I am pleased to offer a response following your request for comments and feedback on the above report published in November 2012.

Background

Arkk Solutions is a specialist (i)XBRL software and service company based in London and Dublin. Since 2009 we have worked with Enterprise clients preparing them for the introduction of iXBRL in the UK, and most recently for the introduction in the Republic of Ireland in 2013. We were one of the first companies to be UK HMRC "recognised" in June 2010, and our products are used by 2 of the "Big 4" firms in the UK and Ireland to deliver iXBRL services. Our product suite includes integrated MS Office iXBRL software, cloud based XBRL conversion gateways and managed tagging delivery services and consultancy. We are keen to share with you our findings, which hopefully will prove useful as you consider the direction of SBR in the coming months.

XBRL or iXBRL?

The first point I would like to address is *Section 3 - Options* – specifically the issue of whether XBRL or iXBRL should be adopted. As you may be aware, Revenue in Ireland faced the same choice for their own electronic filing initiative, and after consultation in February 2012[1] opted for iXBRL. This was influenced in part by the 2011 mandation of iXBRL in the UK which affected over 1.8m corporation tax filers.

At the *XBRL24* conference hosted in Abu Dhabi in April 2012, I presented a seminar entitled *The differences between XBRL and iXBRL*. The dominant feedback I received was from US filers affected by the phasing in of XBRL over the past four years, who were adamant that given the choice again, all would have preferred to file in iXBRL.

- One common theme was the view that iXBRL presents the concept of XBRL in a much more acceptable form for finance and accounting staff who are largely unfamiliar with XML. Show a filer their financial report in iXBRL, and their first reaction is that it looks the same as the original. This removes the first barrier to adoption as the filers are far more receptive to the new standard.
- Another common regret is that SEC-reported data are still heavily criticised for lack of accuracy and integrity. A recent US study found that they 'are generally perceived by investors as unreliable'[2], and reports persist of listed companies filing XBRL financial statements with fundamental accounting errors, even to the extent of Balance Sheets simply not balancing[3]. iXBRL mitigates the risk of errors by tying the underlying XBRL facts to the

[1] http://www.revenue.ie/en/online/ros/ixbrl/efiling-financial-statements-tax-computations.pdf

[2] *An Evaluation of the Current State and Future of XBRL and Interactive Data for Investors and Analysts*, Center for Excellence in Accounting & Security Analysis, Columbia Business School, December 2012 – p.28

[3] http://xbrl.squarespace.com/journal/2013/2/13/hitachi-interactive-data-persistent-errors-inhibit-consumers.html

visible content of a report, delivering improved data-integrity and ultimately stakeholder confidence.

For the US-based attendees in the audience, there was an overwhelming feeling that the introduction of iXBRL in the UK and Denmark meant that they were effectively already behind other countries, even before the US rollout was complete. As such, questions from the room focused predominantly on whether it was possible to move *from* XBRL *to* iXBRL, and how much of a challenge that would present to US filers.

UK filers do not have the additional burden of acquiring and learning XBRL rendering software, which allows the raw XBRL data to be presented in a human-readable format. These are often additional modules in products, which can often present additional costs.

Our experience is that preparers take more time to prepare and tag their reports knowing that they will be published in iXBRL. A badly presented iXBRL document featuring the company's logo (you can of course include images in iXBRL which you can't in XBRL) will not give a good corporate impression.

These are just a few of the key benefits of choosing iXBRL over XBRL as a starting point for the SBR. From a report-recipient perspective, it does not make much difference whether you parse iXBRL or XBRL files, though it is much easier for an inspector viewing them to glance at an HTML (iXBRL) report than it is to invest in an XBRL viewer.

Does XBRL introduce Cost Benefits?

Once introduced, all indications are that efficiencies *will* be achieved, initially on the part of the receiving party – in this case the SBR. For filers, the usage of XBRL starts to give return on investment once multiple parties request the data. Unfortunately the "recorded once, reported to many" principle has not yet gained much ground in the UK and the production of iXBRL reports is still seen as a compliance issue rather than a streamlining exercise. This was not the original intention.

As late as 2010, the plan was that UK Companies House and HMRC would both benefit from a joint filing approach, which would see both parties receive the same iXBRL files from a single online submission. Although Companies House can accept iXBRL files, the lack of mandation meant that while businesses prepared to meet the HMRC requirements, there was confusion about the obligations for Companies House. This delayed iXBRL-planning decisions for many filers, leading to the adoption of short-term solutions and the opportunity for joint-filing lost momentum. The "business case" offered by HMRC should have been supported by another key reporting authority, but as it stands HMRC has had to educate businesses for the purposes of a single filing. Had the UK pursued a similar approach to that proposed by SBR – i.e "recorded once, reported to many" – adoption might well have been approached by filers with more planning and a clearer appreciation of the benefits of the electronic-filing exercise.

By the end of this month, most UK businesses will have delivered at least two corporation tax returns in XBRL/iXBRL, and our experience is that there is an appetite in industry for exploring the potential benefits for other compliance obligations. In the UK large travel agents, for instance, report their annual results to bodies such as IATA at the same time as they lodge their financial statements with Companies House. This creates a greater administrative burden as the same information is required by both regulatory bodies in different formats, and increases the risk of inconsistent reporting.

The introduction in 2013 of COREP reporting for banks and building societies in XBRL promises to be a much smoother transition with XBRL now a more familiar standard, rather than the intimidating beast it was in 2011 when most filers were approaching this for the first time[4]. Conversations with clients and prospective clients have changed from being defensive and cautious to exploratory and accepting.

Implementation and Costs

In the UK, iXBRL was introduced simultaneously for all 1.8m companies who completed a corporation tax return, with an incentive to file before the 31 March 2011 deadline and effectively buy themselves another year to prepare for the new standard. In Ireland however, a different approach has been taken with approximately 1,000 filers – those falling within the Revenue's Large Case Division (LCD) – adopting first, with the remainder complying later (probably in 2015) depending on the success of the Phase 1 LCD.

A lot of negative press was generated in the UK on the back of the HMRC's "big bang" approach, mostly on the part of the SME market. Ironically these filers were generally the least affected by the changes due to their use of mass-market accounts packages which generate the necessary iXBRL "out of the box", thus removing the need for bespoke "tagging" preferred by larger businesses who commonly prepare their financial statements in desktop packages. Despite some pushback from regional filers in the more rural parts of Ireland, where some returns are completed on paper due to lack of internet access, the "LCD first" approach has led to a much more collaborative approach between Revenue, software suppliers and filers.

The principal reason for stronger opposition to iXBRL among SMEs and smaller accountancy practices was the late delivery of the iXBRL functionality in their existing software packages. As late as February 2011, the UK Government was forced to dismiss a last-minute plea from the accountancy body ICAS[5] to postpone the introduction of iXBRL beyond April 2011. It was decided that sufficient notice had been given two years previously[6], but this late appeal did little to encourage adequate preparation for iXBRL.

Revenue Ireland have also been clearer in their approach with regards to how much information filers should disclose in XBRL. The UK adoption was complicated by the concept of a minimum tagging list (MTL), a subsection of the taxonomy comprised of the most common XBRL tags. While in principle this sounded like a lighter introduction for many firms (it was initially proposed that "full tagging" would be required after two years), in practice this confused filers and gave the impression that HMRC were not taking the exercise seriously in the transition period[7]. The Irish Revenue has avoided this and requested that all reports are fully tagged from the outset, but have assisted filers by omitting some of the more complicated disclosures from their accounts taxonomies, as well as offering increased support for those parties who choose to adopt iXBRL prior to mandation.

[4] The Financial Services Authority is implementing XBRL, not iXBRL on behalf of the EBA (European Banking Authority)
[5] Institute of Chartered Accountants Scotland
[6] http://www.taxation.co.uk/taxation/articles/2011/02/11/21679/dismay-ixbrl-deadline-delay-ruled-out
[7] http://www.arkksolutions.com/index.php/hmrc-ixbrl-soft-landing-ends-31-march-2013-but-you-probably-wont-notice/

Summary

With planning, any firm can easily prepare for the introduction of iXBRL at a cost suitable to them. We believe that it takes just 1 minute to explain iXBRL to a new adopter, but sadly this message is often muddied by parties interested in using its introduction as a scare tactic. We have tried to counter this, for example through our recent publication *The Complete Guide to iXBRL in Ireland*[8], and the truth is that with technologies reaching maturity in the UK and Ireland, and a solid foundation of use, most of the arguments against iXBRL adoption simply do not exist anymore.

The key to mitigating the risks of iXBRL adoptions – particularly for larger firms with multiple entities and complex corporate structures – is of course early planning. Once the planning stage is complete and the approach set early enough, iXBRL adoption is not a challenging exercise. It *is* true that the first year can involve some additional effort on the part of finance teams and filers, but our experience is that for most clients the second year of iXBRL is far less painful than they had been led to expect, with widespread acceptance as filers have established their own XBRL routines. Our expectation is that the real value of XBRL will become clearer for filers once joint-filing initiatives take root and the need for the same data exists across multiple subscribers.

With minimal effort our products and services can be adapted to publish valid iXBRL for SBR filers (modifications for the Irish market took 3 months from analysis to release).

Should you like to speak further about any of the information here, I'd be delighted to schedule the call.

Yours faithfully,

Richard Metcalfe

MD, UK &Ireland



[8] http://www.arkksolutions.com/index.php/irish-revenue-ixbrl-filing/