

International Filers May Get Reprieve on XBRL Reporting Deadline

Tammy Whitehouse April 19, 2011

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Foreign private issuers that file in the United States using International Financial Reporting Standards are likely to get a reprieve on a looming deadline to start using XBRL technology in their financial reports, as the Securities and Exchange Commission struggles to approve an XBRL taxonomy that can handle the more principles-based accounting world of IFRS.

News of a possible delay in the XBRL requirement for IFRS filers came in a letter from the SEC to the Center for Audit Quality. The letter—a response to CAQ's concerns that an IFRS taxonomy wouldn't be ready by the June 15 implementation deadline—acknowledges that IFRS filers can't fulfill the agency's XBRL mandate, since the SEC hasn't yet endorsed any XBRL taxonomy they can use.

“We are of the view that foreign private issuers that prepare their financial statements in accordance with IFRS as issued by the [International Accounting Standards Board] are not required to submit to the Commission and post on their corporate Websites, if any, interactive data files until the Commission specifies a taxonomy for use by such foreign private issuers,” wrote Meredith Cross, director of the Division of Corporation Finance, and James Kroeker, chief accountant at the SEC.

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A taxonomy is crucial to compliance with the SEC's XBRL mandate; it serves as a dictionary matching each piece of financial data (revenue, accounts receivable, goodwill, and so forth) to a specific XBRL "tag." Computers can then read XBRL-tagged data to present financial information much more quickly and easily. The XBRL taxonomy for U.S. Generally Accepted Accounting Principles, which has been in existence since 2008, has more than 14,000 tags to address every data and disclosure item in U.S. GAAP.

By comparison, the IFRS taxonomy contains just 2,500 tags, says Olivier Servais, director of XBRL activities for the IFRS Foundation. Why? "If you consider the numbers, GAAP is mainly rules, based on real reporting requirements," he says. "IFRS is based on principles."

Servais' group published its IFRS 2011 taxonomy in March, but in the SEC's view it still needs considerable work. Only days after issuing the taxonomy, the IFRS Foundation said it will publish supplementary tags that reflect disclosures companies commonly make when they issue IFRS financial statements. The Foundation also has formed a task force to essentially field test the taxonomy. Meanwhile, Servais says he expects the SEC to grant a formal deferral of the 2011 compliance requirement for foreign private issuers sometime before the June 15 effective date.

How Hard Can It Be?



Penler

Paul Penler, a partner at Ernst & Young who has worked on XBRL issues for years, gives the concept of "cash" as an example of the problem. U.S. GAAP

contains several derivations of cash, such as "cash equivalents." In the XBRL taxonomy for GAAP, each one of those cash-related items gets its own XBRL tag. In the IFRS taxonomy, however, cash has only one tag—providing much less detail about what might be classified as "cash" under IFRS.

Such examples point out not only differences in the taxonomies, but differences in the standards themselves. The SEC has repeatedly stated that it wants to see the significant differences between IFRS and GAAP narrowed considerably before it will make a decision on adopting IFRS in the United States—an idea previous SEC leadership championed in the 2000s, but is now being handled much more carefully by current Chairman Mary Schapiro.

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Mennona

Perfecting an IFRS taxonomy that meets the detailed, GAAP-driven expectations of the SEC may illustrate where significant differences remain, says Phil Mennona, senior compliance manager and an XBRL expert at Rivet Software. “Perhaps having an IFRS taxonomy and a GAAP taxonomy will make these differences more transparent to the community at large, and provide meaningful feedback to the standard setters in order to make the best decisions about convergence areas and subsequent guidance,” he says.

In addition to detail, the SEC also wants to see definitions in the IFRS taxonomy, Servais says. The GAAP taxonomy provides a detailed definition for each tag, linked to the related accounting standard in the Accounting Standards Codification, so users can see the definition in the taxonomy as they use it. The IFRS taxonomy, in contrast, only refers the reader to the related accounting standard rather than providing the definition directly.

The IFRS Foundation's XBRL team is hesitant to provide definitions directly, fearful that it might wander too far into IASB's standard-setting turf. “We are XBRL experts, not accounting standard setters,” Servais says. “By creating such definitions we have a high risk of having a conflict of interest with IASB.”

Still, the group is working on how to meet the SEC's requirements. “We will meet shortly with the SEC to further discuss this,” Servais says.

Further complicating the situation, the IFRS taxonomy is meant to serve an audience well beyond the SEC and what it wants to see. “Our taxonomy is expected to be used worldwide,” Servais says. “The U.S. GAAP taxonomy is only for U.S. filers.”

What's more, the IFRS Foundation doesn't have the same arsenal of resources that the SEC deployed to develop the GAAP taxonomy in the United States. “The U.S. GAAP taxonomy had the benefit of the SEC investing millions and millions of dollars over a couple of years to develop a very beefy taxonomy with 14,000 tags,” Penler says.

Moving Forward

And how long might any delay for IFRS filers actually last? The IFRS Foundation says it expects to

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*—Robert Farrell,
President and CEO,
EDGAR Online*

complete its field-testing by the end of September, and it will use the results to improve the common-practice tags in the taxonomy. That takes U.S. foreign private issuers well past the June 15, 2011, effective date by which all smaller public companies, including foreign private issuers, must begin submitting financial data through XBRL. (Large public companies using U.S. GAAP have had to file in XBRL for years already.)

Another little-noticed glitch, however, raises some doubt about whether foreign private issuers will be required to report under XBRL at all this year, Penler says. The SEC mandate says companies must report using XBRL any interim or annual period that ends after the June 15 effective date—but under IFRS, he notes, most companies don't submit quarterly results.

“So even if it takes effect this summer, it wouldn't be an issue because most of them have a calendar year-end,” Penler says. “Most [foreign issuers] will look at this, breathe a sigh of relief, and continue to watch it to year-end to see if something comes out or not.”



Farrell

Whatever frustration or confusion this state of limbo may create, the added focus on the taxonomy will be important to XBRL's eventual success, says Bob Farrell, president and CEO of EDGAR Online. The SEC has already tussled with the early wave of GAAP filers over excessive creation of custom tags, where filers found holes in the taxonomy that didn't fit items in their financial statements. The SEC has called for improvements in the GAAP taxonomy and improved use of existing tags to reduce the number of extensions, which makes the data more comparable and more usable.

“If the taxonomy doesn't provide enough depth and richness, then effectively everything becomes an extension, and some of the reason for doing this will be lost,” Farrell says. “In the spirit of ‘measure twice, cut once,’ this is an appropriate action.”

SEC RESPONDS TO CAO

The following letter from SEC Division of Corporation Finance Director Meredith Cross and SEC Chief Accountant James Kroeker is in response to the Center for Audit Quality's letter concerning XBRL implementation for foreign issuers:

You have requested our views regarding the requirements for foreign private issuers that prepare their financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) to submit to the Securities and Exchange Commission (Commission) and post on their corporate websites, if any, Interactive Data Files, as defined in Rule 11 of Regulation S-T.

As you note in your letter, Rule 405 of Regulation S-T requires issuers to prepare Interactive Data Files in accordance with the EDGAR filer manual, and Section 6.3.9 of Volume II of the EDGAR filer manual requires use of a taxonomy specified on the Commission's website. As you also note in your letter, the Commission has not specified on its website a taxonomy for use by foreign private issuers that prepare their financial statements in accordance with IFRS as issued by the IASB and it is not possible for such foreign private issuers to comply with Rule 405 until the Commission does so.

Accordingly, we are of the view that foreign private issuers that prepare their financial statements in accordance with IFRS as issued by the IASB are not required to submit to the Commission and post on their corporate websites, if any, Interactive Data Files until the Commission specifies on its website a taxonomy for use by such foreign private issuers in preparing their Interactive Data Files. This position is based on the facts presented in your letter. Any different facts might require a different conclusion.

Sincerely,

—Meredith B. Cross
Director
Division of Corporation Finance

—James Kroeker
Chief Accountant
Office of the Chief Accountant

Source: Securities and Exchange Commission, April 8, 2011.