Kyara, which means “precious” in ancient Japanese, is an aromatic resin regarded as the highest quality of all agarwood. “lakyara [la-kæ ´ la]” aims to deliver the same quality as Kyara together with NRI’s endeavour for continuous excellence and innovation to provide the most advanced and up-to-date information to our readers worldwide.

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XBRL reporting makes financial statement footnotes more useful for company valuation
In the US, all publicly traded companies are required to submit financial statements in XBRL (eXtensible Business Reporting Language) to the Securities and Exchange Commission (SEC) from July 2011. XBRL is a document format that uses tags to designate the meaning of information in the document, enabling computers to instantly glean required data from companies’ information disclosures. With specialized software, users can extract desired numerical data from financial statements as soon as the statements become publicly available. While companies have long endeavored to enhance the readability of their regulatory filings through such means as font size and ruled lines, XBRL enhances financial statements’ readability by analytical systems through use of tags that facilitate comprehension of data’s significance.

In Japan, all EDINET-registrant companies and investment trusts have been required to submit the principal financial statements (balance sheet, income statement, statement of cash flows, and statement of changes in shareholders’ equity) in their securities filings (including quarterly filings) in XBRL format since March 2008. Although Japan was the first country to mandate XBRL financial reporting for all companies, use of XBRL in Japan is still confined to the principal financial statements. In the US, by contrast, use of XBRL is mandated for regulatory filings’ entire content, including footnotes. Japan has fallen behind the US in terms of quantity of data reported in XBRL since this summer.

The information found in financial statement footnotes is essential for company analysis. However, footnote content and presentation are highly company-specific. While XBRL reporting of footnoted information promises to improve analytical efficiency, filers’ cost burden is a concern. The US has started to phase in XBRL reporting of financial statement footnotes. The US authorities are listening carefully to investor feedback and providing wide-ranging support to filers.

Financial statement footnotes contain important information routinely used by institutional investors and analysts in making investment decisions, including operating performance data disaggregated by business segment, information on suppliers, borrowings, number of shares outstanding, securities and derivatives holdings, deferred tax assets, lease obligations, and composition of fixed assets. Additionally, footnotes often provide detailed breakdowns of line items reported in the major financial statements, such as selling, general and administrative expenses. With XBRL, users can also define parent-child hierarchies among captions and line items, enabling automated checking of financial statement data before they are filed. Meanwhile, such a parent-child structure in the XBRL taxonomy makes it easier for analysts to recognize individual companies’ strengths and distinctive attributes by enabling them to accurately ascertain relationships between itemized and aggregated data.

Despite footnotes’ importance, financial data providers have hitherto usually provided only limited footnote data on the grounds that they are too costly to compile. XBRL-tagging of footnotes would help analysts to evaluate companies using consistent data. When asked what additional information they would like to see reported in XBRL, many analysts’ wish lists included footnotes. In the case of Japan, however, only principal financial statements are required to be filed in XBRL, mainly out of consideration for filers’ cost burden.
Preparing XBRL files inclusive of footnotes is not easy, even for US companies. Unlike principal financial statements, which present accounts in a format that is nearly uniform across all companies, footnotes contain company- and period-specific information and include a combination of text and tables or charts, making it difficult to formulate rules for tagging footnoted information.

In the US, XBRL tagging of footnotes is being phased in gradually. In the first year, filers tag principal financial statement accounts (e.g., <Revenue>, <NetIncome>) mentioned in the footnotes. They also tag footnote section headings (e.g., "Operating results by business segment and region") to designate their meaning. In the second year, filers are asked to add detailed tags, such as <Retail: NetSales>. From the third year, filers are required to file such XBRL documents as statutory disclosure documents. Additionally, companies were split into three groups based on market capitalization and the timeline for the phase-in of XBRL tagging of footnotes was staggered among the groups, with the first group (large-cap companies) beginning the phase-in in year 1, the second group in year 2, and the third group in year 3. The phase-in will thus take some five years until all companies are filing completely XBRL-tagged footnotes.

The phase-in timeline was staggered by company size to ensure that the process of completely adopting XBRL reporting for footnotes proceeded smoothly across all companies. When compiling financial data in XBRL, companies may use GAAP-compliant, standard account tags predefined by the Financial Accounting Standards Board (FASB) and SEC (which corresponds to Japan’s Financial Services Agency (FSA)). However, if companies release financial statements with account names tailored to their own business activities, they must create separate extension tags and clarify the difference between their extensions and standard tags. Footnotes not only pertain to many different accounts, their content is also highly company-specific. Detailed tagging of footnotes is a new disclosure approach without an existing model. The SEC accordingly decided to phase it in beginning with large-cap companies, which tend to have the most interaction with investors and analysts. From users’ standpoint, the key focal points are XBRL tags’ level of detail and the types of information to be reported in XBRL. In defining tags, the FASB has sought the involvement of not only companies and industry organizations but also analysts and institutional investors. It is committed to continued improvement of XBRL’s ease of use. Toward this end, it is soliciting opinions, including via a website it has set up to enable users to submit feedback.

In Japan, the FSA has been conducting research and testing to expand XBRL’s scope of application and upgrade EDINET’s functionality since autumn 2009. With the next-generation EDINET, the FSA plans to unveil some new features. It will likely seek to involve users in a discussion of XBRL reporting of information other than principal financial statements, like the US has done. Such discussion will facilitate communication between companies and investors and serve as an opportunity for companies to consider how they are evaluated by investors. In the US, the FASB has involved investors and analysts in the Taxonomy Advisory Group. Even the IFRS Foundation revised its basic policies this year and declared that it will pursue a more user-friendly data structure. Approaches that place priority on dialogue with users are becoming the norm.

In terms of quality and quantity of information disclosure, Japanese companies are now highly ranked even by global standards. Nonetheless, the Japanese language constitutes a barrier for overseas institutional investors. XBRL could serve as infrastructure that makes Japanese...
Corporate information accessible to users globally. We expect the next-generation EDINET to make it easier for Japanese companies to gain due recognition from investors, including overseas investors. We also hope to see wider availability of user-oriented support services.

Note

1) Tags are character strings used to mark up documents in HTML, XML, and other languages. XBRL, being an XML dialect, has tags for financial statement accounts. The tags convey the meaning of the account names.

2) For example, tagging operating segment sales data with tags that identify each segment’s sales figure enables users to accurately compare the segments’ performance.

3) Electronic Disclosure for Investors’ NETwork, an electronic disclosure system for securities filings and other disclosure documents filed pursuant to the Financial Instruments and Exchange Act.

4) As used herein, “footnotes” denote securities filings’ content other than the principal financial statements.

5) Based on a 2011 NRI survey of mainly asset management company analysts’ wishes with respect to XBRL reporting.


7) Generally accepted accounting principles.

8) In the first year, some 500 US companies with market capitalizations in excess of $5 billion filed financial statements with XBRL-tagged footnotes. In the second year, they were joined by some 1,200 additional companies, including foreign ones. From the third year onward, all remaining SEC-registrant companies are required to file financial statements with XBRL-tagged footnotes.

9) At the 22nd XBRL International Conference held in Brussels in May 2011, the FASB’s XBRL Project Manager, Christine Tan, discussed working with analyst and investor groups in her summary of the XBRL Project’s activities.

10) The site is accessible from the FASB’s homepage. Its content includes definitions of all XBRL tags. Registered users can contribute content to the site as reviewers.

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