Information for Better Markets

Digital reporting: a progress report

An initiative from the Institute of Chartered Accountants in England & Wales
Executive summary

Standards for the electronic recording, processing and distribution of financial and other business reports (‘digital reporting’) can bring benefits both for external regulation and investor relations and for internal financial management and decision-making.

This Institute of Chartered Accountants in England & Wales (ICAEW) progress report makes a distinction between two levels of digital reporting. Level 1 simply involves publishing and disseminating pre-existing reports more widely and more efficiently using pdf for example. Reporting at this level is standard practice already. Level 2 is less common and involves standardising the framework within which information is stored, processed and presented for reporting purposes. That makes information available in a more effective form for analysis and interoperability with other systems.

There is a theoretically possible Level 3, which would integrate all aspects of financial and management accounting and reporting and enable full drill-down by external users of an organisation’s reports to the underlying detail. It is questionable whether organisations would be willing to provide this extent of access to their information systems and the focus of this progress report is on progressing to Level 2.

Widespread adoption of Level 1 digital reporting in a matter of a few years is an interesting example of the invisible hand of the market working to improve business reporting with negligible regulatory intervention. However it has had little impact on fundamental reporting issues related to the needs of different stakeholders for different information, improving the quality of investors’ decisions or increasing transparency.

By contrast, Level 2 digital reporting opens up entirely new possibilities in relation to serving multiple stakeholders, meeting decision-making needs and achieving transparency, but the relatively slow take-up suggests that the invisible hand might not be enough to realise these possibilities.

The radical possibilities opened up by Level 2 digital reporting force people to face up to fundamental issues. There are possible solutions to the technical problems that established opinion might raise, so the question is now whether business wants its reporting to serve multiple stakeholders, support decision-making and be transparent? There is also a communal dimension to address and, for success to be achieved, communities of interest need to be better identified and informed particularly in relation to potential cost savings and other benefits essential to making the business case.

A widely accepted digital reporting standard at Level 2 is capable of delivering real benefits. In general terms, an effective digital reporting standard is relevant to people throughout the business reporting supply chain: producers of business reports, software vendors, accountants, auditors, financial analysts, investors and creditors. These benefits include enhanced:

• interoperability of computer systems;

• reliability; and

• comparability.

The accountancy profession has been active in an international project (the eXtensible Business Reporting Language project) for the development and promotion of a technical standard (XBRL) which can be used to develop frameworks (based on XML) in each country for creating, exchanging, and analysing financial reporting information. This report considers the progress of this project, including the vision behind it and some of the challenges involved in realising this vision.
Despite the huge potential benefits of Level 2 digital reporting, there is a need to take a disciplined view of the benefits that it can bring in the short and medium term to the financial and business community. Developing and promoting digital reporting standards, like all standards development, is a lengthy and sometimes frustrating process. There are still issues associated with building trust in digital reporting. There are also limits to what is likely to be achieved by digital reporting standards in respect of non-quantitative information. On the other hand, the process of establishing Level 2 digital reporting standards could itself help to establish these limits more objectively.

Level 2 digital reporting standards are likely to be:

- of significant benefit to medium sized and larger organisations, in streamlining internal financial reporting processes and in making up-to-date information available to decision makers; and

- of particular use to regulators and government agencies whose requirements are in the last analysis underpinned by a finite and definitive set of legally determined and binding rules.

Level 2 standards may be of less use to markets and analysts than originally supposed, because:

- they are at the end of the digital reporting value chain and the benefits do not arise for them until digital reporting standards are in wide use; and

- a lot of their activity is based on forms of probabilistic logic that do not necessarily or readily lend themselves to deterministic processing with reference to standardised data storage structures.

Nevertheless, there is tremendous market potential for enhancing data analysis and comparison through speed of access to information, elimination of costly and time-consuming reprocessing of data and greater transparency.
Invitation to contribute to future progress reports

There is a continuing challenge of harnessing digital standards and techniques to promote information for better markets. Therefore, in the public interest, the ICAEW aims to:

- help groups to evaluate the particular benefits that this reporting might bring to them and the means by which it brings those benefits;
- encourage the widespread membership of such groups;
- identify ways of bringing tools for sophisticated digital reporting to maturity in those areas where it can add most value; and
- encourage research into sophisticated forms of financial reporting based on digital technology and into the complexities associated with bringing these forms of reporting to fruition.

This progress report seeks to further these aims by promoting informed discussion of the role of technology in improving business reporting and, specifically, financial reporting. It sets out to provide an analysis of the extent to which technology can be an instrument of change in the way financial reports are prepared and used. It discusses the resolution of associated issues and problems and the progress of initiatives to develop and implement tools to exploit the opportunities.

We intend to issue further progress reports from time to time to ensure that the continued development of digital reporting, as well as the fulfilment or otherwise of our expectations about this development, are widely shared.

In order to ensure that we reflect developments as fully and effectively as possible, we are interested in any examples, case studies, research, new developments or other additional material that would be useful to include in future progress reports.

In addition, there may be other views that are not fully reflected in this report and points of disagreement with its arguments and conclusions. If so, the ICAEW would like to hear them. Please contact:

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