

## Holland Takes a Different Tack on XBRL

By Neil Baker — February 26, 2008

(Embedded image moved to file: pic20537.gif) If U.S. regulators want to see how they could wisely, successfully integrate XBRL technology into financial reporting, they might benefit from a visit to the Netherlands.

While the United States—and Japan, and numerous other countries around the world—envisions XBRL as a way to bring more information to investors, Holland is taking a very different approach to the technology. There, regulators have focused on how XBRL can reduce the regulatory and paperwork burden for businesses. Enthusiasts say that is much more likely to garner the corporate support necessary to make XBRL thrive.

XBRL (eXtensible Business Reporting Language) is a technology that lets companies “tag” the data that goes into their financial reports so others can view and compare reports more easily. In the United States, the Securities and Exchange Commission seems set on mandating XBRL for corporate filings by the end of this year. Investors love the idea. Businesses, however, fear that XBRL will be just another costly mandate.

Harm Jan van Burg, who works at the Dutch Ministry of Finance and is managing his country’s move to XBRL, says the Netherlands sees things differently. Yes, he says, filing financial reports in XBRL will “revolutionize financial reporting”—but Dutch regulators want to go much farther than that. They see XBRL as a tool to cut all manner of business red tape by as much as 25 percent, which the government reckons would save companies around \$515 million a year in compliance costs.

On top of their financial accounts, Dutch companies also file returns to a host of government departments, covering areas such as tax, economic statistics, and employee payroll information. Often, they end up providing the same information more than once or have to recalculate data to fit within definitions that vary from one agency to the next. The government is backing a voluntary XBRL filing system as a solution to this mess.

The first stage of the project was to create a national XBRL taxonomy. Every government department now uses that same dictionary of core financial terms, to have a universal definition of, say, what constitutes an “asset.”

Creating the taxonomy has forced government agencies to reconsider what data they really need to collect from companies. They originally asked for the taxonomy to include 200,000 terms, but serious pruning has got that down to around 8,000. (By comparison, the taxonomy for U.S. Generally Accepted Accounting Principles, unveiled last December, has 15,000 terms.)

One result has been a more cooperative approach to government, where agencies share information among themselves rather than ask companies for it repeatedly, van Burg says. The taxonomy has also made it less likely that a company might accidentally file the wrong information. That minimizes an important risk for a business, while helping to ensure that government information is more accurate.

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-- Harm Jan van Burg, Project Director of Dutch Taxonomy Project, Dutch Ministry of Finance. --

The next stage of the project is to get companies to use the taxonomy and start filing returns in XBRL. Progress here has been slower than expected. The original idea was that companies would start to file XBRL reports in 2007; only about 100 took the option. The Finance Ministry created a gateway infrastructure to handle millions of reports, but “what’s actually lagging behind at the moment is filing,” van Burg admits.

He cites two principal problems: a lack of accounting software that can handle XBRL, and an auditing industry that has not shown much enthusiasm yet for the government’s XBRL vision. Audit firms will need to invest in the necessary technology and change the way they work, van Burg says: “This is a good thing, but also complicated.”

Van Burg says the government’s XBRL gateway had received “practically zero” filings as of mid-February. He is quick to add that such low numbers are not surprising, since most Dutch companies don’t file their returns until later in the year. He predicts 2.5 million returns by the end of 2008—“less than we wanted,” he says, but on pace to achieve a goal of at least 10 million a year by 2010.

### Wooing the Masses

To reach that 10 million number, around half of all companies registered in the Netherlands will have to file under XBRL. But the XBRL filing program is entirely voluntary, so the government’s job is to “create a regulatory situation where businesses can be as efficient as possible” and entice companies to file XBRL-tagged statements on their own, van Burg says. Businesses will always have the choice to keep using their old reporting systems.

Van Burg is confident that XBRL filings will flow because the business case is so strong—which, he contends, is not the case in the United States. The SEC’s approach to XBRL relies too much on what he calls “filing in a single situation,” where companies file XBRL statements to the SEC but nowhere else. The business case would be much stronger if not only the SEC accepted XBRL, but also the IRS and other institutions that want financial information,” he says.

Van Burg sees other weaknesses in the U.S. approach. The XBRL taxonomy under development for U.S. Generally Accepted Accounting Principles is too complicated, he says, and there is still a lack of XBRL-enabled accounting software. He contends that the XBRL community has put too much emphasis on how the data will be used and not enough on getting it produced in the first place. “The U.S. needs to concentrate very hard now on the accounting software market so that it can create XBRL reports,” he says. “Until that happens on a large scale, XBRL will never be big.”

Yet it’s not entirely clear that the Netherlands’ vision for XBRL will succeed either. The country’s business community is only lukewarm to the idea. Janny Kamp, a spokesman for the Confederation of Netherlands Industry and Employers, says the group “sees possibilities in the use of XBRL” to administration costs, but only agreed to support the project after receiving promises from audit firms that they would pass on the efficiency benefits to their clients. The confederation also demanded that there would be no extra reporting obligations and no requirement to use XBRL.

## GOING DUTCH

Below is an excerpt from the report, “Reducing Administrative Burdens Through Standardization, the Creation of the Dutch Taxonomy.”

### 4.6 Best Practices

The best practices mentioned below have no guarantee for success as they derive from the Dutch situation. In the Dutch situation the development of the taxonomy was initiated by the Dutch government. In other countries the banking sector or regulators are often leading parties. Historical, cultural or factual circumstances can influence the appropriate approach in specific countries or situations.

Nevertheless we like to share some of our best practices:

- Timing, planning and speed is crucial.
- Build trust by realising goals and milestones in time.
- Combine efforts if possible.
- Cooperate through mutual benefits.

- Be transparent.
- Do instead of talk.
- Obtain sufficient (political) pressure.
- Select the relevant chains.
- Use business criteria (cost reduction / better services).
- Let the viewpoint (and the processes) of the companies be leading.
- Design a modular taxonomy.
- Manage expectations.
- Do not forget the exchange processes and corresponding infrastructure.
- Do not underestimate maintenance.
- No real standardization without administrative support / commitment.
- Reserve time for education.
- And finally it is not an easy job, but a rewarding one.

Source

(Embedded image moved to file, pic21548.gif)The Dutch Taxonomy Project.

Jan Pasmooij of the Dutch accounting association Royal NIVRA admits that the business community has been slow to embrace XBRL. Trade bodies were skeptical of the estimated cost savings published at the start of the project, but are on board now, he says. Listed companies, however, “are not interested at the moment.”

Pasmooij, who wrote the original proposal for the Dutch XBRL model back in 2003, says listed companies eventually will use the technology because it will help their internal reporting. Small and medium-sized companies, meanwhile, are not likely to deal with XBRL themselves, because they outsource the preparation of their accounts and tax returns to accounting firms. That makes such firms an important audience to win over.

XBRL will play an important part in the future of audit firms, “but it will take some time,” Pasmooij says. “The accounting and audit professions don’t like change. It is not easy to convince them.”

Pasmooij gives the example of tax filings. In 2000, the government made it possible for companies to file their tax returns electronically, but few accounting firms used this option. It was not until electronic filing became mandatory (using a system not based on XBRL) that firms invested.

That raises a question: Should the government have to make XBRL mandatory, if it wants it to be a success? “When you talk with the politicians they say no,” Pasmooij says, “but I think it will start voluntarily,

we will learn and fine-tune, and then for the future it will be mandatory.” Over the long term, it’s not economically efficient for the government to run two parallel systems—one using XBRL and one still filing on paper, he says.

“For us, 2008 is very important,” Pasmooij adds. “The proof of the pudding is in the eating. We have the taxonomy available and an infrastructure to support the electronic exchange of information. Now it is up to the accounting and tax firms to start working with XBRL.”

For more information about the Dutch XBRL project, including FAQs, presentations, and detailed background papers, go to <http://www.xbrl-ntp.nl/english>.