

XBRL and its Impact on Internationalization of Iran Capital Market

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Abstract

Financial reporting as the final result of accounting information system for financial information users in private and state sectors is of great importance in terms of presenting financial condition and acting the role of management superintendence. Investors as the most important users of the information need transparent, complete and correct information. On the other hand, progress of IT and ITC made electronic financial reporting a necessity. The electronic reporting models are diverse in ITC knowledge field but extensible business reporting model that is called in accounting as "XBRL" could meet great part of these requirements and can be applied as efficient tool of providing, exchanging and analyzing financial information in important capital markets all over the world as obligatory or voluntarily. The present study evaluates XBRL and its impact on internalization of capital market in Iran. Based on the policies of Iranian government regarding the development of capital market and the attempt to absorb foreign capital in capital market in Iran, an efficient market with rapid, exact and reliable information systems is required. The reporting system can fulfill the government policies in interaction with the world capital markets and investors.

Keywords: XBRL, Financial reporting, Capital market

Introduction

Financial reporting as the final result of accounting information system for financial information users in private and state sector is of great importance in terms of presenting financial situation and in the role of management superintendence.

Rapid progress in computer and IT changed business methods and information dissemination considerably and organizations attempted to present financial information in internet to increase the access of the users to information and effective and timely exchange of information between the providers and beneficiaries. This issue is limited to cut, paste or mere copying and due to the lack of public and shared accepted forms to present information; it is costly and full of errors. Thus, Extensible Business Reporting Language (XBRL) was developed to overcome these limitations (Nikbakht, 2012).

XBRL is a language to define, generate, exchange and distribute financial reporting (Oppenheim, 2008).

XBRL is the acronym for Extensible Business Reporting Language and complement internet language HTML in financial field. Simply, it is an instrument that can be used by the generator of information to enter information to system and it defines the levels to which entering information belongs. In others words, this language at wide scale of details indicates the nature of each of entered system as income, cost, asset or debt (Yarifard et al., 2013). Thus, users easily can extract or change the data with some tags as cash flow and analyze them by applied analytical software. XBRL as an efficient instrument of providing, exchanging and analyzing financial information in important capital markets in the world as by obligatory or voluntarily application.

By launching Extensible Business Reporting Language (XBRL), the analysis, efficiency and depth of capital market are increased and information affects the prices. In addition, information exchange paves the way for internationalization of capital market. Thus, Iran government policies regarding the development of capital market via article 44 of constitution and the efforts to absorb foreign capital in Iran capital market required an

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efficient market with rapid, exact and reliable information systems. The reporting system can help the fulfillment of government policies in interaction with capital markets in the world and absorbing foreign investors (Arab Mazar Yazdi, 2004).

Statement of the problem and significance of the study

Today, the most important challenge of financial reporting is presenting appropriate and timely information with favorite formats for various users and controlling the costs of meeting these demands. The fact that to what extent one movement is successful affects the relationship between the investors and companies directly (Ahmadpour et al., 2009). The advent of internet namely World Wide Web developed information electronically. The first event in electronic reporting is providing financial reports as annual reports with electronic formats as PDF and HTML. The disadvantage of these documents was the lack of automatic searching. The users to analyze the information should search the data as text or multimedia with human eyes and intelligent searching and data exchange were not possible. Despite the easy presentation of information on internet, the lack of general and understandable accepted formats for business information exchange inflicted considerable costs. Another important problem is human mistake in data entry to computer for re-use in other software. To cope with this problem, Extensible Business Reporting Language (XBRL) was developed to be used as a reporting standard of the companies in internet (Bergeron et al., 2003). By XBRL, the companies reduce their costs and make the collecting and reporting of financial information efficient and it also provides capital absorption and working with various languages and other accounting standards (Nikumaram and Shekari, 2010). Investors want more profit and for appropriate decision making for profitable investments, they need transparent, cheap and timely information. Capital market by having information with such features causes absorption of local and foreign capital and to fulfill this goal, XBRL can be used. XBRL increases data analysis level and information in capital market and the more the level, the more the efficiency and depth of market and information is displayed rapidly and information exchange is improved profoundly and internationalization of financial market is facilitated.

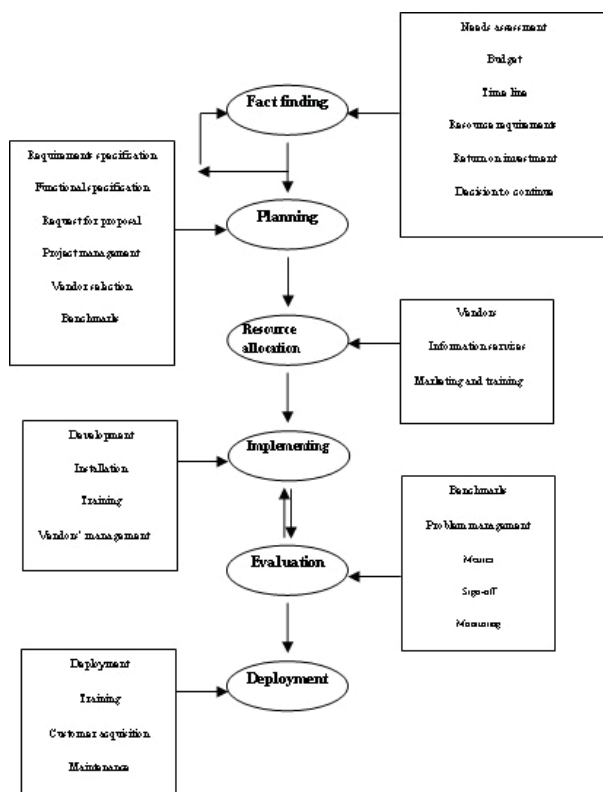
XBRL history

The short history of Extensible Business Reporting Language (XBRL) is traced back to 1998. In April 1998, Charles Hoffman, a CPA with the firm Knight Vale and Gregory in Tacoma of Washington investigated XML for the electronic reporting of financial information. Hoffman began developing prototypes of financial statements and audit schedules using XML. In July 1998, Charles Hoffman informed Wayne Harding, Chairman of the AICPA High Tech Task Force, about the potential of using XML in financial reporting. On September 31, 1998, the model of Charles Hoffman with Wayne Harding convinced AICPA that XML is of great importance in accounting profession. The AICPA requested a business plan be prepared for XML-based financial statements. The business plan was completed on June 25, 1999 and the project was named XFRML. The name of the organization was officially changed from XFRML to the XBRL on April 6, 2000. In 2000, US accountant association proposed to form a committee to supervise on application in 2000 and XBRL of reporting standard in the companies was created. The information of some of the companies was revised based on it as a prototype to propose its capabilities as a new solution. Since December 2001 that XBRL is used in financial reporting of the companies, the companies volunteer in EDGAR to use this language presented their financial reports in this format in the site. Some of the information was free and other beneficiaries were paying a little to see the information. More efforts were made to have general taxonomies of XBRL and after primary acceptance of financial information; it was used in this language. The first proposed text for accounting international standard was issued after the considerable attempts of the members in April 2002. New York stock exchange on December 2002 approved a standard language to issue trading information and asked all to use this standard to receive the reports of the companies and its application was obligatory since 2005. This standard was officially used in New York stock market since 2004. It can be said that in development strategy document of USA capital market during 2004-2009, using standard tagged data like XBRL was considered as one of the main sections. In October 2004, European stock committee approved that since 2005, standard format should be used in issuing companies reports. Thus, the budget equal to 1.2 million dollars in Eu-

ropean consortium was approved for using financial system standard with the aim of exact supervision on the companies. Today, this standard covers all the financial grounds including the information of companies as stock licenses to companies, board of directors reports, accounting and auditing reports, trading information, stock holders and assembly and other information including broker, market actors information, investment information, bank and saving and insurance information were considered. This standard was rapidly applied in all over Europe. This standard is as important that ITAC consults institution in a report issued in September 2005 considered XBRL as one of ten best technologies in the world (Hunton, 2002).

Implementation of XBRL

Implementing an XBRL-based reporting system can be viewed as a six step process that involves fact finding, planning, resource allocation, implementation, evaluation and deployment as depicted in Figure below (Seyed Nejad and Yusefnejad, 2008):



General features of XBRL and its advantages

1- XBRL is not extension of accepted standards of accounting but presents financial reports of the companies in electronic format based on the

definite aspects of these standards and principles in order that all people can use it.

2- XBRL enables the users to have high comparative and analytical power and in this system, the reports of a company can be compared with the previous reports of that company and the reports of other industry companies at the same time.

3- XBRL provides more, rapid, easy and transparent access to financial information for the users.

4- Using this system leads to considerable reduction of accounting and financial errors in presenting financial information and reports.

5- It reduces financial information costs and increases information speed.

6- Similar reporting of financial statements and helping more the users of financial statements is one of the goals of using XBRL system.

7- XBRL provides using financial reporting in different languages to the users.

8- One of the unique features of XBRL is that by putting the marker on financial statement items, definitions of accounting of these items in accordance with accounting standards are shown. In other words, the data are self-explanatory. The people who are not familiar with the existing financial statements and items in these statements, by this system, they get familiar with the definitions. For example by putting the mark on Net income (loss), the definition of net income and loss of accounting is shown for the user.

9- XBRL creates an opportunity for globalization and internalization of capital markets and paved the way for entering the companies into the international markets.

Also, using XBRL provide more opportunity for information analysis. The information users instead of dedicating their time to provide information and collect data, they focus on information analysis. For example, in banking industry, XBRL is useful and the bank rapidly can achieve the required information of the business unit via XBRL and obtain transparent and rapid information.

The role of XBRL in transferring information among the companies

XBRL by omitting extra structures, transferring information between business units is shown in the following chart (F .Seyed Nejad, S. Yusefnejad. 2008).

Using XBRL in accounting operation

XBRL was not considered more in the past but now it is supported by International Accounting

Standards Board (IASB). Today, this language is mostly applied in USA. By increasing use of XBRL, reliable service development is done by accounting. When financial information is entered by the aid of XBRL, any information is marked as some signs. For example, Figure 3 is a sample of cost of the sold goods of a company:

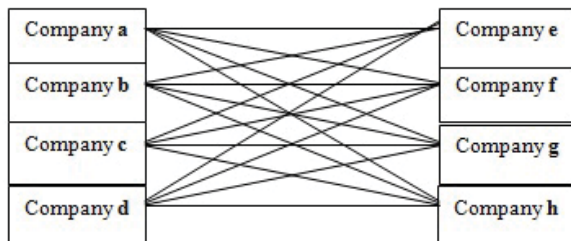


Figure 1. Traditional form of presenting information

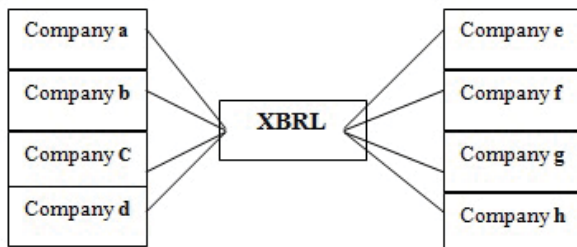


Figure 2. Presenting XBRL-based information

XBRL and accounting standards

XBRL can use accepted financial standards to change financial information being presented by various technologies including internet. For many years, US certified accountants association with the collaboration of financial and international organizations developed the special types of this language. The information is entered once and it

is presented by this language in any form. By creating a standard language between the companies, auditors and users of financial information, this language increases the availability, reliability and usefulness of financial statements. XBRL electronically encompasses special aspects of accounting standards to make them understandable in an organized form for computer programs and people. XBRL doesn't define the concepts of financial reporting or financial accounting and it encompasses existing accounting concepts as electronically. XBRL by providing electronic financial statements improves reporting. In long term, XBRL should facilitate financial reporting changes.

The advantages of XBRL for the investors and the companies listed in TSE

- The information cost is reduced and financial information is integrated rapidly and carefully as the companies instead of focusing on collection, completion and preparation of information focus on prediction, rapid and effective decision making.
- Timeliness of information for decision making, increases interaction with investors, facilitation of information exchange of the companies with stock market and information exchange in standard and integrated level.
- Increasing the efficiency of stock market, improving information transparency, alignment with financial world markets and increase of competitive value of information are important advantages of XBRL at stock market level.
- XBRL for other sections as accountants, auditors, banks and credit providers, software companies and financial information processing companies provides uniform information for analysis, comparison and optimization.

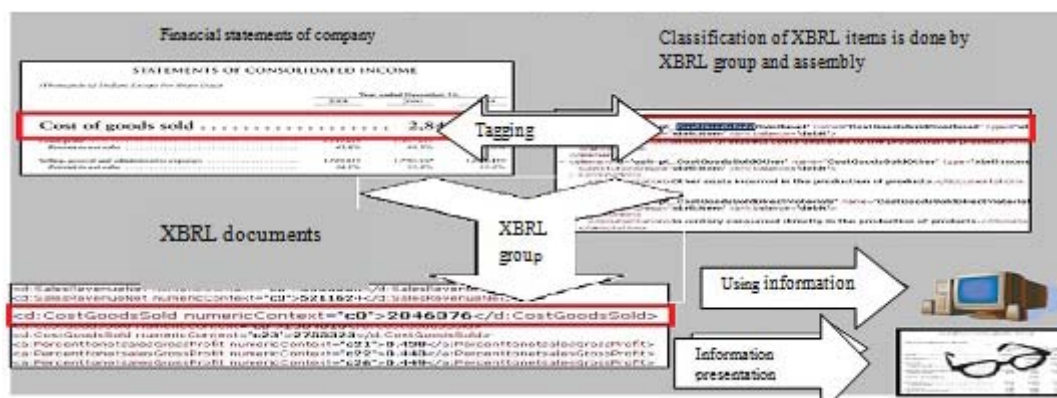


Figure 3. The stages and method of working with XBRL (www.xbrl.org)

Limitations and weaknesses of implementing XBRL

Implementing XBRL is not perfect. When XBRL software is performed, if there is no reliable support in the company, the company needs program designers during update and technical support. It can be said that designing XBRL program by designing companies is not a problem by itself, the problem is raised in technical support of XBRL, and all the probabilities are considered. In such condition, having access to primary designers of XBRL is difficult. One of the major problems of this program is latent costs in the plan. To reduce the costs of presenting financial statements, working with the software should be shown in practice to all people. This is costly and it needs adequate time for implementation.

Conclusion

Web-based business reporting named financial reporting in recent years is taken into attention. The movement to convergence of world wide of accounting standards, public call for more transparency, creating difficult rules and emergence of new technologies created the fundamental changes in financial reporting. XBRL reduced the information providing cost and financial integration is done rapidly and carefully as the companies instead of focusing on collection, completion and preparation of information focus on prediction, rapid and effective decision making. Also, timely information for decision making is provided, increase of interaction with investors, facilitation of information exchange of the companies with stock market and increasing the efficiency of stock market, improving information transparency, alignment with financial world markets and increase of competitive value of information are important advantages. Based on the advantages, there are also some problems in this regard and it can be the unfamiliarity of managers and financial experts with this system that led to the lack of presenting reports in this language, but with the emergence of new technologies and emphasis on the advantages of its implementation in capital market, we should not ignore extensible financial reporting language.

The recommendations of the study

- Training XBRL in academic and professional environments
- XBRL by increasing the planning power of

mangers and presenting timely information avoids ambiguity and confusion of financial managers in evaluation of present and future events and this indicates the effect of this language in financial reports with relevance feature. This language based on the comprehensive and valid knowledge and based on new technologies presents highly reliable information to the users. The stable information with high transparency has comparison feature. It is not appropriate that in post modern era and with the emergence of new technologies with emphasis on the advantages of this language, we ignore extensive financial reporting language.

- Based on general policy of Islamic republic of Iran in absorption of foreign investment, entrance of foreign companies to the capital market of Iran and entrance of Iranian companies in capital markets of the world are important and various countries already accepted international standards or plan to apply it in future. It seems that it is one of the success tools of government in achieving the uniformity of financial reporting standards in Iran with other countries. Auditing organization is responsible to make accounting standards in Iran. Before any action in starting the work on XBRL application in Iran, key decision is taken whether audit organization as the authority of making accounting standards in Iran wants to move in line with other countries in the world to accept international standards or attempts to make national standards.

- It is recommended that XBRL is used in listed companies in the first and second markets as gradually and voluntarily. This is to make the companies familiar with its probable advantages and disadvantage. On the other hand, the experiences of this test period can be useful to improve the system before taking the decision of obligatory application of XBRL. After this test period and the study of the results, they can make XBRL prevalent and its application should be obligatory for all the companies.

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