Global Adoption XBRL
Huelva, Spain
October 14, 2004

Liv Watson,
Vice President of XBRL Strategies
Co-Chair of the ISC Jurisdiction Development Committee
EDGAR Online Inc

“When the Business is Information”

Agenda

1. Introduction
2. XBRL Around the World
3. FDIC and Basel II and XBRL
4. Conclusion
Forester Research Group - Highlights

Interviews:
- Workers spend 25% looking for information
- Return-on-investment calculations are rare

Analysis:
- Companies pay workers $404 Billion to find information
- Financial and professional services firms will rush to enterprise portals

"The significant problems we face cannot be solved at the same level of thinking we were at when we created them."

- Albert Einstein (1879-1955)
XBRL is similar to the U.P.C Seal

“We showed that it could be done on a massive scale, that cooperation without antitrust implications was possible for the common good, and that business didn’t need the government to shove it in the right direction”

— Alan Haberman, Chairman, Symbol Standardization Subcommittee

“I think the industry has sold itself on a program that offers so little return that it simply won’t be worth the trouble and expense”

— A Midwest Chain Executive, 1975

A standard business reporting language should meet these needs

- Timeliness of Data
- Redundancy, Inconsistency
- Quality of Data
- Changing requirements
- Cost of Compliance
- A media-independent format for all inbound and outbound data
- Common data dictionary shared across agencies, institutions, jurisdictions
- Identical validation ‘rules’ delivered to all reporting institutions
- Software able to use new and changing data definitions within forms
- Open, royalty free standard for any software platform
Five Years Ago …October 14, 1999

XBRL began with the idea of a single individual - Charlie Hoffman, from a small CPA firm in a small town …

… and 13 Sponsoring Companies

Agenda

1. XBRL and Banking
2. XBRL Around the World
3. FDIC and Basel II and XBRL
4. Conclusion
European Commission approves grant to accelerate use of XBRL in Europe.

Brussels, 24 June 2004 – The European Commission has signed a €1 million contract with the XBRL in Europe Consortium to accelerate the development and adoption of XBRL in the European Union.
Transforming Business Reporting

Bringing Global Investors to China

Agenda

1. Introduction
2. XBRL Around the World
3. FDIC and Basel II and XBRL
4. Conclusion
Risk Management Data Collection Challenges

- Timeliness of data acquisition and distribution
- Redundant OR inconsistent data definitions
- Changing data collection requirements
- Quality of data acquired from banks
- Cost of Compliance
- Impacts
  - Deposit insurance and other credit extension decisions
  - Monetary policymaking
  - Banks and Bank Trade Associations
  - Software Vendors

Source: www.xbrl.org

Drivers: Monitoring Bank Performance

- One does not have to look much beyond the current economic climate to gain a perspective on the potential impact of a more risk sensitive capital framework.
  - For example, the U.S high yield default rate reached 16.4 percent in 2002 with nearly $110 billion in defaulted volume, and corporate downgrades outstripped upgrades on global senior debt in 2002 by a factor of nine to one.
- These factors move the risk-based capital debate rapidly beyond theory toward practical application as banks look to allocate their capital in the most efficient manner.
FDIC Vision – “Real Time” Data

FDIC Chairman Donald E. Powell outlined a vision for the FDIC:

.. “including a new program to offer real-time bank Call Report data.”

Who is the FDIC?

• The Federal Deposit Insurance Corporation was created in 1933 to provide insurance protection for depositors if their bank fails.
• Federal bank regulators collect, process and distribute quarterly and annual bank financial reports.
About the FDIC

• FDIC preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for up to $100,000; by identifying, monitoring and addressing risks to the deposit insurance funds; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

• FDIC was created in 1933 in response to the thousands of bank failures that occurred in the 1920s and early 1930s.

XBRL for Banking Regulatory Filings

June 17, 2003 - The Federal Financial Institutions Examination Council (FFIEC) today announced the first step in an interagency effort to modernize and streamline how federal bank regulators collect, process and distribute quarterly bank financial reports.

The new banking process, which will be phased in through 2004, will consolidate the collection, editing, and access of quarterly bank financial reports with a central data repository, which will be accessible to banking regulators. The data will be available electronically to authorized users, and the process will be more efficient and reduce the data burden on the industry, while providing data to the public in a timely and reliable manner.

Initial system development and pilot projects will take place over the next 18 months. During that time, the banks’ current financial reports will be transformed into a new format, which will be inserted into a central data repository. The transformation will result in more efficient data validation of the data, and generate for the industry the new central data repository. The final reports are expected to be filed under the new system by late 2004.
Unisys Team – Prime Contractor

- FDIC Call Report Process

Vendors

FDIC
FRB
OCC
Public

Valid Call Data

 EDGAR Online

Success happens when the right companies bring their expertise to the solution.

FDIC Call Report Process
Basel II – Introduction

• The new Basel Capital accord is designed to replace the existing capital adequacy regime for banks and other financial institutions
• The new Basel Capital accord is divided into three pillars
  – Pillar I: Minimum Capital Requirements
    • Mainly focused on credit and operational risk
  – Pillar II: Supervisory Review
    • Mainly focused on the soundness of the risk management process
  – Pillar III: Market discipline
    • *Mainly focused in setting out a framework for public disclosures*

Basel II information flow
XBRLise the process

What About the SEC?
SEC’s Strategic Plan

Accessibility and Usability of Registrant Filings:
The SEC will explore the use of “tagged data” formats such as XBRL for financial disclosure, streamline forms and filing processes for registrants, and improve the internal processes and analytical tools used by staff to review filings.

2004-2009 Strategic Plan

SEC Public Announcement

The Commission will seek public comment on alternative methods and the costs and benefits associated with tagged data. In addition, the Commission will consider a staff proposal to accept voluntary supplemental filings of financial data using eXtensible Business Reporting Language (XBRL). This voluntary program would enable the Commission staff to further investigate the types of data tagging currently available in the marketplace. The Commission may propose a rule this fall that would, if adopted, establish the voluntary program beginning with the 2004 calendar year-end reporting season.

SEC Chairman William H. Donaldson said: “The initiative is part of the Commission’s broader effort to improve the quality of information available to investors. By exploring the use of tagged data, we can streamline and improve the SEC’s filing and disclosure practices through the use of new data formats, including tagged data, that the Commission can improve from content to organization and analysis — improvements that will benefit everyone who utilizes the SEC’s public disclosure process.”
SEC Proposed Rule
September 27, 2004

• Proposed Rule to Establish Voluntary Program for Reporting Financial Information of Edgar Using XBRL.
  – 30 day comment period
• Concept Release
  – 30 day comment period

SEC Issues for Discussion

• Is XBRL appropriate?
• Should they permit volunteers to furnish financial statements in XBRL format if they omit the related notes?
• Should they allow volunteers to furnish in XBRL format some but not all financial statements (e.g., only a balance sheet)?
• Should they allow tagging for other items, such as Management’s Discussion and Analysis or Management’s Discussion of Fund Performance that are part of US GAAP existing taxonomies?
SEC Issues for Discussion

• Are the current XBRL US standard taxonomies sufficiently developed?
• Are taxonomy builder software in the marketplace sufficiently developed that volunteers would be able to create extensions as needed?
• What specific criteria should be applied to determine the adequacy of the standard taxonomies?

SEC Issues for Discussion

• Should the SEC require that the XBRL filings to represent a legal document or a supplementary filing?
• Should the SEC allow volunteers to present less detailed financial information in their XBRL data?
• Should the SEC provide via their website an application for a standard template to render the XBRL information in human readable form?
• What are the advantages and disadvantages of requiring certification and attestation of the XBRL instance document and should it be required for the pilot project?
SEC Issues for Discussion

• Should the XBRL data be considered filed or furnished?
• How should the SEC determine how useful the tagged data is to users of the information?
• What effect will tagged data have on the ability to use and analyze registrants' disclosure?
• What should the Commission's role be in taxonomy development? How could the taxonomies be assessed to determine whether they include the disclosures required by GAAP and Commission rules?

XBRL Value Proposition

Transparency and the U.S. Securities and Exchange Commission (SEC)

The SEC is driving for reporting transparency. In many organizations, each step along the path to the final external reports clouds the view of information back to the original business event (inconsistent account definitions, incomplete GL reconciliation’s, management adjustments, top side entries, etc.)
The Big Question:

"Is XBRL a Disruptive Technology to the Financial Intermediary Market?"

- **Disruptive technologies:**
  - Products based on disruptive technologies are typically **cheaper to produce, simpler, smaller, better performing**, and, frequently, **more convenient to use**.

Professor Clayton Christensen of Harvard Business School
*The Innovator's Dilemma.*
Analytical Scoring Tool of the Future

Exploits both qualitative and quantitative data

- **Purpose** – electronically examine filing information based on user defined parameters
- **Benefit** – spend more time ranking, analyzing, acting – spend less time identifying problems

Sample Data Sets

Quantitative
- Financials
- Institutional Ownership
- IPO

Qualitative
- Corporate Governance
- 8-K
- Text Search News
- Text Search Filings
Quantitative Data – Examples

• Current ratio down at least 20% vis a vis last year
• Cash flow from operations down at least 10% vis a vis last year
• Profit margin is less than the industry average by 30% or more
• Revenue deviates by more than 30% of a projected linear regression point

Qualitative Data – Examples

• CEO and/or CFO didn’t sign 906
• Percent of outside directors outside desirable limits
  – On Board
  – On Audit Committee
• Audit Committee weaknesses
  – Fewer meetings than median company last year
  – Size of committee below industry median
• Filed 8-K Item 4 (change of accountant)
• “Bill and hold” within 10 words of “revenue” or “transaction”
Real Time Scoring Engine
Scoring History Retained and Charted
 Allows Back Testing of Models

New Application Features
“Artificial Intelligent Tools”

1. Collect Data: (by bank or segment) based on key features such as outstanding loans, current debt level, number of dept defaults.
2. Identify Patterns: (using mathematical and rule based functions) based on key features such as outstanding loans, current debt level, or identify relevant data associations.
3. Classify Individual Banks: (by whether their characteristics match profile of target segments).
4. Continuously refresh data to improve risk analysis.
5. Monitor the health of individual banks as well as the health of the industry as a whole.
Financial Data Summary

<table>
<thead>
<tr>
<th>Pfizer Inc</th>
<th>2001</th>
<th>2000</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$12.73</td>
<td>$12.20</td>
<td>4.3</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$12.31</td>
<td>$12.36</td>
<td>0.5</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$11.78</td>
<td>$10.76</td>
<td>9.5</td>
</tr>
<tr>
<td>Net Income</td>
<td>$10.36</td>
<td>$8.31</td>
<td>25.5</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>$11.87</td>
<td>$10.65</td>
<td>11.5</td>
</tr>
<tr>
<td>Net Receivables</td>
<td>$1.45</td>
<td>$1.52</td>
<td>-4.6</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$64.34</td>
<td>$53.92</td>
<td>20.1</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$11.89</td>
<td>$10.17</td>
<td>16.9</td>
</tr>
<tr>
<td>Shareholders' Equity</td>
<td>$50.45</td>
<td>$43.75</td>
<td>15.7</td>
</tr>
<tr>
<td>Cash Flow from Operations</td>
<td>$10.84</td>
<td>$10.09</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Report Findings

- Pfizer’s Cost of Revenue Turnover Ratio (Revenue/Cost of Goods) is in the 95 percentile and this ratio was detected as a "rare exception" and is potentially misleading.

- Pfizer’s 2002 Revenues increased by $3.169 billion and gross profit increased $2.947 billion, as compared to total revenues and total gross profits increases of $4.957 billion and loss of $29 million respectively for five competitors: Merck, Wyeth, Lilly, Schering-Plough, and Bristol Myers Squibb.

- Pfizer’s receivables are in the 65 percentile and are not a concern, but a seven-day increase in receivables equals a $621 million revenue increase. This increase gave earnings a boost and may represent aggressive revenue recognition practices.
### Financial Data Summary

#### Financial Summary 2002 from 10-K (Excerpts)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>12,773</td>
<td>12,500</td>
<td>2.2%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>3,318</td>
<td>3,180</td>
<td>7.1%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>2,902</td>
<td>2,800</td>
<td>3.6%</td>
</tr>
<tr>
<td>Net Income</td>
<td>2,858</td>
<td>2,720</td>
<td>5.0%</td>
</tr>
<tr>
<td>Cash and Equivalents</td>
<td>12,300</td>
<td>12,700</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>15,700</td>
<td>15,600</td>
<td>0.6%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>2,700</td>
<td>2,600</td>
<td>3.8%</td>
</tr>
<tr>
<td>Shareholders' Equity</td>
<td>13,000</td>
<td>13,000</td>
<td>0.0%</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>12,300</td>
<td>12,700</td>
<td>-3.1%</td>
</tr>
</tbody>
</table>

- Pfizer’s profit margin of 28.2% for 2002 compares to an average profit margin of 17.3% for the five examined competitors: Merck, Wyeth, Lilly, Schering-Plough, and Bristol-Myers Squibb. Profit margin improvement for Pfizer is not likely to drive future earnings growth.

- Pfizer’s future earnings growth may be dependent on an aggressive acquisition and divestiture business strategy, which typically generates write-offs and reserves.

- Pfizer may have a quality of earnings risk that warrants further investigation.

#### Financial Valuation Implications 2002 Financial Results (Excerpts)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pfizer Inc</td>
<td>31,567</td>
<td>31,587</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Consolidated</td>
<td>34,567</td>
<td>34,959</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Five Competitors</td>
<td>34,567</td>
<td>34,959</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>

*7 Days Sales/Outstanding Increase:* [Data]

---

**Image:** [Image of a person looking at a computer screen with financial data.]
In Conclusion

- Adoption of XBRL will bring democratization of financial markets.
- XBRL and other XML derivative languages are going to change information generation and distribution.
- The information intermediation industry will have to change consequently bringing greater transparency to financial Information.
November 16 -17, 2004

10th XBRL International Conference
Financial reporting goes global: XBRL and IFRS working together
Sheraton Brussels Hotel & Towers, Manhattan Center, Brussels, Belgium • 16-17 November 2004
Attends Europe’s Premier Event Showcasing the Use of XBRL, an Enabling Technology for Better, Faster & Cost Effective Business Reporting

Concluding Remarks.....

Embrace
Open Source Standards
Global Adoption XBRL

Liv A. Watson

EDGAR Online Inc – Vice President of XBRL Strategies
E-mail: lwatson@edgar-online.com
Phone: +1 (203) 856.8986
Web: www.edgar-online.com