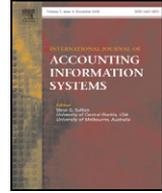




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Towards the global adoption of XBRL using International Financial Reporting Standards (IFRS)

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ABSTRACT

XBRL is a language based on XML for the electronic communication of business information. It is designed to improve the exchange, aggregation and analysis of corporate data requiring disclosure, through a unique tagging structure that provides interoperability. But, the proliferation of a multitude of XBRL taxonomies, based on different accounting principles, can risk the objectives of standardization, comparability and re-usability of the information that is sought with XBRL. It is therefore essential to develop global accounting standards as a unique foundation on which the XBRL taxonomies can be established, so that it becomes possible to compare the financial information originating from various countries. Along these lines, the International Financial Reporting Standards (IFRS-GP) taxonomy was created to establish a common ground for international firms and create a platform that would enhance the benefits of XBRL. This paper examines whether the IFRS-GP taxonomy, at its current state, adequately covers European companies' dissemination practices and strengthens the benefits of XBRL. Our results provide implications for the evaluation of the effectiveness of the IFRS-GP taxonomy and shed light on directions that may lead to the improvement of this taxonomy.

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1. Introduction

XBRL (eXtensible Business Reporting Language) is a commercial branded language, based on XML, devised with the aim of establishing standardized protocols for the transmission of accounting information through the Internet. Currently, it is being promoted by the consortium XBRL International, which groups around 450 companies and organizations committed to extending the use of a standard taxonomy globally.

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XML is a metalanguage; in other words, it represents metadata that are essentially data about other data. These metadata play a fundamental role in facilitating the search for information on the Internet. On this latter point, Alimohammadi (2003) notes that the Internet lacks the necessary structure to allow users to rapidly find the information that they need, and metadata provide a possible solution for better organizing and retrieving digital information. Accordingly, XBRL as an adaptation of XML to the business world should allow financial information to be managed more effectively and efficiently.

The principal components of XBRL are the items and the taxonomies. An item is a fact that makes reference to the entity that issues information by means of XBRL and a taxonomy is a set of elements that allows several different items of information to be represented in an XBRL document. These items can be associated with the auditing, elements of the financial statements themselves, and accounting policies. Each of these groups is included in a different taxonomy; some of them are universal in scope, while others are specific to nations or regions and allow the requirements of the accounting regulations in each environment to be represented; that is, they are in accordance with different sets of generally accepted accounting principles.¹

At first sight, these adaptations may seem an advantage, but in reality they represent an impediment for achieving the full, comprehensive expansion and application of the standard. Therefore, if the bases on which the XBRL taxonomies rest are different, users will not be able to compare the financial information corresponding to companies from several different countries. A possible solution to this problem is the development of a toolset capable of translating the financial statements prepared under a set of accounting principles into another one. Along these lines, the IASC Foundation XBRL team is developing theories and mechanisms to compare taxonomies and to signal equivalent concepts. However, this toolset is still under development (Eccles et al., 2001; Jensen and Xiao, 2001). Unless a different approach is adopted, the objectives of standardization, comparability and re-usability of information that XBRL is intended to achieve will be put at risk. It is essential to develop a set of accounting principles and standards of universal character that would make possible the comparison of the financial information originating from many different countries.

To date, the attempts at harmonization with the widest scope have been made from two perspectives: that of the European Union, orientated towards reducing the differences between the countries of this grouping, and that of the *International Accounting Standards Board* (IASB), focused more on international standardization. Combining the two perspectives, the European Union, through Ruling (CE) 1606/2002, of 19 July 2002, requires all the stock market quoted companies within its jurisdiction to prepare their consolidated accounts in accordance with the International Financial Reporting Standards (IFRS) drafted by the IASB, from the year 2005. Thus, the European Commission has abandoned the idea of issuing accounting standards, and has decided instead to support those issued by the IASB.² Nevertheless, it reserves control over the application of the IFRS in the EU context by means of the mechanism of *endorsement* or acceptance, relying for this on the advice provided by the European Financial Reporting Advisory Group (EFRAG) (Gonzalo, 2003; Giner, 2003).

Therefore, compliance with the IFRS, which represent solutions reached by world-wide consensus, is obligatory for all the most important groups of companies. In addition, it can be discovered from these standards where gaps currently exist, and what route should be taken in the future, thanks to their continuous evolution.

But it is not only the European Union that has shown its support for the standards issued by the IASB; many other countries have decided to adopt them. The reception and uptake has been so strong that even the Financial Accounting Standards Board (FASB) itself, the issuing body of the generally accepted accounting principles in the United States (US GAAP) has recognized the need to bring their principles into

¹ As examples, the cases of Germany, New Zealand, Canada, Spain or Korea can be cited, among others; in these countries, taxonomies were devised based on the generally accepted accounting principles of each country.

² To avoid the confusion that can arise with the terms IFRS and IAS, it is necessary to make clear that, in 2001, the IASC (International Accounting Standards Committee) changed its operating structure and re-named itself the IASB (International Accounting Standards Board). This body accepted all the International Accounting Standards (IAS) issued by its predecessor, and adopted the nomenclature International Financial Reporting Standards (IFRS) for future standards. In this study, as in that of Giner (2003), the expression IFRS will be used to refer to the set of regulations and standards comprising the IAS, the new IFRS, and the interpretations of both. However, the term IAS will continue to be used when dealing with a particular standard that had been drafted prior to the constitution of the IASB.

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