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XBRL transforms how companies, investors, and regulators use financial data: case studies (Part 2)

By Dimensions staff and contributors

Both the SEC and the major providers of financial information—such as Bloomberg Global Data (see *Dimensions*, July 2017)—are using XBRL-tagged financial-statement data. This reinforces the need for every filer to ensure that its XBRL tagging and structuring are accurate so investors will understand its financial story properly.

Investment research firms and Investors are also using XBRL data. For example, New Constructs, an independent research firm with updated reports on 3,000 stocks, 450 ETFs, and 7,000 mutual funds, takes XBRL data directly from the financial-statement data sets at the SEC website and uses it to validate a portion of the financial information that its proprietary technology collects automatically.

Product innovators have also developed XBRL-based tools that deliver data on platforms from which investors and executives can parse and analyze the information for strategic research. The SEC holds contracts with two of these vendors, idaciti and Calcbench. Part 1 of this series, in the June 2017 issue of *Dimensions*, presented case studies from idaciti illustrating the powerful efficiency that XBRL-tagged financial data provides for companies. As we discuss here in Part 2, Calcbench offers a set of interactive features for obtaining, parsing, and analyzing XBRL-tagged financial data.

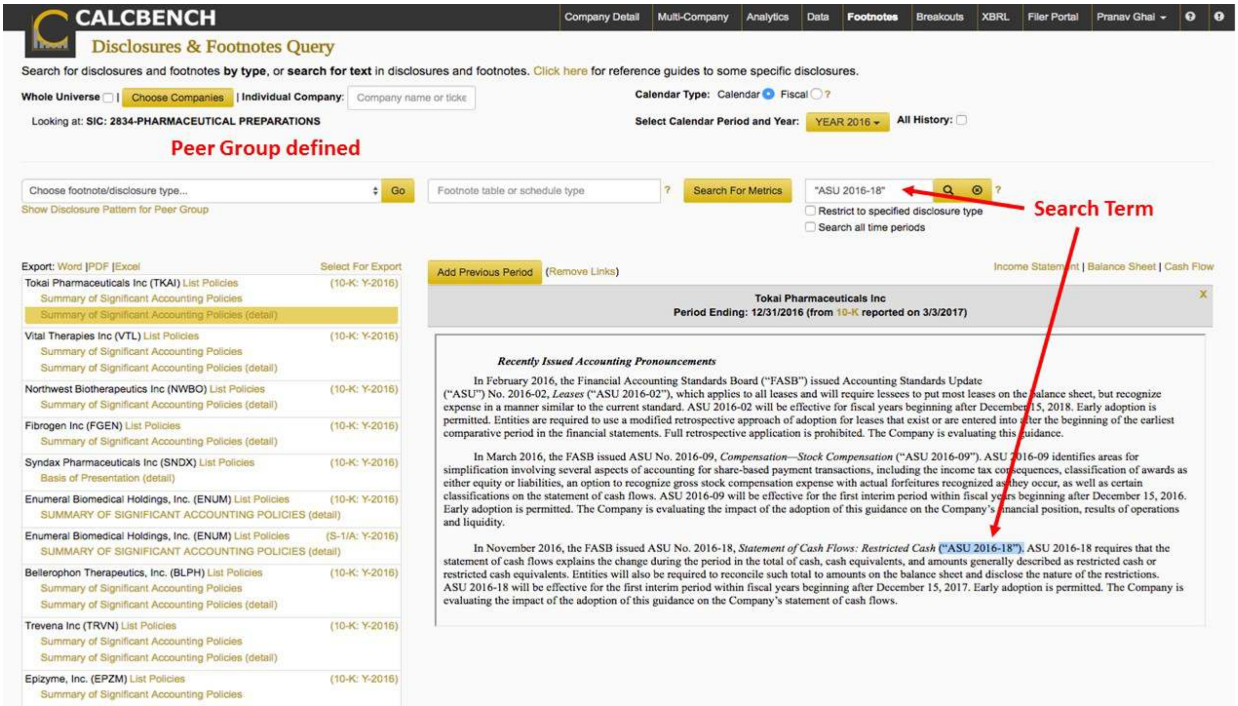
Calcbench's lengthy list of users includes analysts, auditors, academics, and CFOs. According to CEO Pranav Ghai, the firm's analytical features give these professionals new ways to analyze and compare companies' financials quickly. (To see examples as well as analysis guides and industry reports using Calcbench's tools, click here and here.) The following case study, developed by Calcbench with our thanks and input, illustrates one way in which a company's strategic use of XBRL financial data saved not only time but significant cost.

CASE STUDY: How XBRL helps companies comply with FASB Accounting Standards Updates

Calcbench's client, a public company, was trying to implement *ASU 2016-18: Restricted Cash*, an accounting standards update issued by the FASB addressing how filers report statements of cash flows (FASB Topic 230). The updated rule requires companies to report restricted cash or cash equivalents in the cash balances that they report on the statement. However, the text of ASU 2016-18 does not define the terms *restricted cash* and *restricted cash equivalent*. The client wondered how peer companies present these items in their cashflow statements.

Structured data saved time and thousands of dollars

Using XBRL-based tools provided by Calcbench, the client's SEC-reporting team quickly found a relevant set of filers, as well as which XBRL tags those filers were using for *restricted cash* and how they presented *restricted cash* in their financial statements.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Tokai Pharmaceuticals Inc (TKAI) List Policies (10-K: Y-2016)
Summary of Significant Accounting Policies
Summary of Significant Accounting Policies (detail)
Vital Therapies Inc (VTL) List Policies (10-K: Y-2016)
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Summary of Significant Accounting Policies (detail)
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Summary of Significant Accounting Policies (detail)
Fibrogen Inc (FGEN) List Policies (10-K: Y-2016)
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Enumeral Biomedical Holdings, Inc. (ENUM) List Policies (10-K: Y-2016)
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Enumeral Biomedical Holdings, Inc. (ENUM) List Policies (S-1/A: Y-2016)
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Bellerophon Therapeutics, Inc. (BLPH) List Policies (10-K: Y-2016)
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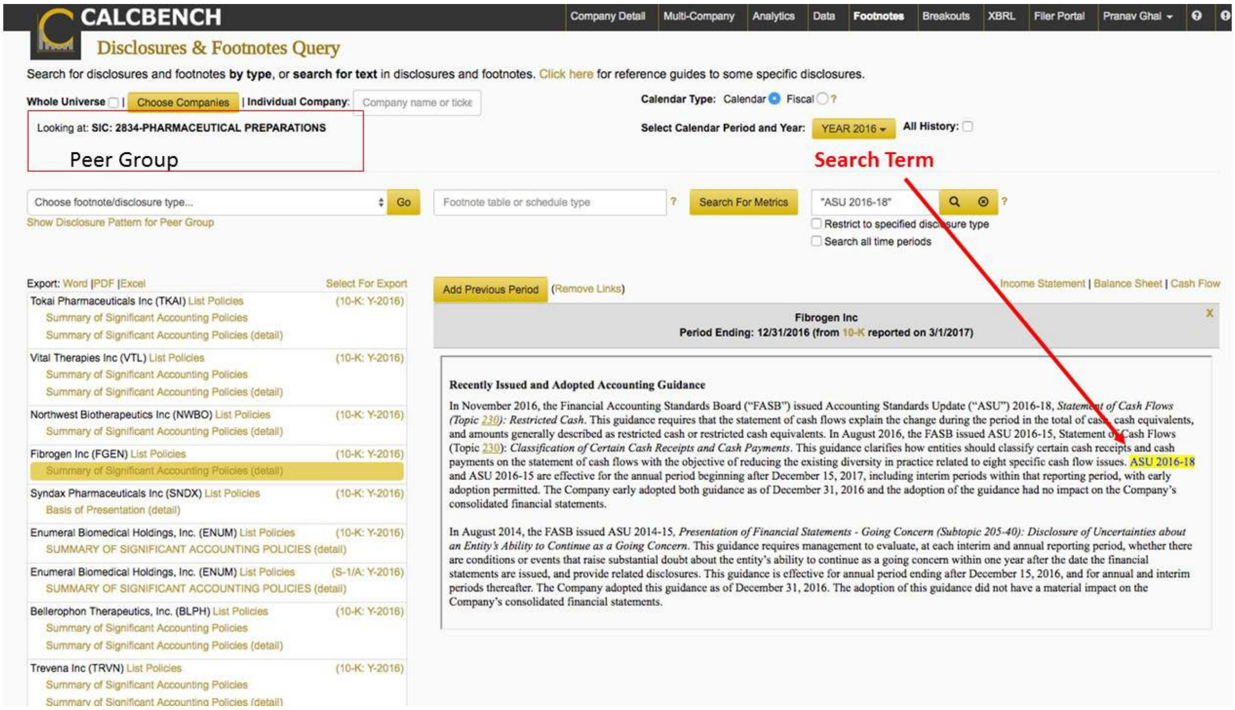
Summary of Significant Accounting Policies
Summary of Significant Accounting Policies (detail)
Epizyme, Inc. (EPZM) List Policies (10-K: Y-2016)
Summary of Significant Accounting Policies
Add Previous Period (Remove Links)
Income Statement | Balance Sheet | Cash Flow
Tokai Pharmaceuticals Inc
Period Ending: 12/31/2016 (from 10-K reported on 3/3/2017)
Recently Issued Accounting Pronouncements
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases ("ASU 2016-02"), which applies to all leases and will require lessees to put most leases on the balance sheet, but recognize expense in a manner similar to the current standard. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. Entities are required to use a modified retrospective approach of adoption for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. The Company is evaluating this guidance.
In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation ("ASU 2016-09"). ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. ASU 2016-09 will be effective for the first interim period within fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company is evaluating the impact of the adoption of this guidance on the Company's financial position, results of operations and liquidity.
In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows: Restricted Cash ("ASU 2016-18"). ASU 2016-18 requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 will be effective for the first interim period within fiscal years beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the impact of the adoption of this guidance on the Company's statement of cash flows.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Summary of Significant Accounting Policies (detail)
Add Previous Period (Remove Links)
Income Statement | Balance Sheet | Cash Flow
Fibrogen Inc
Period Ending: 12/31/2016 (from 10-K reported on 3/1/2017)
Recently Issued and Adopted Accounting Guidance
In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This guidance requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This guidance clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. ASU 2016-18 and ASU 2016-15 are effective for the annual period beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The Company early adopted both guidance as of December 31, 2016 and the adoption of the guidance had no impact on the Company's consolidated financial statements.
In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This guidance requires management to evaluate, at each interim and annual reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued, and provide related disclosures. This guidance is effective for annual period ending after December 15, 2016, and for annual and interim periods thereafter. The Company adopted this guidance as of December 31, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

The reporting team was able to perform this analysis "within five minutes," according to the team leader, who could immediately identify an optimal method for reporting restricted cash in financials. When the filing team made its case to management, the company's controller accepted its recommendation, and the company's auditors soon concurred.

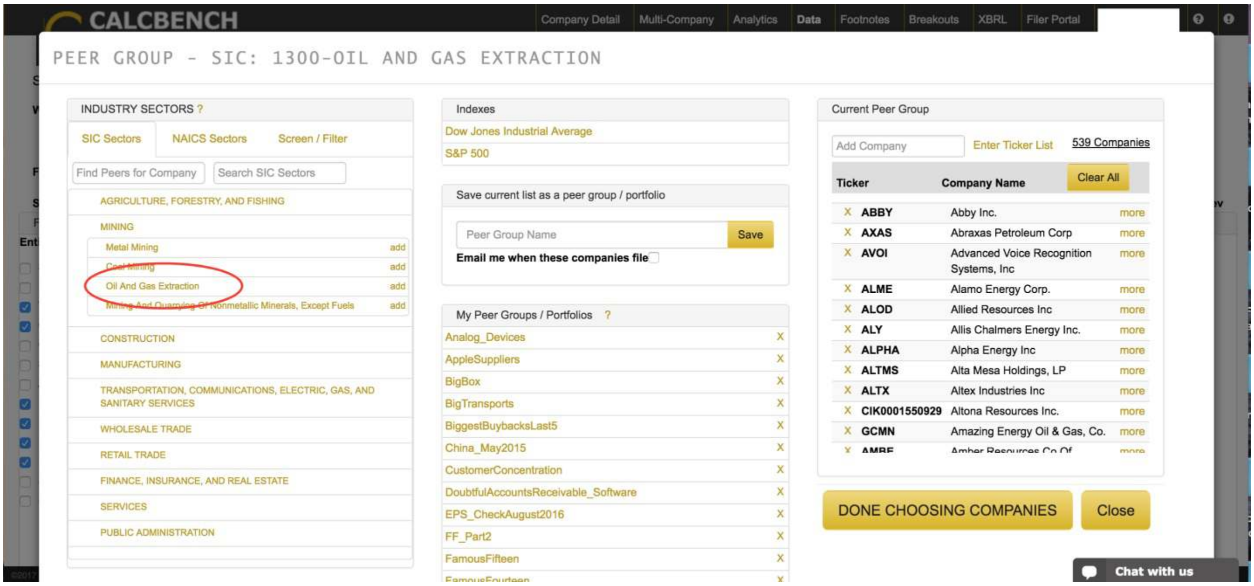
The team leader told Calcbench management that without the power of XBRL data to speed this research, the company's auditors would have had to sift through filed financial statements manually, "billing out at several hundred dollars per hour, for several hours." The company's use of XBRL data thus saved it thousands of dollars it would otherwise have been forced to spend researching just a single disclosure item.

Calcbench examples show how XBRL data can help corporate financial research

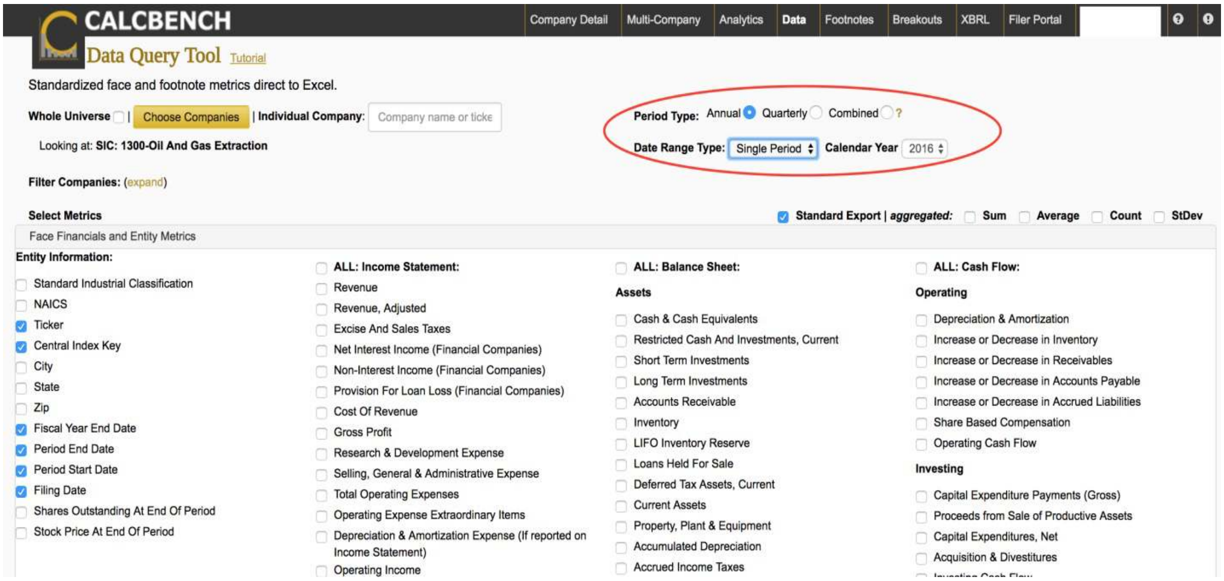
In addition to the case study described above, Calcbench's tools provide other examples of the ways in which a company can use the power of XBRL financial data for insightful research and benchmarking on its industry and its peers.

How to review an entire industry's financial condition

XBRL data in financial filings can provide a solid overview of an industry's economic health to compare with financials of the user's own company. For example, in Calcbench's Data Query Tool, the oil and gas industry shows a group of 539 companies.



The user can select data on the liquidity ratios reported by those companies for any period. The ratios can then be averaged to get a sense of the industry's overall performance.



From there, data can be exported to Microsoft Excel. This allows the user to generate a slice of data on overall industry performance in the selected categories:

Quarter	Cash ratio	Current ratio	Accounts receivable turnover	Cash-to-cash cycle	Operating cash-flow ratio	Working capital turnover
Q1-2015	2.36	4.50	12.47	–392.90	2.32	5.96
Q1-2016	2.62	3.69	9.52	–1,645.44	0.58	–2.26

How to find changes in financial statements

Before XBRL, comparing financial data from different annual reports involved extensive manual research through paper filings. XBRL data now makes the answers easy to get, and smart financial analysts are using that to their advantage. Here is a common question: What has changed in financial-statement items from one 10-K to the next? Knowing this can help analysts identify questions for the CFO about what in the accounting has changed at the company—and why.

With Calcbench's tool, the user can catalog all of the XBRL tags in a company's most recent 10-K and compare them with the XBRL tags in the prior year's 10-K. From there, one can quickly identify which tags were discontinued, which were added, and which appear in both years. The result will be a table like this:

DJIA Tag Analysis : Sheet1

Company	Concepts	
	Added	Deleted
Microsoft	19	27
Boeing	10	35
United Technologies Corp.	68	77
3M Co.	67	68
American Express Co.	23	21
Apple	17	29
Caterpillar	38	64
Chevron	41	33
Cisco Systems	32	25
Coca Cola	19	23
Dupont	56	104

Sheet1

How to research operating margins

Operating margin is a useful metric for gauging and benchmarking financial efficiency. The more operating margin a company has, the more profit it is earning per dollar. Employing XBRL data in the analytical tools from Calcbench, an analyst can access the reported revenue and operating income from all the S&P 500 filers, for example, that have filed financial statements thus far in a year or over a range of years. The analyst can divide operating income into total revenue for all of the filers, then find the approximate operating margin and the change in margin over the selected period (e.g., 2013–2016):

- 2013: 12.70%
- 2014: 12.33%
- 2015: 12.45%
- 2016: 12.47%

Note that during the same period, total revenue for the group of filers rose 10.66%, from $4.164 trillion in 2013 to $4.608 trillion in 2016. Total operating income rose 8.69%, from $528.7 billion to $574.7 billion. XBRL creates a quick way for a company to benchmark these results, whether by industry or by index, against its own results.

Sustainability reporting still faces conflicting standards

Abstracted from: *Green Reporting Takes Root*
By: David Katz
CFO Magazine
June 2017, Pgs. 29-33

Green reporting is popular but scarce. Demand for nonfinancial information on sustainability—i.e., environmental, social, and governance (ESG) factors—is growing. Increasingly, asset managers and investors regard ESG factors as crucial to their valuation decisions, reports David Katz, deputy editor at *CFO*. Even passively invested retirement plans, which buy index funds and therefore cannot sell the stocks of issuers with poor records on sustainability, talk with executives to urge better performance and to threaten uncooperative ones with shareholder proposals. Yet issuers often provide investors with boilerplate, rather than disclosures customized to each particular risk. The Sustainability Accounting Standards Board (SASB) indicates that just 19% of approximately 4,000 possible sustainability-disclosure items were quantified in the FY 2015 annual reports from 79 different industries' ten highest-revenue issuers.

Backers harp on ESG's benefits. Of the 535 individuals who participated in a Chartered Financial Analyst Institute poll on whether better performance on ESG factors could boost corporate returns, 7% said "definitely" and 37% said "to some extent." However, the author notes, 15% responded "definitely not" while pointing out that these factors are labeled nonfinancial with good reason. Goldman Sachs has reported that it can link improved finances to the ESG factors, singling out worker and director diversity, conservation of resources, and low rates of worker turnover. Illustrating the other side of the issue, a study from UBS Asset Management cited instances when negative ESG factors—such as a drought in India or poor labor practices in Asia—lessened an issuer's chances of creating value.

Opponents get their hackles up. Numerous issuers have just begun integrating ESG factors into financial reporting, but still more resist all ESG reporting. Executives who oppose such reporting responded to a 2016 SEC release that proposed requiring line-item ESG disclosure in Form 10-K. The controller and chief accounting officer of General Motors contended that the requirement would burden a report on finances and operations with data that was immaterial to the report and, more notably, to decisions on investing and voting. The CFO of Aflac, also asserting immateriality, asked that the insurance industry be exempted and argued that the typical MD&A risk disclosures are sufficient. Nonetheless, the author suggests, CFOs could report only the sustainability data that they regard as material to corporate performance, especially if SASB's voluntary and market-based rules, rather than those of the Financial Accounting Standards Board, become prevalent.

A disclosure standard would reduce blarney. The confusion engendered by a plethora of conflicting disclosure frameworks is one reason for the CFOs' resistance to ESG reporting. Other reasons mentioned by the author include the difficulty of obtaining ESG data in time for annual reports and the dismal ESG histories—e.g., severe pollution—common in certain industries. The lack of a widely accepted disclosure standard is a hardship not only for CFOs but also for investors, who must "wade through a bunch of noise," observed the senior vice president for sustainability at a California-based REIT. Some authorities insist the SEC could help more. Mary Schapiro, co-vice chair of SASB and the former SEC chair, notes that the requirement already exists for financial statements to contain material sustainability disclosure (for example, on climate change). In fact, the SEC could use the comment process to encourage fuller compliance.

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Resurging IPO market gets a boost from the SEC

By DIMENSIONS staff

The SEC has dropped an unexpected opportunity into the lap of any company considering an initial public offering. As of July 10th, the draft registration statements of all pre-IPO companies are eligible for a confidential review by SEC staff in the Division of Corporation Finance. (For details, see the related announcement, press release, and staff FAQs.) This confidential-review process will be available also for most offerings made in the first year after an issuer has entered the public reporting system.

The chance to test-drive an IPO registration statement in secret lets a pre-IPO company keep a veil over its financials until it is nearly ready to bring its offering to the market. If the company gets cold feet and decides to cancel the offering, the confidentiality of the SEC staff's review shields the company's financials from industry peers and protects it from the reputational damage that can occur when an IPO is publicly withdrawn.

Previously available only for emerging growth companies—defined as a company with total annual gross revenues of less than $1.07 billion (as of 2017) —the benefit of confidential review was introduced in 2012 by the Jumpstart Our Business Startups (JOBS) Act. According to Renaissance Capital's quarterly review of the IPO market in the United States, the second quarter of 2017 was the most active quarter in two years: 54 IPOs raised $10.6 billion.

The expansion of the privilege to all pre-IPO companies is part of the SEC's push to energize the IPO market under its new chair, Jay Clayton, who has made capital formation a high priority of his leadership. (For more on the SEC's new leadership and changing priorities, see the May 2017 issue of *DIMENSIONS*.)

Some skepticism, but mostly praise

When the SEC announced the expansion of eligibility for confidential reviews, the news was significant enough to grab the attention of business journalists, including those at *The New York Times*. Two *Times* journalists describe the SEC's move as both "an attempt to revitalize the public capital markets" and, perhaps less favorably, a shift that puts crucial IPO-related financial information into "stealth mode." (See *SEC Lets All Firms Keep Parts Of IPO Filings Secret*, by Chad Bray and Matthew Goldstein.) The allusion to stealth reflects a skepticism among some market experts, who ask why market regulators are "emphasizing secrecy over openness."

However, the universal opportunity for confidential SEC reviews is mostly viewed as a tonic for the IPO market. Cooley attorney Cydney Posner writes that extending the "beneficial process" of a confidential review allows more companies to "defer the public disclosure of sensitive or competitive information until they are almost ready to market the offering—and potentially to avoid the public disclosure altogether if they ultimately decide not to proceed with the offering." (See *You No Longer Have To Be An EGC To...*) Attorneys at Baker Botts point out that confidential reviews for all pre-IPO companies should "reduce the potential for lengthy exposure to negative market fluctuations during the SEC review process." (See *The SEC Expands Its Confidential Review Of Registration Statements*.)

Potential impact

Attorneys at Gibson Dunn reason that because most IPO companies qualify for emerging growth status anyway, the expansion of the confidential review will have the biggest impact on companies doing a spinoff or a follow-on offering soon after an IPO or spinoff. "We believe that it will be of significant benefit to those companies to be able to plan their transactions confidentially and evaluate market conditions at a time closer to the planned launch of the transaction before public disclosure." (See *SEC Significantly Expands Confidential Review Of Registration Statements*.)

An update from law firm Hogan Lovells observes that the opportunity for confidential reviews will benefit privately held companies that are considering an IPO but are reluctant to show their intentions prematurely. "With reduced risk under the new procedures of suffering the negative publicity associated with abandoning an IPO, more companies might consider at least initiating the going-public process." The SEC's announcement indicates that "the staff will not delay processing a draft registration statement if the company omits financial information that it reasonably believes will not be required *at the time the registration statement is first publicly filed*." SEC staff will consider requests made under Rule 3-13 of Regulation S-X, which lets them waive certain financial-information requirements. "This suggests the staff may intend to be more accommodating with respect to requests to omit other financial information from the registration statement," the update concludes. (See *SEC Extends To Non-EGCs Process For Nonpublic Review Of Registration Statements*.)

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