

Four-Step Guide to Improved Regulatory Reporting

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Introduction

When you're heads down, data and reports are coming to you from all directions, and you're gathering and consolidating information from a myriad of departments while deadlines loom over your shoulder. Each quarter- and yearend, you find yourself feeling like you could have been better prepared.

What does it take to achieve improved external reporting? In this ever-critical area, it never hurts to freshen up on the latest best practices. Take a look at some of the key processes. Analyze how you document these steps, and find opportunities where the process can improve. And finally, improve the quality of your XBRL with a handful of tips, and employ a disclosure management solution to help smooth out the filing process.

With the help of Certent's 4 Step Guide to Improved Regulatory Reporting, you can evaluate key reporting processes prior to filing season that will make heads down a little bit easier.

Step 1: Document key processes

Understanding the flow of data can draw out a few areas where your current process could improve. Are you fighting fires along the way, or have you developed a solid strategy going in? Even after the fact, a quick debrief and analysis can better prepare you for the next go-around. Below are a few processes you can define while you are heads up that will make heads down a little bit easier.

Outline a strategy for gathering disparate data effectively

How do you gather data? Information is flowing in every direction, reinforcing the need to track and compile data as effectively as possible. Be sure to document what key departments you gather your data from, who on that team you work with, what format the data should be in, and how to ensure the data is accurate. Create a spreadsheet for each stakeholder simplified with highlighted cells and clear language. You can also pre-program email reminders to ensure each department provides you with the information you need on time. Remember that having a strong foundation for gathering organized data can save valuable time reconciling information in the future.

Make a plan for managing comments

Organizing comments from various stakeholders within the process is challenging. Ask yourself how you will manage the comment loop effectively, especially those that come in at the eleventh hour. One best practice is to develop a Disclosure Management Committee, and coordinate pre-quarter close meetings to discuss comments in real time. If it's not possible to gather together, be sure to create and distribute a calendar of when comments are due for each department to attempt to spread out the flow of comments. Moving to a self-filing model can also make handling last minute edits significantly less painful than working with a filing provider to whom you turn over your documents and lose control until completion.

Gather credentials and test file

You've done all this hard work, putting in long hours and stressful weekends, all to find yourself locked out of the system. Make sure you have all the appropriate credentials you need to file including the Central Index Key (CIK), CIK Confirmation Code (CCC), and password (make sure this isn't expired). Once you have your codes in order, make sure management will be available for final approval. If your CEO or CFO is travelling during crunch time, getting the thumbs up to move on can be challenging. Review your last minute checks including signature dates, exhibits, XBRL DEI, and parentheticals. And most importantly, test file at least two days in advance to avoid any errors and give your team a chance to work out the kinks.

Lay out preparations to roll your documents forward

There are a few things you can do to prepare your 10K or 10Q before the data is available. While you're heads up, you can prepare a pro forma of what your disclosure will look like in advance. Update your templates or prior year information, change dates and draft up any known disclosures to submit to legal

SEC Credentials

CIK — Central Index Key

CCC — Confidential CIK Confirmation

Password — Expires after one year

PMAC — Used to reset password code

Passphrase — Is used to reset SEC

for feedback. Take a look at your narratives and placeholders for new disclosures, and update XBRL tags and taxonomy. Thorough preparation before the numbers are available will allow you to focus on specific sections and can eliminate some last minute work. List out these preparatory items and develop a checklist for your team.

Conduct a post mortem analysis

Draw up key questions to evaluate how your filing process went. Prepare the document in advance of filing, so you don't have to do it when you might be feeling burnt out. You can also coordinate an in-person round table and invite all key stakeholders to debrief on recent filing periods. Host a discussion exploring the biggest hurdles, and brainstorm suggestions on how to improve. Be sure to ask everyone what they thought went well — because a process that was successful for one part of the team may not have been successful for another group. Part of this conversation should also cover how to enhance communication across teams. Every filing period is a chance to refine and improve your financial reporting process.

Final reviews steps

- Ensure all comments have been incorporated
- Confirm final sign off
- Update signature date
- Verify all exhibits have been attached
- Test file with EDGAR
- Start to live file at least two hours prior to filing deadline

Step 2: Implement formatting best practices

Improving your financial report formatting practices can have a great effect on the readability of your company's financial disclosures. A key first step is to reevaluate your Microsoft Excel and Word formatting habits. A few basic formatting tips can save you valuable time and energy when preparing for a filing deadline and can also provide clarity and context for readers. Here are a few tricks to make your financial documents shine and allow for an easy upload when it comes time to file.

Be sure to use Excel to format your filing document financial tables instead of Microsoft Word. Excel provides you with the ability to segment your workbooks — one workbook for annual and one for each quarter. Generating only one

table per worksheet tab will best format your tables for HTML output and transferability back to your Word document. When you bring your table back into Word, you will have the flexibility to make changes without affecting the format of the table. Be uniform and set cell widths to be the same, which will give your documents a professional look and feel.

When creating your Excel table, make sure to remove unnecessary rows for spacing and merge headers over the value columns. Using a general format figure for your values, rather than one formatted for currency or accounting, will help greatly as you call reference to this cell when preparing your Word documentation - since HTML output prefers plain text. Instead create gutter or spacer columns for your dollar signs, and ensure your columns are the same width. Once you change the values back to a general format, be sure to modify the dashes that signify a zero value back to zeros.

There are a few helpful tricks that will save you time when formatting similar cells. Use the format painter to select multiple cells at once, rather than formatting each cell individually. You can also cut your formatting time by incorporating a number of PC shortcuts into your workflows. If you have not already, give these few a try: Em-dash “—”(Alt+0151), non-breaking space (Ctrl+Shift+Space), reveal formatting (Shift+F1), and show/hide formatting (Ctrl+*).

In order to adjust your Excel table for proper alignment within your Microsoft Word document, hover your Excel document over your Word document and align the first table column to the margins in Word. This will ensure that the Excel table is appropriately centered and fits to the page. You can also create hyperlinks or bookmarks within your Word document to send a reader to a specific section of your filing. Using hyperlinks will provide the reader with additional context, while also keeping the section clean and reducing the need to reiterate information in multiple places of the same document.

Shortcuts

Em-dash, or the long dash (—)
Alt+0+1+5+1

Non-breaking space
Ctrl+Shift+Space

Reveal formatting
Shift+F1

Increase font
Ctrl+Shift+>

Decrease font
Ctrl+Shift+<

Undo
Ctrl+Z

Single space lines
Ctrl+1

Double space lines
Ctrl+2

1.5 space lines
Ctrl+5

Once your Excel table is properly integrated into your Word document, take a look at the page breaks throughout your disclosure document. When a paragraph falls on two separate pages, use features like “keep with next” or “keep lines together” to lock the content. This not only helps the readability of your document, but it will also make it easier for the reader to digest the message your document is trying to convey. Poorly placed page breaks can break a reader’s concentration and cause confusion around a particular policy or explanation.

Step 3: Improve the quality of your XBRL

Filing with the SEC is a complex, time consuming and high stakes process — and quality is key. XBRL and EDGARized HTML reports serve as an official declaration to the public of the financial health of your company. By incorporating a few key XBRL concepts into your review process, you can improve the data quality of your SEC filings.

Negative instance document values

The SEC XBRL Staff Interpretations, issued on June 11, 2013, highlight negative instance document values as one of the problem areas for XBRL filers. To determine whether or not a negative instance document value is appropriate, you must take a closer look at the element and its associated attributes. If the element is a one-way concept, it typically should not have a negative instance document value. A one-way concept has an element ID and definition that expresses only “an expense,” “a liability,” “proceeds from,” or “an increase to equity” and should only have a positive instance document value associated with it. If the value were negative for a one-way concept, the element ID and definition would be too narrow, and the value assigned to the element would not make sense. Elements that represent two-way concepts are element IDs and definitions that have verbiage such as “ProceedsFromPaymentsFor,” “IncomeLoss,” “AssetsLiabilities,” or “IncreaseDecrease.” If you find a two-way concept and a negative value, you should review to make sure the negative value makes sense based on the balance type of the element. If the element “NetIncomeLoss” is used with a credit balance and the value is negative, you are reporting a loss that is a debit balance. If you are reporting a positive instance document value, then you are reporting income with a credit balance.

Calculation linkbases

In July of 2014, the SEC issued a “Dear CFO Letter ” which discussed what could happen if an XBRL filer did not have calculation linkbases in their XBRL filings in accordance with EDGAR Filer Manual rules 6.14 and 6.15. It seems that a lack of understanding is prohibiting XBRL filers from including linkbases. A calculation linkbase improves the quality of the data because users can see the roll-ups of calculations and the relationship of the values and elements. For example, a classified balance sheet would have line items that are current assets with a total for current assets. The line items would be children and current assets would total as a parent in the calculation relationship. This allows the user to identify what component elements make up current assets and ensure that the balance foots correctly compared to the HTML filing.

XBRL rendering

This is your completeness check to make sure you have met all of the XBRL requirements for labels to match the source, correct calendars used, correct scale, and ensure all level 1, 2, 3, and 4 facts are rendering. Print out the XBRL rendering and the HTML or Word document of the 10-Q/10-K and tie out all labels, calendars, and values. Remember, there is no requirement for the XBRL rendering to match the HTML document exactly, so understand the limitations of the XBRL rendering engine, and don't feel the need to change your XBRL tagging solely to achieve a desired rendering.

Validation

Before submitting your XBRL files, make sure to complete a thorough review of your validation. Many validation tools test against EDGAR Filer Manual rules, business rules, calculation summations, and consistency warnings, but be aware that this does not replace test filing with the SEC. Reviewing a comprehensive validation every quarter will allow you to consistently improve the XBRL data quality of your filings.

Review extended element

It is critical that filers review extended elements, especially after converting to a new U.S. GAAP Taxonomy, as new elements are added with each release based on modeling changes, ASU changes, and corrections of the taxonomy. According to the SEC (2014), “The Commission acknowledged that the use of customized tags could potentially and unnecessarily reduce the comparability of inter-company data, particularly when a suitable standardized tag was otherwise available.” Typically, filers are not aware of the U.S. GAAP replacements because they do not have a thorough understanding of the U.S. GAAP Taxonomy, and extended elements are commonly found where a U.S. GAAP replacement is available. Reviewing extended elements and searching for potential U.S. GAAP replacements will increase your knowledge base in XBRL and also increase the data quality of your XBRL filings.

Periodic/off-peak XBRL review

Periodic review of your XBRL tags will keep your process up-to-date and seamless. Reviewing extended, high risk elements once a year — such as monetary item types — can keep you rolling when it comes time to kick things into high gear. Consider reviewing your relationships and accounting concepts, as well as taxonomy structures. And finally, review GAAP taxonomy for updates, implementation guidelines, and industry best practices.

With the SEC promising to perform a more thorough examination of XBRL tagging, including these steps into your processes will help keep your company in good standing. It is essential to ensure that your company's disclosure documents share with the public precise information about financial performance, and paying close attention to these 6 elements will provide you with a greater sense of security that your XBRL filings are accurate and complete.

Final XBRL quality checklist

Perform at least two days before filing date

- Ensure the tick-and-tie procedure is completed
- Review and validate validation warnings/errors including calculation inconsistencies
- Review and validate DEI (Document Entity Information)
- Review and validate parenthetical statements
- Perform cursory review of taxonomy structure (hypercube and axis/member combination)
- Perform cursory review of XBRL viewers report for completeness
- Ensure approvals have been completed

Step 4: Employ a comprehensive disclosure management solution

When it comes to the drill of a period close, there's no need to go at it alone. A variety of tools are at your disposal to ease the burden of financial compliance. A comprehensive disclosure management solution can provide a number of benefits to make your team more successful come filing time. From an evaluation of current process pain points, to real-time collaboration abilities and up-to-date requirements for ever-growing standardizations, a disclosure management platform has your back.

A crucial first step is to take a look at your current external reporting process. In order to understand the areas your organization can improve, look at what you are already doing well and evaluate pain points. Be sure to consider key questions including: What features from your current process are most important to retain? What aspects of your process are you looking to improve? Are there industry best practices you would like to adopt? What features are you looking to add to your process? What are the functionality limitations of your current process? Does your platform integrate into other business applications? Weighing these considerations will help your team develop a good starting point for wants and needs in a software solution, and most importantly, what areas are most painful to your current process.

An optimal disclosure management platform enables teams of financial professionals to collaborate in many ways. Whether it be with the ability to link data across different types of documents or by providing controlled multi-user access, a complete disclosure management solution can eliminate the burden of "pencils down." Especially for teams simultaneously working on a single be bested with the help of disclosure management software, where tracking capabilities can inform you of who made what edit, and when. Never again suffer from a bottleneck in the process, as a team member finishes their portion before you can begin.

Evaluate

- Processes to maintain
- Processes to improve
- Must-have functionality
- Key stakeholders across departments

As companies strive to comply with growing mandates for standardized, formatted, and timely SEC reporting, several major disclosure management features have emerged as popular requirements. One of the most powerful is the ability to create a single-source authoring document. By pulling all required output from a single document, multiple versions and data errors are a thing of the past. This can also reduce the headache of preparing your document in EDGARized HTML output. An inclusive disclosure management platform can also provide the functionality to self-file with the SEC directly from the software, while also including an added layer of security and quality checks in the process.

According to a study completed by XBRL US, the two most common XBRL errors relate to the entry of inappropriate members (34%) and inappropriate negative items (14%). How can your team avoid these common pitfalls as well as other validation errors? With the help of a disclosure management platform, a series of validation warnings can help flag the user before making an XBRL error. The platform recognizes specific taxonomy terms as generally being positive or negative and will alert you of this concern in real time. The disclosure management application can also pull negative value reports as another validation step before moving on in the process. This process extends beyond values, but also to calculation verification. The application will flag calculated values that do not match based on taxonomy relationships.

Deployed properly, a comprehensive disclosure management platform can reduce time, cost, and resources needed to create and file period-closing documents and exhibits while increasing accuracy, efficiency, and control. Consider where your current process can improve and ask yourself what you are looking for in a more optimized program.

Conclusion

Improved regulatory reporting is about creating quality data that can be presented to your company's various stakeholders with complete confidence. With the right software to streamline your financial reporting process and best practices to improve the quality of your disclosures, you can reduce headaches of an outdated filing approach and achieve compliance with confidence. Learn more by visiting www.certent.com.

Sources:

Securities and Exchange Commission. "Staff Observations of Custom Tag Rates." Last modified July 7, 2014.

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