

## ASSESSING THE IMPACT OF XBRL IN RAPORTATIONS ISSUED BY CREDIT INSTITUTIONS

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### **Abstract:**

*The main source of economic information for efficient driving of any institution, including a credit institution, is the current accounts. Accounting tools for accomplishing this are accounts.*

*Credit institutions shall draw up annual financial statements that cover the same reports as those to be made by companies such as balance sheet, profit and loss situation in the specific structure of credit institutions, statement of changes in equity, cash flow statement and explanatory notes. In addition, because the object of activity, credit institutions have to prepare reports for prudential supervision purposes. In order to manage effectively business credit institutions, regulators use a language for collecting information on financial and accounting information in business processes, called XBRL. In Romania, prudential reporting framework has been harmonized with the standards recommended by CEBS to achieve a single European financial reports for supervisory purposes - FINREP(Financial Reporting) and prudential - COREP (Common Reporting) by configuring the reporting forms and their integration into electronic reporting system of the National Bank of Romania.*

**Key words:** XBRL, credit institution, prudential financial reports, FINREP, CONREP.

**JEL Classification:** G21

## **INTRODUCTION**

The liberalisation of banking and capital markets has substantially increased the required information for achieving financial stability, while providing useful information, appropriated to participants and their trading, has become essential for maintaining orderly and efficient markets. For this to be possible, appropriate and useful information should be provided, so that it satisfies the needs of every user. Market participants, depositors and the population in general are as interested in information as supervisor authorities are. Most regulatory authorities require credit institutions to undertake a minimum of presentations, including publishing specified parts of their prudential reports (which do not reveal information that can be used by competitors) and other relevant information. Financial disclosure requirements usually focus on presenting quantitative and qualitative information in a bank's annual financial report, prepared on a consolidated basis and made available to all market participants. Presentation format usually requires a complete set of audited financial statements and information about corporate structure and risk management.

### **1. CREDIT INSTITUTION REPORTS**

The main source of economic information needed to conduct operatively any institution, including credit institutions, is the current accounts, whose main accounting tools are the accounts. However, experience shown that accounting synthesis works are needed and consist in summary statements or general concepts of the economic mechanism, from which to result assets and liabilities, solvency, profitability, leverage and other information regarding the institution. Such synthesis statements are prepared periodically, according to the law – quarterly and annually and whenever a situation demands, such as issuance of new shares, merger, change of control units and so on. Most frequently used reports by institutions are budgets, balance sheets, profit and loss statements and cash flows for equity, including statistical statements.

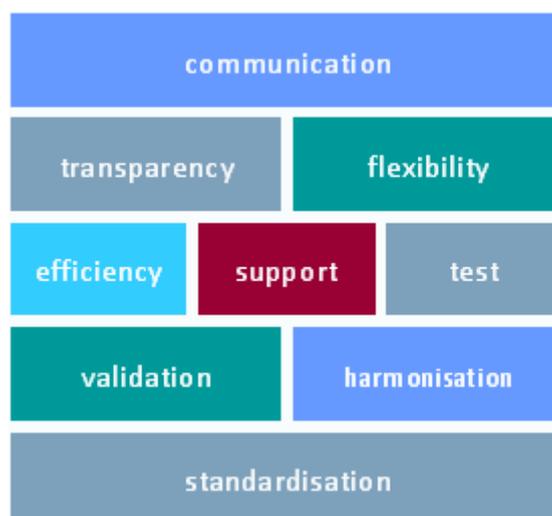
Financial reports are "historical documents and contain mostly financial data". [1]

Credit institutions shall draw up annually financial statements covering the same structure as those that are made by economic agents, such as balance sheet and profit and loss situations in the specific structure for credit institutions, changes in equity, cash flow statement and explanatory notes. Credit institution's whose shares are admitted to trading on a regulatory market must prepare, submit and make public the following reports [2]: quarterly, twice a year and annual reports.

For credit institutions, we can also add supervising reports and prudential reports. Unlike financial reports, prudential reports include prudential requirements or criteria to counter excessive leverage, irregular transactions within the group, liquidity crisis. [3]

## 2. THE CONCEPT OF XBRL

Under a centralised mechanism for financial supervision, in order to manage effectively, the regulator authorities must be able to obtain useful information in a timely manner. Improving banking supervision on information reporting is a problem that needs special attention from the authorities. Therefore, in order to increase efficiency and effectiveness of supervision, in order to reduce errors in transmitting information by credit institutions, it have turned to new tools [4] to strengthen the flow of financial information. For this it was necessary [5] the creation of a single window reporting, establishing a platform for exchange information and adoption of advanced data standards, in a word, XBRL. XBRL (eXtensible Business Reporting Language) is an "extensible economic reporting language for collecting financial and accounting information on business processes, which can be in accordance with law, reported to shareholders, banks, rate-setters, investors and all interested parties." [6] The main advantages of this language are summarised in Figure no. 1.



**Figure no. 1. Benefits of XBRL language in financial reporting**

(Source: CEBS)

Advantages of each XBRL language are presented in Table no. 1.

**Table no. 1. Description of the benefits of XBRL language**

communication	Single, XML-derived reporting standard <ul style="list-style-type: none"> <li>• Detailed understanding of data model</li> <li>• Interoperability with existing XML schemes</li> <li>• Several languages can be incorporated</li> </ul>
transparency	Comparability of data across Europe <ul style="list-style-type: none"> <li>• Possibility of a faster exchange of information with regard to the financial crisis</li> <li>• Versioning will be supported</li> <li>• Open source</li> </ul>
flexibility	XBRL is extensible --> adaptation to national discretion

	<ul style="list-style-type: none"> <li>• Modularized architecture of XBRL</li> <li>• Structural changes in the data are not reflected in the instance</li> </ul>
efficiency	<ul style="list-style-type: none"> <li>• Reduction of cost and time along the supply chain for financial information</li> <li>• Eases the possibility of automation by supporting <ul style="list-style-type: none"> <li>• automated error detection</li> <li>• versioning</li> </ul> </li> <li>• Time and cost saving for the reporting entity because of early responses</li> <li>• One common format is more cost-effective than a numerous number of different proprietary formats</li> </ul>
support	<ul style="list-style-type: none"> <li>• Shifting of manual support to automated processes</li> <li>• In-house developed systems can be replaced by standardised market solutions</li> </ul>
test	<ul style="list-style-type: none"> <li>• XBRL reports can be easily tested before submission</li> <li>• Transition process of a reporting entity could be supported by providing a test platform</li> </ul>
validation	<ul style="list-style-type: none"> <li>• Validation via standardised approaches</li> <li>• Extensive possibilities for formula definitions</li> <li>• Summarisation of formulas --&gt; reduction of the amount of formulas</li> <li>• No need for specific in-house solutions for the reporting entities</li> </ul>
harmonization	<ul style="list-style-type: none"> <li>• Approach is in line with the reconciliation for an harmonized reporting in the EU</li> <li>• Uniform validation rules can be used</li> <li>• Allows cooperation on a unified data basis (i.e. Colleagues of Supervisors)</li> <li>• Enables an effective analysis of cross-border financial institutions</li> </ul>
standardization	<ul style="list-style-type: none"> <li>• Assures competitive capacity</li> <li>• Eases the exchange with other European countries</li> <li>• Enables the use of standardised technology</li> <li>• Eases interoperability</li> <li>• Minimises risks</li> <li>• No other standardised business reporting standard exists</li> </ul>

### 3. USE OF XBRL IN PRUDENTIAL REPORTING

XBRL language was chosen in 2004 by the Committee of European Banking Supervisors (CEBS) "as a way of communication between financial entities and national supervisory authorities, having considered the particular characteristics of the grid that include these entities. The communication system allows different national authorities to cooperate in order to promote stability and solvency of the financial system at European level." [7] XBRL supports "the transition from an information economy to a knowledge- based economy, providing the necessary platform." [8]

Since 2008, the prudential framework in Romania was aligned with the standard recommended by CEBS to achieve a single European financial report for supervisory purpose – FINREP (Financial Reporting) and for prudential purpose - COREP (Common Reporting) by configuring the reporting forms and integrating them into the electronic reporting system of the National Bank of Romania. Because IFRS does not prescribe the order or the format in which financial information will be submitted, these financial reports allow credit institutions different presentation options. However, there are similarities between XBRL and IFRS, both being used in order to simplify financial reporting.

#### 3.1 FINANCIAL REPORTS FOR PRUDENTIAL PURPOSES

FINREP (Financial Reporting) represents a standardised financial reporting framework used by prudential supervisory authorities in the European Union. The introduction of this standardised framework in the banking system in Romania was necessary to ensure comparability of financial information reported to the supervisory authorities of the European Union. It is applied for Romanian banking system from December 31, 2006, but only on a consolidated basis, and from 2008, it is also applied for financial situations elaborated at individual level.

The transposition into practices of the implementation strategy for financial reports FINREP materialised in:

- reports for financial purposes, on the basis of financial statements elaborated on consolidate basis according to IFRS: BNR Order no. 6/25.05.2007 on the consolidated financial statements in accordance with the International Financial Reporting Standards, required to credit institutions for prudential supervision (later modified);
- financial reports on financial statements prepared at individual level, in accordance with European directives. Given the fact that Romania credit institutions should prepare individual financial statements, on the basis of accounting reglementation in accordance with European directives and not with IFRS, the FINREP framework was adopted by BNR Order no 13/30.07.2007 regarding individual financial situations FINREP, which is applied to credit institutions (subsequently amend).

So FINREP financial reports is used by the National Bank of Romania, both on consolidated and individual basis, for collecting financial statements in order to perform prudential supervision.

FINREP statements are send to the banking commission accompanied by an electronic signature in XBRL format, no later than September 30 for the closure of June 30 and no later that February 28, for the closure of December 31. In Romania, FINREP financial prudential reports contain tables that require basic information (for example FIN 1 and FIN 2) and others that contain information other than the basics. (see Table no. 2).

**Table no. 2**

<b>Financial prudential statements - FINREP</b>		
	<i>individual level</i> [9]	<i>consolidated level</i> [10]
<b>FIN1</b>	Balance	Balance
<b>FIN2</b>	Profit and loss account	Profit and loss account
<b>FIN3</b>	Derivatives but not hedging instruments	
<b>FIN5</b>	Investment securities	Financial assets available for sale
<b>FIN6</b>	Loans and receivables (including financial leasing) and investment securities	Loans and receivables (including financial leasing) and investments securities held to maturity
<b>FIN7</b>	Information on impaired financial assets, past due and nonperforming	Information on non-performing assets, other impaired assets and remaining assets
<b>FIN8</b>	Coverage derivatives	
<b>FIN9</b>	Tangible assets	
<b>FIN11</b>	Goodwill and other intangible assets	
<b>FIN16</b>	Financial liabilities	
<b>FIN18</b>	Provisions	
<b>FIN23</b>	Gains/ losses on hedge accounting	
<b>FIN24</b>	Gains/ losses on disposal and/ or disposal of tangible and intangible assets	
<b>FIN26</b>	Staff costs	
<b>FIN27</b>	Other administrative expenses	
<b>FIN29</b>		Tax expense related to profit from discontinued operations
<b>FIN30</b>	Information on depreciation	Net impairment losses from nonperforming assets
<b>FIN34</b>	Disclosure of related parties	
<b>FIN36</b>	Financing commitments, guarantee commitments and other commitments and claims decommissioned, still pursued	Loan commitments, financial guarantees and other commitments
<b>FIN40</b>	Other information	

Processed by: CEBS

### **3.2. Prudential reports for banking supervision purposes**

COREP (Common Reporting) is a standardised prudential reporting framework in the European Union, developed by the Committee of European Banking Supervision (CEBS), which

establish the form and the content of statements, for minimum requirements on individual or consolidated basis.

Implementation of COREP prudential reporting framework in the banking system from Romania took place in 2008, both at individual and consolidated level. The transposition of COREP prudential reporting framework into national law has been done by issuing the following orders: BNR Order number 12/30.07.2007 on reporting minimum requirements of capital for credit institutions, modified and supplemented afterwards; the Order of National Bank of Romania no.8/25.05.2007 on reporting personal funds for every credit institution; BNR Order 9/25.05.2007 on reporting by credit institutions the capital adequacy situation at individual level.

Following these regulations, the central authority sought:

- (i) to determine the risks for which the credit institutions should have a minimum capital requirement (credit risk, dilution risk, counterparty credit risk, the risk of position, settlement risk, currency risk, commodity risk and operational risk);
- (ii) establish the composition of personal funds at individual and consolidated basis that determine prudential banking indicators provided by different prudential regulations applicable;
- (iii) to impose principles and conditions that, if respected, allow including certain funds in personal funds;
- (iv) to determine which are the minimum requirements regarding initial capital;
- (v) to show which are the general aspects on how to report personal equity, on an individual or consolidated level.

**Table no. 3. Prudential reports of credit institutions – COREP**

Reports on minimum capital requirements	Reporting frequency	
	<i>individual level</i>	<i>consolidated level</i>
Capital adequacy to risk	quarterly	semester
Personal funds	monthly	semester
Details of group solvency	-	semester
Capital requirements for credit risk	quarterly	semester
Capital requirements fom market risk	quarterly	semester
Capital requirements for operational risk	quarterly	quarterly

Processed by: *BNR Order no. Report 12/2007 on minimum capital requirements for credit institutions, as amended, Gazette. no. 703 of October 18, 2007.*

Given the fact that credit institutions prepare financial statements in accordance with European directives (until 2012), and they are the basis of prudential reports, to meet Basel II requirements, the National Bank of Romania – the central authority –, resorted to prudential filters. Prudential filters are adjustments to financial information obtained by applying IFRS, in order to use it for prudential purpose. Prudential filters apply in particular to the calculation of personal equity. In Romania, prudential filters were introduced to determine, at consolidated level, the equity according to the Regulation on credit institution and investments firm's equity.

## CONCLUSIONS

Language XBRL provides major benefits for each stage of the reporting or analysis of financial and banking data. XBRL allows the financial information users to obtain financial information in a much shorter time for decision making, providing better quality, being more reliable and accurate. The implementation language was made in order to effectively manage credit institutions. In Romania, prudential reporting framework has been harmonized with the standards recommended by CEBS to achieve a single European financial reporting.

## ENDNOTES

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