



## Companies and Intellectual Property Commission

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### **Digital Financial Reporting in iXBRL, a move aimed at boosting investment in South Africa.**

**By Adv. Rory Voller**

South Africa was recently ranked first out of 115 countries for the transparency of its national budgeting process. It should come as a bit of a surprise that a country on the Southern tip of Africa leads the entire world in the stakes

of playing open cards with the public by allowing anyone to analyse and scrutinise its finances. This is no small feat and certainly not a once-off accolade as South Africa has been ranked in the top three of the Open Index since 2010.

However, this level of scrutiny should not only be the reserve of the public sector, especially in a country where the financial mismanagement in the private sector has also reared its ugly head of late.

This is why the introduction of digital financial reporting, called eXtensible Business Reporting Language (XBRL), by the Companies and Intellectual Property Commission (CIPC) should be welcomed by all. None of the qualifying entities as registered with the CIPC could argue that they should not be expected to be held to the same standard as their public representatives who have displayed transparency about how taxes are being generated, and how budgets are allocated and spent.

The speed of development and benefits of technology has surpassed the imagination of all who lived before the change of the century. In the same way, digital financial reporting is revolutionising the business world. This is how the CIPC envisages that technology can be used to the eventual benefit of all in South Africa. The scope of the ongoing XBRL pilot Programme applies to the submission of audited or independently reviewed annual financial statements by a sub-set of around 100 000 qualifying entities, close to 50 JSE listed companies recently participated in our pilot phase.

Not only will this technology improve the efficiency of sorting through high volumes of financial reports, but it has been proven around the world that improved transparency in financial reporting in a rigorous regulatory environment improves investment. The Programme – to be rolled out from 1 July 2018 – will also pave way for eventual standard business reporting in South Africa, where various regulators can share data, thus achieving the principle of ‘report-once- share-many’.

### **Improved transparency has also been proven to heighten investor confidence and investment.**

A 2002 study by the Organisation for Economic Co-operation and Development – an intergovernmental economic organisation with 35 member countries – found that transparency in financial reporting reduces “herding” of fund managers’ investment decisions.



The study also found that “improved transparency could improve the quality of investment decisions”. Reasons for XBRL as technology standard for financial reporting are gaining momentum worldwide with various countries attesting to the benefits of XBRL outweighing the status quo of legacy mechanisms of reporting for consumers of financial or business information.

One of the reasons Mauritius has enjoyed the top spot on the continent in the World Bank Ease of Doing Business report has been its sound legal and regulatory framework which have played a part in increasing the ease of conducting business in that country. The requirement for non-profit companies as well as Close Corporations to submit Annual Financial Statements to the CIPC using XBRL, should not be seen as a tall order but as an enabler of a much wider, ‘big picture’, into businesses in South Africa.

If South Africa is to play catch up to its counterparts on the continent, it will have to ratchet-up the information available to potential investors and bring its reporting framework to the digital age.

In their latest Ease of Doing Business report, the World Bank also highlighted the increased transparency, regulatory frameworks and the use of technology as playing a tremendous part in boosting investment and entrepreneurship.

“Since the inception of the XBRL project in 2003, the global business regulatory environment has changed dramatically. Governments around the world have embraced and nurtured advances in information technology to reduce bureaucratic hurdles and increase transparency. Today, in 65 of the 190 economies covered by Doing Business, entrepreneurs can complete at least one business incorporation procedure online, compared with only nine of the 145 economies measured in Doing Business 2004,” says the latest report.

Potential data-sharing with private investment companies will assist with better investment advice and decision-making. Sharing data with other government agencies will make it easier to formulate informed economic policy, and in that way economy as a whole will be impacted in a positive way.



### **And everyone stands to benefit.**

This includes entities who prepare financial statements, analysts, investors, and regulators will have access to a system with enhanced distribution and usability of existing financial statement information. There will also be lower operating costs for financial publishers and data collectors with access to efficient data collection with reduced errors.

Independent Software vendors also stand to benefit as any software products that manages financial information can use XBRL for its data export and import formats.



If South Africa is to move into the new age, improve investor confidence, and boost entrepreneurship, there is no better time than now for the private sector to emulate the transparency displayed by those entrusted with public finances in their own business environment.

**Adv. Rory Voller is the Commissioner at Companies and Intellectual Commission (CIPC)**

