

You probably have never heard of [XBRL](#). If you haven't, and you are the least bit interested in how regulatory agencies can avoid future Madoff like events, and in government transparency for our bailout tax dollars, you should take a minute to get up to speed on what [XBRL can do](#).

XBRL is a version of XML for financial reporting. To the SEC's credit, [they have become a big proponent](#), requiring \$5 Billion Market Cap companies to start reporting using XBRL as of this past June, with the next 1800 in market size required in 2009, and everyone else in 2010. The value of XBRL is that by creating standardized tags for data elements (ie, net income, cash, interest, etc), companies will not only have to conform their financial statement line items to the defined tags, but in doing so it will make it much easier for investors and regulators alike to analyze and compare the financials of various companies. All good so far.

Here comes the but..

XBRL is here and ready, but our government isn't using it for anything it does. Tracking the bailout would be a perfect application for XBRL. There is absolutely no reason why we couldn't or shouldn't use it since all technical systems and reporting requirements would be new and could easily be built around XBRL.

In addition, there is no reason why every entity that has to report to the SEC, and even those that don't shouldn't be required to use XBRL. From investment advisors like Madoff, to hedge funds, to mutual funds, to ETFs, brokers, dealers, market makers, [to banks and each and every loan that is made](#), you name it, all should be required to format their financial data in XBRL. In fact, the smart thing for the SEC to do is to demand that any new financial instrument, regulated or not, needs to have an XBRL taxonomy assigned to it for future reporting purposes before it could be sold. This would simplify any future reporting requirements and allow the SEC to review and analyze before it regulates, having the advantage of a body of data to guide it. For the filing companies, it certainly would not be a hardship. It is no worse than requiring websites to use HTML before they can publish to the web. It's that easy.

By acquiring data in XBRL format, it becomes easy to import into databases that can be monitored and analyzed. Think of it as turning the government into a quant shop for data they receive. Like a quant shop, the data could be monitored and analyzed in realtime looking for everything and anything it believes are indicative of problems, including the Madoff test for no variability in reported returns.

The beauty of this system is that while it won't catch everything, it will automate much of what had been a manual process of review by regulatory staff. It won't take a painstaking audit of suspects chosen on a best efforts basis. Outliers and exceptions will quickly become apparent as will trends and repetitive problems.

Not only will XBRL be a tool for government, but it could be a tool for government watchdogs as well. We as taxpayers should demand that every penny spent and committed be defined in XBRL and presented on a .gov site in realtime. We can start with the bailout money and how it's being spent. In fact, President Obama's use or lack of use of XBRL for government will be a beacon as to just how much transparency we can expect from his administration.

We are about to enter a period where the most recommended solution for avoiding future crisis like the one we are experiencing now, is increased regulation. I happen to agree with the SEC Commissioner when he said "[Transparency is a powerful antidote for what ails our capital markets](#)". We can never come up with perfect regulations to solve the problems we have yet to see. We will never anticipate the results of unintended consequences. We can require that all those that participate in the capital markets contribute their data and hope that the data guides us to avoid those problems.

Far from perfect I know, but it's far better than what happens today