

Subscription SCM Red Tape Reduction Award 2007

To: SCM Red Tape Reduction Award

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The concept of the red tape reduction initiative?

The Dutch government intends to reduce the administrative burden of businesses with 25 percent. In a joint effort, the ministries of Finance and Justice started the Dutch Taxonomy Project (Nederlandse Taxonomie Project or NTP) in 2004. In close co-operation with businesses, the project moderates and facilitates the use of eXtensible Business Reporting Language (XBRL) in financial reporting chains. To achieve this, NTP started with standardising three major regulatory driven financial reporting chains by using information technology. Regarding the drafting and provision of tax declarations, annual reports and economic statistics, a redundancy for businesses of at least 350 million euro is calculated. As of 2007, more financial reporting chains are being added from within the banking sector, agricultural sector, health sector and education sector.

By standardising the three financial reporting chains, the time consuming process of changing legislation, especially when legislation is based on European regulations or directives, can be avoided. The technology used is XBRL. An XML-based financial language developed by accountants in America. XBRL is an open standard, which means that it can be used worldwide within the same financial and textual context. Furthermore, XBRL is not owned by a particular organisation, which makes it cost efficient to use as it does not for instance infringe someone's intellectual property rights.

The urge for reducing the administrative burden in the financial reporting chains was called for by businesses because their regulatory reporting to several governmental bodies, is a time consuming process. Because of this time consuming and highly specialized process, most businesses find it necessary to use an intermediary to compile, sign and send their reports to the government. Therefore, this process needed to be simplified.

Most important aspect of the project is that government and private sector closely work together using the business' perspective as a starting point. Every step in the process, is a joint effort of this close co-operation. None of the stakeholders involved, works autonomously. This is of importance because the use of XBRL (incorporated in the Dutch taxonomy) is voluntarily. Without this level playing field, the project would not be viable. Businesses enhance the (business) opportunities that lie ahead when streamlining their business processes.

Reciprocally, regulators receiving XBRL-reports are able to make their internal business processes more effective and efficient and thus contributing to government reform. Also, regulators are able to re-use XBRL-data received between themselves, so businesses can report their financial data less frequent. The easier processing of financial data by regulators, further enables them to establish a shift in their supervision. Less time is spent on checking compliance with formal requirements so more time can be spend on material supervision. This is what we call the 'paradigm shift'.

Standardisation, interoperability and harmonisation are key elements in reducing the administrative burden, conducting government reform, streamlining the business process for intermediaries and service providers and to provide an easily accessible service with entrepreneurs and citizens. NTP proves that it is able to manage this complex multi-channel process in a timely and cost effective manner. Furthermore, the products of NTP are easily expandable to the reporting chains at a pan-European and international level.

The impact of the initiative for an individual enterprise?

Approximately 450,000 active businesses (Industry and SME) are involved in the project. These are the legal entities which are obliged by law to lodge their annual account with the Chamber of Commerce, file the tax returns with the Tax and Customs Administration and provide statistical data to Statistics Netherlands. Approximately 450,000 active free agents are also involved in the project. They need to file their tax returns and provide statistical data. Four governmental bodies are actively involved, some of them operate under responsibility of their ministry, some of them operate independently: Tax and Customs Administration, Chamber of Commerce Netherlands, Statistics Netherlands, Government wide Shared Service Organisation for ICT. Approximately 12,000 intermediaries (accountants and tax consultants), software vendors and service providers are influenced by the project. This group needs to enable their software and services for XBRL oriented data traffic.

The project has a significant impact when comparing the costs versus benefits. It is calculated that by using the Dutch taxonomy for the lodging of the annual account, already € 350 million

can be saved. Calculations regarding the total savings when using the Dutch taxonomy for filing of the tax returns or the providing of statistical data have not yet been made. In literature however, it is estimated another € 550 million can be saved, annually. Also, as a result of the growing insight in the extent of the project, legislative measures are being undertaken to save another € 400 million through harmonization between the fiscal and commercial annual account for SME.

However, empiric statistical data is not available as evidence of the projects' impact. This is due to the fact it is only since very recent (1 January 2007) that the Dutch taxonomy can be used for the lodging of annual accounts regarding the book year 2006. Large quantities of annual accounts will traditionally become more and more available towards the end of 2007 and the beginning of 2008. The filing of tax returns and the providing of statistical data by businesses is not expected in the first half of 2007.

The total investment for the project is estimated at around € 5,000,000 in total (2004-2010). With this relatively small investment, a large reduction of the administrative burden can be accomplished. The return on investment would therefore be enormous.

But it is undisputedly that the project already has had an impact on: governmental bodies; 900,000 businesses and free agents, 12,000 intermediaries, software vendors and service providers and employers' organisations. These organisations are preparing their business processes for the use of the Dutch taxonomy, but even more important, preparing themselves to propel in to future. A future in which more and more potential of the Dutch taxonomy will be recognized.

The indirect impact is by far the greatest at this moment. The project creates the right and sustainable momentum for other changes in (regulatory) reporting. The 'MetaJus' project is a spin off which purpose is to assure that future legislation already addresses the needs for easy and fast regulatory reporting by businesses, by using the same data elements already available in the Dutch taxonomy to draft legislation.

The impact of NTP is already recognized internationally. XBRL in general is expected to gain its momentum in 2007, but globally, NTP is the first project to undertake such a large scale and multi and cross channel approach, using XBRL. The Australian government and the New Zealand government have adopted a similar approach to NTP. Projectmembers of NTP have been participating in setting up the project management in these countries since 2006. Consequently, NTP is the only project with this approach in Europe.

The way to apply the initiative?

Entrepreneurs and intermediaries need XBRL-enabled financial software to send XBRL-reports to governmental bodies. Software developers and service providers, are being supported by NTP to incorporate the Dutch taxonomy in their software and their business processes and to provide a testing area for these software developers and service providers. By doing so,

entrepreneurs and intermediaries gain a maximum benefit because their only active role is simply to use the XBRL-enabled software. Because the enabling takes place in the source code of the software, users will experience that their software still functions and looks the same, but nevertheless gained the possibility and advantage of communicating directly from 'machine to machine' with just 'one push on the button'.

The management approach used is to establish alliances with all stakeholders in which an exchange of know how takes place. All stakeholders are continuously being informed about the proceedings on all relevant aspects of the Dutch Taxonomy Project through press releases, email newsletters and a special internetportal for the stakeholders. To formalize this co-operation, a covenant of co-operation was drawn up in 2006 with a duration of 5 years. During this period, new parties may join the covenant. Also, within these 5 years, all of the objectives of the covenant, must be reached. At this moment, more than 80 governmental bodies, intermediaries, software vendors, service providers and employers' organisations have signed the covenant.

A process infrastructure was developed and is operational to handle data streams from the private sector towards the governmental bodies. This infrastructure includes services such as validation, identification, authentication, authorisation as well as the handling of digital signatures. A 24/7 service organisation has been established to keep the Dutch taxonomy up to date with changes in international and national guidelines and legislation.

The use of XBRL-reports via a process infrastructure exists besides the traditional offline delivery methods. This is due to national legislation applicable to electronic communication with governmental bodies (Wet elektronisch bestuurlijk verkeer or Webv).

The process infrastructure is based on a web service, using the internet through encryption and via secured lines. The process infrastructure is developed and maintained under responsibility of the government. Nevertheless, the verification of the electronic signature added to a XBRL-report, takes place by a certificate service provider (CSP). The services of this (private party) CSP form an integral part of the transfer of a XBRL-report through the process infrastructure.