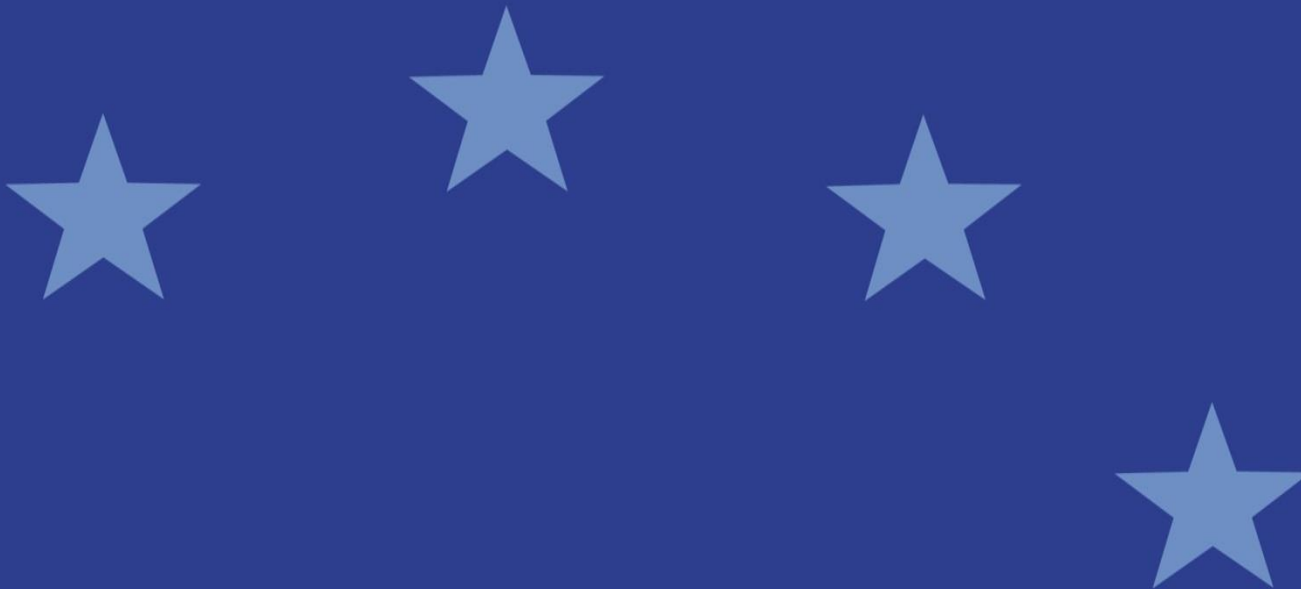European Securities and
Markets Authority

European Single Electronic Format (ESEF)
IFRS Advisory Council - 4 April 2017

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Background

- **Requirements:**

  – Issuers on regulated markets in the EU will have to prepare their annual financial reports (AFR) in a **single electronic reporting format** with effect from 1 January 2020.

- **Recital 26 of the Transparency Directive sets out the policy objectives of ESEF:**

*"A harmonised electronic format for reporting would be very beneficial for issuers, investors and competent authorities, since it would **make reporting easier** and **facilitate accessibility, analysis and comparability of annual financial reports**…*

*ESEM should develop draft technical regulatory standards, for adoption by the Commission, to specify the electronic reporting format, with due reference to current and future technological options, **such as eXtensible Business Reporting Language (XBRL)"***

This implies that ESEF should allow that parts of the AFR can be processed by software and thus become machine readable and 'structured'

Background

- **Content of 'annual financial report' (AFR) :**

  – Individual financial statements of the issuer (according to either IFRS or National GAAP)

  – Consolidated financial statements according to IFRS (if the issuer has to prepare group financial statements)

  – management report (which may include corporate governance and other reports)

  – other statements made by the issuer

- **Number of affected companies:**

  – About 7,500 issuers on regulated markets of which:

    – around 5,300 prepare IFRS consolidated financial statements

    – around 4,700 prepare local GAAP individual financial statements and 2,700 according to IFRS

    – 150 prepare financial statements under 3rd country GAAP

ESMA Consultation

- **ESMA Consultation paper** (end of 2015):
  - Propose the use of XBRL or Inline XBRL for the IFRS consolidated financial statements using the IFRS Taxonomy

- **Feedback from constituents:**
  - Received 161 responses of which 88 were following one template
  - Enthusiastic support from software vendors and service providers
  - Generally relatively positive feedback from users and auditors
  - Mixed answers from issuers
    - many of them point out that there would be no investor interest in financial information in a structured format
    - they suggest that PDF should be used as single electronic format → however, as PDF does not fulfil the policy objectives set out in recital 26 of the TDA, ESMA cannot mandate the use of PDF only for ESEF

- **ESMA Feedback Statement** (end 2016) including proposed policy line

Scope of structured electronic reporting

	Proposed approach	Rationale
IFRS consolidated financial statements	Structured electronic reporting required	Same accounting rules for issuers in all members states, high importance for users, existence of IFRS Taxonomy
National GAAP individual financial statements	Structured electronic reporting only if allowed or required by the member state

otherwise human readable representation only | structured electronic reporting requires the existence of a taxonomy, which is a given hierarchical structure used for the classification of financial information. Not for all national GAAPs taxonomies exist.
→ requirement of structured reporting might be extended at a later stage |
IFRS individual financial statements		If it would be mandatorily required that IFRS individual financial statements have to be in a structured format, issuers in Member States allowing or requiring IFRS for individual financial statements would have to follow more stringent rules than issuers in Member States that require/allow preparation of individual financial statements under National GAAP.
Management report		Narrative in nature, does not lend itself well to being reported in a structured format
3rd country GAAP deemed equivalent to IFRS financial statements		The number of third country GAAP issuer is limited and not for all third country GAAPs deemed equivalent with IFRS, taxonomies exist. Furthermore, assessment of due process, maintenance and quality of the taxonomies would be necessary → further analysis at a later stage

Technology to be used

- **All annual financial reports have to be prepared in xHTML**

  – an xHTML document is human readable and can be opened, viewed and printed with normal web browsers (e.g. Internet Explorer, Google Chrome, etc…) and no rendering mechanisms would have to be provided.

- **If the annual financial report contains information in a structured electronic format, the issuer has to prepare an Inline XBRL instance document**

  – Information in the human readable presentation layer (xHTML), is marked-up with XBRL 'tags' that make the information machine-readable

  – Inline XBRL is a format that allows to embed XBRL tags in the human readable xHTML document

  – Therefore there is a connection between the machine readable XBRL tags and the human readable xHTML presentation layer which should reduce inconsistency that could occur when the XBRL instance document would be fully disconnected from the AFR in a human readable format, e.g. PDF.

Illustration of the use of Inline XBRL

Inline XBRL is amongst others already used to file financial statements with:

– Australian Securities and Investment Commission

– Japanese Financial Services Agency

– tax authorities in UK and Ireland

– business registers in Denmark and the UK

→ *In June 2016 also the SEC allowed companies that have to file their financial statements in a machine-readable format to file them in Inline XBRL*

IFRS Taxonomy and extensions

Proposal from the CP
- Use of the IFRS Taxonomy prepared by the IFRS Foundation designed to present IFRS financial statements in XBRL
- Not allow extensions (neither entity-specific nor local regulatory) as these would undermine comparability and cannot be easily processed by users

Feedback received
- A large majority of respondents supports the use of the IFRS Taxonomy
- But most believe that currently it cannot be usefully used without extensions.
- Divergent views whether the use of extensions should be limited to local and regulatory extensions or whether entity specific extensions should also be allowed.

ESMA proposal
- Require the use of the IFRS Taxonomy
- Consider to allow both entity-specific and local/regulatory extensions on the basis of a robust framework to avoid proliferation of inappropriate extensions

Phased approach

- During the consultation a number of preparers expressed concerns about the implementation and that there is a lack of familiarity with the technology.

- Other major regulators that implemented structured electronic (especially the US SEC and the Japanese FSA) required in the first phase only the detailed tagging for the primary financial statements to facilitate the implementation and to allow preparers and users to familiarise themselves with the technology

- Therefore ESMA proposes to limit mandatory detailed tagging for an implementation phase of 2 years to the primary FS

- After 2 years, tagging would be extended to the notes as well but early application would be allowed

Cost-benefit analysis – costs

To understand the costs for issuers to comply with the proposed requirements, ESMA carried out a CBA

Methodology

- Two surveys were conducted: one to preparers that already have prepared financial statements in XBRL/iXBRL and another to intermediaries that provide services to prepare reports in XBRL/iXBRL;

- To corroborate the results from the survey, a desk research including market research and analysis of other studies from jurisdictions that already implemented XBRL and/or Inline XBRL reporting was carried out;

- A reference model was built and the time and effort to prepare an Inline XBRL instance document containing an issuer's consolidated financial statements was measured.

Result

- Depending on the implementation scenario (outsourcing, internal production) and the scope of the requirements, the annual costs per issuer are expected to be between EUR 8,000 and 19,000.

Cost-benefit analysis - benefits

Assessment how reporting in Inline XBRL fulfils ESEF's policy objectives:

Facilitate analysis and comparability of AFRs	• Software can be used to analyse large amounts of financial information labelled with XBRL tags. • This allows investors, analysts, and regulators to access and manipulate the financial data, to compare disclosures across issuers, and to make comparisons against previous disclosures • Individual data points can be analysed to observe trends, or can be combined to create ratios. • Even if the information in the notes to the financial statements is block tagged, Inline XBRL can be useful for text analytics or manual comparisons of narrative disclosures.
Facilitate accessibility of AFRs	• Inline XBRL instance documents can be accessed without the purchase of specific software tools • The labelling up of financial information in the AFR with XBRL meta-data makes it easier for users to find relevant facts • XBRL Taxonomies can contain labels in several languages. If this is the case, users can compare items in the primary financial statements across issuers irrespective of the language • Software products offer conversion of the XBRL information to other formats such as SQL or Excel.
Make reporting easier	• The process of data collection to produce financial reports can be automated. However, this is only the case if record-to-report processes are rethought. • If an issuer prepares the AFR first and only afterwards attaches the XBRL labels, the reporting process will not be simplified • In any case, reporting in Inline XBRL can be expected to be easier compared to reporting in XBRL only, as no additional mechanism is required to make the content human-readable

Next steps

- **ESMA Work in 2017**

  – Filing and tagging rules

  – A regulatory extension taxonomy and

  – Rules regarding the use of extensions

- **Analysis regarding implementation options:**

  – Scope of tagging (primary financial statements only or also the notes)

  – Level of tagging (detailed tagging or block tagging)

  – Use of extensions (no extensions or controlled use of extensions on the basis of a framework or free use of extensions)

- **Field testing**

  – Before submission of the RTS to the European Commission (EC), ESMA has to field test the ESEF

- **Procedure for RTS**

  – The RTS has to be endorsed by the co-legislators as a Commission Delegated Regulation which is directly applicable in all Member States without transposition at National level

Cooperation with the IFRS Foundation

- ESEF will be the largest XBRL project to date to make use of the IFRS Taxonomy

- Regular exchange of views with representatives of the IFRS Foundation :

  - Regular calls with the IFRS Taxonomy team

  - Joint workshop to discuss the design of an ESMA regulatory extension taxonomy

  - Meeting with the Board Advisers

- Possible cooperation in the field test

- ESMA participates in the IFRS Taxonomy Consultative Group