

18th XBRL Europe Day

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# ESEF

Impact on analyst profession

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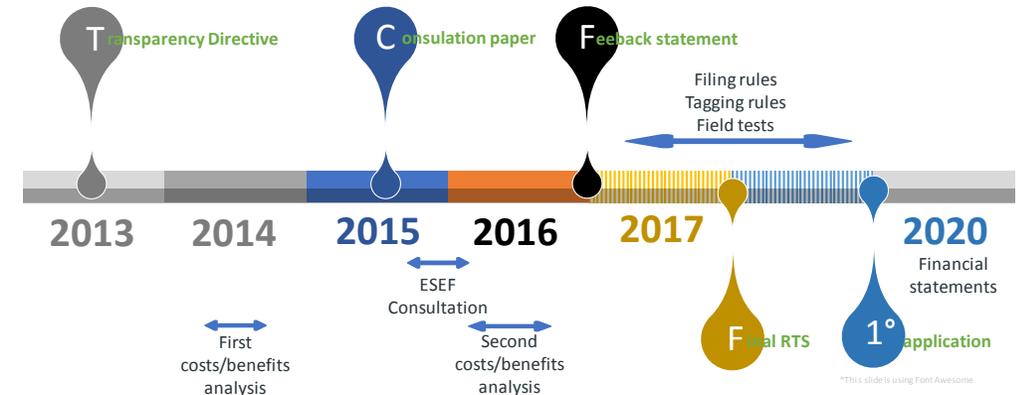
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# European Single Electronic Format (ESEF)

- Reason for ESEF:

- The Transparency Directive requires issuers on regulated markets to prepare their annual financial reports in a **single electronic reporting format** as of January 1, 2020.
- ESMA (2016)
  - develops Regulatory Technical Standard to specify structured electronic reporting format,
  - undertakes 2 Cost Benefit Analysis (CBA)
  - consults stakeholders through a Consultation Paper.
  - assesses all possible electronic reporting formats
  - conducts appropriate field tests



# ESMA CP Proposal

‘Annual financial report’ (AFR) is defined as:

- separate and consolidated financial statements
- management report (including corporate governance and other)
- other statements made by the issuer

## Feedback received

- only mandate ‘tagging’ for the **consolidated IFRS financial statements** in a first stage.
- No requirement other parts of AFR to be in structured format yet
- On the country GAAP equivalents: xHTML

## ESMA proposal

- Scope of tagging limited to consolidated IFRS FS
- Member States assess to allow or mandate structured financial reporting for individual financial statements
- Extension of scope only after positive impact assessment

	Proposed approach
<b>IFRS consolidated financial statements</b>	Structured electronic reporting required
<b>National GAAP and IFRS individual financial statements</b>	Structured electronic reporting only if allowed or required by the MS  otherwise human readable representation only (xHTML)
<b>3<sup>rd</sup> country GAAP deemed equivalent to IFRS financial statements</b>	Human readable only (xHTML)

Does this suit users as well?

# USERS requirements vs ESMA Policy objectives

- **Policy:**

- Electronic reporting must be easier for issuers compared to current practices
- Electronic reporting must facilitate accessibility to investors
- Electronic reporting must facilitate analysis for investors and competent authorities
- Electronic reporting must facilitate comparability of AFR
- Electronic reporting for banks, financial intermediaries and insurers must take specifics into account



- **Users**

- Fully agreed with those findings and added:
  - » **Electronic reporting should save costs**
  - » **Electronic Reporting must serve as a basis for audits. Electronic assurance is logical and a must**
- Though user views were not the same everywhere, large user organisations shared common view.



# Do USERS want more?

- **EXTRA's:**

- Non financial and strategic reporting becomes more important  Extend please!
- Agreement on the technology used?  Yes if adequately used in a uniform way.
- IFRS taxonomy is the basis  Yes, but add certain non Gaap measures.
- Entity specific extensions not in ESEF  OK for now, but to be reviewed in the future.
- Different stages conso and non conso?  Preferably all in one stage for comparability.
- ESEF also for third country GAAP?  EU core taxonomy for national GAAP's needed
- Phased approach for SME?  Focus on listed companies, same format for large and small

- **Fairly comparable view by most representative user organisations.**

# ESMA CBA's

- **CBA 2015**

- ESMA carries out a full CBA on NCAs, OAMs & market participants (issuers, users, auditors, ...)
- But low response from issuers (14 out of 220 targeted) and CBA results > actual costs incurred by issuers of structured electronic reporting using XBRL or Inline XBRL

- **CBA 2016**

- New methodology : survey to preparers already using (i)XBRL for financial statements + check with intermediaries + desk research
- Low response rate, but figures match actually encountered costs and are robust
- Expected cost for issuers : first filing EUR 8.2 – EUR 13k, subsequent filing EUR 2.4k – EUR 4.6k depending on level of detailed tagging (AICPA : EUR 9k for first filing)

# ESMA Decision 12/2016

‘The digital format which issuers in the European Union (EU) must use to report their company information from 1 January 2020.

- Inline XBRL is the most suitable technology to meet the EU requirement for issuers to report their annual financial reports in a single electronic format because it enables both machine and human readability in one document.
- The digital format will allow users such as investors, analysts and auditors to carry out software supported analysis and comparison of large amounts of financial information. Access to annual financial reports for both professional and retail investors is essential for creating robust capital markets across the EU.
- “Financial reports are crucial for a full understanding of a company’s situation and moving to electronic reporting will facilitate analysis, comparability and accessibility of issuers’ financial statements.
- "We believe that the vast pool of free, structured financial information that will emerge once electronic reporting starts will trigger technological innovation. The Inline XBRL format has the potential to bring financial reporting into the digital age.”

# ESMA Conclusion



- Issuers must prepare their annual financial reports in the human readable XHTML (Extensible Hyper Text Markup Language) format, which can be read by standard browsers without the need for specialised tools;
- Only where annual financial reports contain IFRS consolidated financial statements must issuers label this information using XBRL (Extensible Business Reporting Language), which is machine-readable. The XBRL data is embedded directly into the XHTML document through the Inline XBRL format. ESMA may extend mandatory labelling of information using XBRL to other parts of the annual financial report or to financial statements prepared under third country GAAP at a later stage; and
- The IFRS Foundation's Taxonomy should be used to transfer financial information into structured data for the electronic reporting of IFRS financial statements.
- ESMA will focus on developing the detailed technical rules, field test its proposed solution and afterwards submit the technical standard to the European Commission for endorsement around year-end 2017.

## Recap : “What does the user want?”

- Investors and analysts now using third party data or manually extract information, will switch to using the digital report as their main data source to
  - **facilitate** their analysis and
  - **reduce** their data information **costs**.
- XBRL survey done by CFA institute: “digitally tagged financial information is important to primary users. 44% of all respondents obtain all (8%) or most (36%) of the financial data using electronic tagged data from 3rd parties, so a large number of users still extract all data (18%) or most (34%) of the data manually from the source documents at a high cost.

## Recap: “How will the user benefit from iXBRL?”

- Analysts want for efficient stock screening:
  - ***Reliable, comparable and consistent** available data*
  - ***Long histories** for quantitative analysts*
  - *Population: **large number of companies** to screen on or involve in regression analysis*
  - *Transparency to **review quickly ‘outliers’**, data aggregators offer click thru capabilities from standardized to the exact location in the document from which the information was sourced*

## Users want good tools:

- The development of better XBRL rendering tools seems to have resulted in an increased number of CFA's using XBRL as a tool to access and view financial reports. Other reasons why investors and credit lenders use electronic data are: pre-population of in house data models, quantitative financial data modelling and stock screening.
- Data aggregators such as Thomson Reuters, Bloomberg and Morningstar have started to consume XBRL filings.

# ESMA ESEF – Benefits in line with users wishes...

*Inline XBRL can 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

*Inline XBRL can 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.

*Inline XBRL can 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.

# But how to implement correctly?

We need to assist ESMA in at least the following way:

- Providing access to our community of experts within the regulatory, accounting, software and consultancy sectors. Include specific XBRL Europe events for this purpose.

Working through XII WGs and in tight collaboration with XII.

- Respond to and prioritize technical requirements surfaced by ESMA and market stakeholders.
- Accelerate international guidance related to the standard and the most common challenges reported by adopters. In particular:
  - Support, the development of greatly improved guidance on XBRL extensibility, versioning and other implementation mechanics.
- Provide a software certification mechanism that helps enhance interoperability and improve choice in the marketplace.
- In time for 2020, prepare specialized accreditation frameworks to help suitable training providers accredit relevant market actors, including preparers and users of XBRL data.

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