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USE OF XBRL DATA
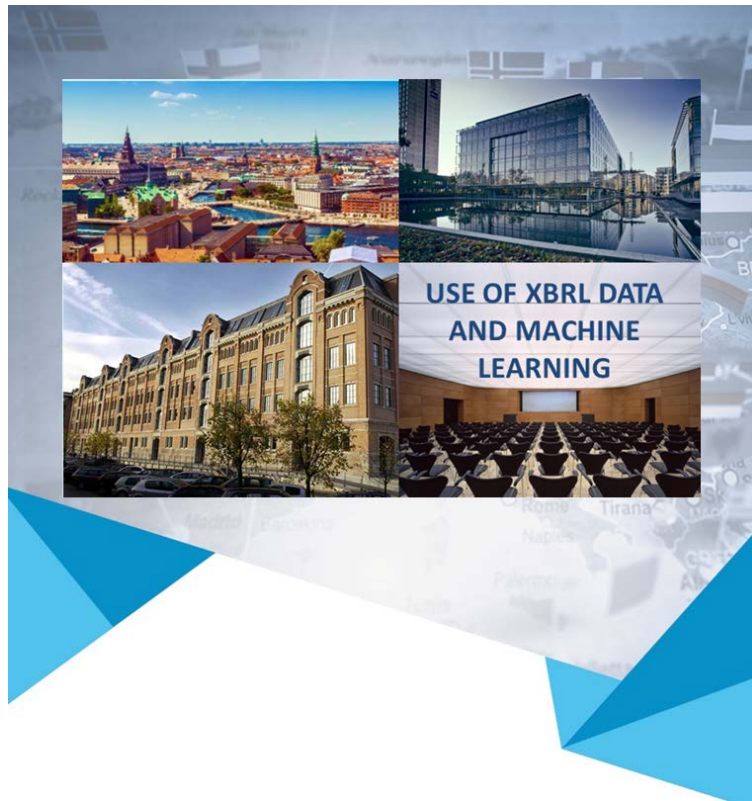AND MACHINE
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ESEF: Decision points ahead

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This presentation……

…… is premised on the adoption of ESMA's draft Regulatory Technical Standard by the European Commission. ESMA issued the draft RTS in December 2017. A decision on adoption is due on or before 19 March 2018.

Before starting, it is appropriate to recognise that adoption should not be presumed. No view is offered on the likelihood of adoption.

However, the three month period between release of the draft RTS and its potential adoption gives opportunity to imagine how roll-out will be. This activity is underway.

One way to envisage the future is to try to frame the key determinations that need to be made and identify who gets to make them. This is the way I have chosen.

Two caveats. Issues covered here relate to the preparation of the iXBRL data, but there will also be decisions addressing it's distribution that others are better placed to relate. Also, please recognise that sometimes regulatory change cannot be determined by national regulators alone and requires government to alter national law to enable change to be made. In the interests of brevity, I will not refer to this point each time it applies.

Jon Rowden 26 January 2018

One document model, two document model or preparer choice?

Who determines? National Competent Authorities (NCAs) and, potentially, preparers

What's the issue?

In 2019 a signed human-readable set of financial statements presents a true and fair view

In 2020 would a solely human-readable document be capable of being signed off?

If "No", then a one document model emerges. Only iXBRL fulfils the requirements.

If "Yes", then a two document model is an *option* for preparers. Sign off human-readable documents and then prepare an iXBRL version to fulfil ESEF.

Alternatively, for implementation simplicity, a two document model might be mandated.

Data point: when UK listed companies were given a choice between one and two document approaches for their iXBRL statutory accounts, a two document model was preferred

Key decision: How will NCAs frame the way forward?

Will there be mandatory audit of XBRL tags?

Who determines? NCAs and National Assurance Standard Setters (NASS)

What's the issue?

Current audit standards exclude machine-readable data from the scope the audit

There are calls for ESEF's XBRL tags to be included within audit scope

Audit standard-setting is iterative involving consultation – a project can take years.

Whether it's a one document model , a two document model or a preparer choice makes a difference to the complexity of the exercise.

Key decision: Will NCAs tell preparers that the machine-readable data needs to be audited? If they do, NASS will determine the way forwards.

Entering the software market

Who decides? Software companies

What's the issue? In short, who will offer to sell what?

Three markets could emerge:

- Software for the receiving "engine" for NCAs

- Preparation software

- Checking software, where an iXBRL document is the input, not the output

In a one document model, preparation software will need to address the quality of converting graphic design to XHTML

In a two document model, graphic design quality of the iXBRL document may seem less important.

Key decision: How much investment should software companies make before the outcome of the one document / two document model decision is known?

Updating the requirements and guidance: feedback loop

Who decides? ESMA

What's the issue? The IASB's taxonomy gets updated each year – so updates to ESMA's taxonomy, which is based on the IASB taxonomy, seem certain

The existing calculation linkbase is not compatible with dimensions. Options exist.

Adjustment of taxonomies and rules is a normal process for XBRL mandates

Dialogue with key implementation players surfaces the issues to address

Rulemakers decide how actively they seek input

Key decision: How will ESMA gather feedback on practical implementation of the taxonomy and rules?

Implementation diversity

Who determines? NCAs and NASS

What's the issue? In short, will implementation approaches differ across Europe?

The principle of consistency is often popular, but losing control or the prospect of compromise can hold less appeal

Software availability may be affected. Software solutions are devised with a target market in mind. Diversity of requirements could mean a series of smaller fragmented target markets.

For example: Graphical conversion issues may be costly for software producers to solve. In countries permitting a two document model, a solution might not have a market.

For example: How many Assurance standards will be developed: zero, one or more?

Key outcome: Will there be a shared approach between nations (i.e consistency) or a sharing of national approaches (i.e diversity)?

Thank you