

XBRL Europe Answer

To the

European Commission Consultation on

Fitness check on the EU framework for

public reporting by companies

21 July 2018

This XBRL Europe answer has been prepared by an adhoc subgroup of XBRL Europe composed of:

- Philip Allen - XBRL UK
- Hans Buysse - XBRL Europe EFFAS direct member
- Martin Deville - XBRL Europe UB Partner direct Silver member
- Jennifer Guest - XBRL UK
- Bas Groenveld - XBRL NL
- Frans Hietbrink - XBRL NL
- Poul Kjær - XBRL Denmark
- Kyle Lamb - XBRL Europe EY EMEA direct Premium member
- Marshall Matthews - XBRL UK
- Jon Rowden - XBRL Europe PwC direct Premium member
- Prakash Ramachandaran - XBRL Europe Datatracks direct Silver member
- John Turner – XBRL International CEO
- Bruno Tesniere - XBRL Europe Chair
- Thomas VERDIN - XBRL Europe Tesh advice direct Premium member
- Eugenio Virguti - XBRL Italy
- Liv Watson - XBRL Europe Workiva direct Silver member

XBRL Europe has decided to answer only on the part concerning the digitalization aspect, the rest having been considered not in line with XBRL Europe concerns.

It has been prepared though a series of conference calls and on a Word format document framework in order for all to be able to enrich the document after the conference calls and

The answer has been built with this word document and filed on the commission website through their e-filing channel as requested before the 21st of July and as par the instructions of the European Commission.

The Executive committee of XBRL Europe thanks this sub-group for the quality of our answer.

VI. The digitalisation challenge

In the area of public reporting by companies technology is changing 1) the way companies prepare and disseminate corporate reports and 2) the way investors and the public access and analyse company information. On 6 October 2017, the 'eGovernment Declaration' was signed in Tallin in the framework of the eGovernment Ministerial Conference. It marked a clear political commitment at EU level towards ensuring high quality, user-centric digital public services for citizens and seamless cross-border public services for businesses²⁴. ²⁴ The 'Tallinn Declaration':

<https://ec.europa.eu/digital-single-market/en/news/ministerial-declaration-egovernment-tallinn-declaration>

Digitalisation is soon to become reality for issuers with securities listed on European regulated markets ("listed companies"). These companies must file their Annual Financial Reports with the relevant Officially Appointed Mechanisms (OAMs). An Annual Financial Report mainly contains the audited financial statements, the management report and some other statements. In 2013, the Transparency Directive was amended to introduce as from 1 January 2020 a structured electronic reporting for Annual Financial Reports based on a so-called "European Single Electronic Format" (ESEF). It also established a single European Electronic Access Point (EEAP) in order to interconnect the different national OAMs. The objectives were to facilitate the filing of information by listed companies, and facilitate access to and use of company information by users on a pan-EU basis, thus reducing operational costs for both parties.

Beyond listed companies, the Commission is currently working, as announced in the 2017 Commission Work Programme, on an EU Company Law package making the best of digital solutions and providing efficient rules for cross-border operations whilst respecting national social and labour law prerogatives, which is not subject to this public consultation.

Questions

57. Do you consider the existing EU legislation to be an obstacle to the development and free use by companies of digital technologies in the field of public reporting?

☒ Yes

☐ No

☐ Don't know

If you answered "yes", please explain your response and substantiate it with evidence or concrete examples

EU legislation acts as a catalyst for public reporting to be digitalised. With digitalisation comes the opportunity to make information not only accessible, but also capable of being combined, analysed and sorted in ways that are straightforward and cost-effective as a result of digitalisation. We consider this a significant benefit for society.

Experience indicates that it takes a regulatory mandate, such as that prompted by EU legislation, to bring about beneficial change through the development of software connected with new technologies.

So we are very supportive of ESMA's development of a draft regulatory technical standard for ESEF and encourage the European Commission to adopt the standard. The reason we consider that existing EU legislation is an obstacle is because we consider there are other areas where data can be digitized and made available to the public that are not currently prompted by EU legislative mandates. For example, in the area of financial reporting, both prospectuses and preliminary earnings announcements contain data that we believe the public would find useful to have in digital format. So we encourage the European Commission to identify further areas of public reporting that are suitable for legislative initiatives and to encourage alignment between existing initiatives like country-by-country reporting (in the extractive and logging industry sectors) and tax reporting.

58. Do you consider that increased digitalisation taking place in the field diminishes the relevance of the EU laws on public reporting by companies (for instance, by making paper based formats or certain provisions contained in the law irrelevant)?

☐ Yes

☒ No

☐ Don't know

If you answered "yes", please explain your response and substantiate it with evidence or concrete examples

The impact of electronic structured reporting

59. Do you think that, as regards public reporting by listed companies, the use of electronic structured reporting based on a defined taxonomy (ESEF) and a single access point (EEAP) will meet the following intended objectives:

	1	2	3	4	5	Don't know
Improve transparency for investors and the public	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Improve the relevance of company reporting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reduce preparation and filing costs for companies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reduce costs of access for investors and the public	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reduce other reporting costs through the re-use of companies' public reporting of electronic structured data for other reporting purposes (e.g. tax authorities, national statistics, other public authorities)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5 = totally agree)

Please provide an estimated order of magnitude or qualitative comments for such cost reductions (e.g. % of preparation costs or % of costs of accessing and analysing data...):

Taken together, we confidently expect ESEF and EEAP will achieve all these benefits. Currently preparing an annual report in a paper-based format is often a time-consuming process involving considerable inefficiencies for preparers every year. ESEF presents a prompt for preparers to improve and streamline their preparation activities through digitalization. Whilst Year 1 costs associated with a change project can be expected, the overall costs in the years ahead should diminish.

By way of example, the initial identification of appropriate XBRL tags drawn from the ESEF taxonomy will require effort and some degree of judgement. However, the decisions made in Year 1 will, in very large part, be relevant for Year 2 and onwards, so costs will diminish and be offset by the efficiency gains increased digitalisation of the preparation process can deliver.

To illustrate this point, a recent study conducted by AICPA and XBRL US to assess the true cost of XBRL formatting for small reporting companies in the US, shows that the average price of XBRL preparation in 2017 was \$5,476 per year, a 45% decline from the average cost in 2014. Bear in mind that this relates to the SEC filing program which requires detailed tagging of all of the data in the notes to the accounts. The ESEF arrangements are much simpler. We suggest this evidence effectively rebuts suggestions that preparation costs for ESEF will be excessive. See:

<https://www.aicpa.org/content/dam/aicpa/interestareas/frc/accountingfinancialreporting/xbrl/downloadabledocuments/xbrl-costs-for-small-companies.pdf>

To also gauge the effect on cost, we reflect on the number of listed companies across Europe expected to be affected by ESEF. In 2016 ESMA estimated that this would be 5,343 consolidated financial statements prepared using IFRS. In 2011 the UK tax regulator introduced an iXBRL requirement for financial statements that applied to approximately 1.5 million companies and which today is viewed by many as a considerable overall success. So in some respects ESEF is a very limited scale implementation, albeit of some very important information.

For users, the efficiency gains are clear cut. Today, if one wanted to establish a list of all EU listed companies in a particular industry sector with Gross Profit margins in excess of 10% and rank them, doing so would be a time-consuming and/or costly exercise. With EEAP, the information should become available to the user almost instantaneously.

We encourage the alignment between EEAP and existing and future Business Reporting Interconnection Systems ("BRIS") to ensure that not only filings from listed companies are widely available, but also the filing of all other companies.

Whilst the development of rules for ESEF is well-advanced, the EEAP is further away from implementation. To deliver the expected benefits we believe that it is important that ESEF is adopted by the European Commission as a matter of urgency, because its introduction will act as an important trigger to the development of national dissemination mechanisms that when combined can deliver the EEAP.

60. In your opinion, on top of the financial statements, do you think that the following documents prepared by listed companies should contain electronic structured data?

	1	2	3	4	5	Don't know
<i>Financial reporting</i>						
Half-yearly interim financial statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Management report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Corporate governance statement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other disclosure or statements requirements under the Transparency Directive such as information about major holdings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<i>Non-financial reporting and other reports</i>						
Non-financial information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Country-by-country report on payments to governments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Other, please specify:.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> • Preliminary Announcements and prospectus information for newly listing companies • Prospectuses for bond issuance • Earnings releases • Quarterly results where voluntarily made 						

should, in our view, all be disclosed in a format that is human and machine readable. In other words, these disclosures should all be made using structured data (Inline XBRL) drawing on well defined vocabularies contained in properly developed taxonomies that help maximise comparability.

61. Once the ESEF is fully developed and in place for listed companies, would this EU language add value as a basis to structure the financial statements, management reports etc. published by any limited liability company in the EU?

☒ Yes

☐ No

☐ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

We support the suggestion that Inline XBRL filing for financial statements and similar performance reports add value to the disclosure framework for limited liability companies. Over time, this mechanism (broadly speaking, the ESEF model) is, we believe, likely to bring significant advantages to the disclosure arrangements for these private firms.

We are not in a position to opine on the merit of any initiative that changes the accounting standards or the contents of disclosures made in unlisted company annual reports. We encourage *technical* standardization: the digitised format, rather than opining on content standardization.

Clearly, the greater the degree of standardization across Europe, the more efficient the preparation and consumption of electronic data. However, there are other factors involved, some of which are addressed in other sections of the questionnaire. We have refrained from providing a view on these.

We agree that broadening the ESEF requirement to all limited liability companies in the EU would increase transparency and therefore add value. Specifically it would lower the cost of consumption, maximise the competitiveness of the relevant software market and greatly simplify access and discovery.

We also note that the tagging of limited liability company financial statements is already a proven success in the UK, Ireland and Denmark (already in Inline XBRL), as well as in Spain, Germany, Italy, Belgium, the Netherlands and Estonia, for purposes such as taxation and annual reporting to the business registrar. We would encourage any initiative relating to unlisted limited liability companies that has the effect of expanding the breadth of activity across Europe, rather than requiring those with existing XBRL activities to alter their current approaches. We suspect that in the fullness of time, earlier implementations will find it convenient to align their technical arrangements with the broader model in use across the EU. Machine readable reports provide structured data that can be used in a host of analytic tools, including (increasingly) the use of AI based analytics. These tools provide significant advantages to users of all kinds.

62. As regards the **non-financial information** that listed companies, banks and insurance companies must publish, do you think that digitalisation of this information could bring about the following benefits?

	1	2	3	4	5	Don't know
Facilitate access to information by users	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Increase the granularity of information disclosed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reduce the reporting costs of preparers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Please explain your response and substantiate it with evidence or concrete examples.

Experience with existing iXBRL reporting requirements show that non-financial information can be digitalised to produce useful information. Much of this non-financial information is presented in the form of text. For example, statements about, key risks, strategy and compliance with law and regulations can readily be digitised and made sortable and comparable. In this way, unexpected statements can be identified from large populations of data. This is only made possible because they have been digitalised.

Once an iXBRL requirement has been determined for financial information we see considerable benefit in extending it to include non-financial information. Specifically, we are thinking of reporting relating to environmental matters, sustainability and governance, all of which seem open to such initiatives. We suggest that iXBRL could prove to be a helpful catalyst for any desired move towards standardization in these areas of corporate disclosure.

63. Digitalisation facilitates the widespread dissemination and circulation of information. Besides, the same corporate reporting information may be available from different sources, such as a company's web site, an OAM, a business register, a data aggregator or other sources. In a digitalised economy, do you consider that electronic reporting should be secured by the reporting company with electronic signatures, electronic seals and/or other trust services?

☒ Yes

☐ No

☐ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

This is an important aspect of company reporting to regulators. For example, it is vital when information is filed with a regulator, that it is sent by an appropriate person. Accordingly, there are controls and checks to ensure that regulatory submissions are genuine. Digitisation of information does not change the need for such controls. Digitalisation presents new practical challenges for regulators and companies implementing controls that are relevant for the new environment.

Experience of digital filing in the United States, United Kingdom, the Netherlands and in many other European countries indicates that these challenges can be solved in ways that are both practical and which leave the user in no doubt that the source of the information is genuine. ESEF and EEAP will undoubtedly present exactly the same challenges connected with security and trust. We see no reason why these challenges will present significant problems on implementation. Ensuring that filings are digitally and consistently signed in such a fashion as to be authenticated, securely transmitted with full integrity and non-repudiable should be addressed in the implementation of ESEF/EEAP. We encourage the Commission to consider the potential to incorporate consistent digital signatures into the Legal Entity Identifier through discussion with the Global Legal Entity Identifier Foundation (GLEIF) and Legal Entity Identifier Regulatory Oversight Committee.

Data storage mechanisms – data repositories

Today, the self-standing national databases maintained by each Officially Appointed Mechanisms (OAMs) are not interconnected to each other, or to a central platform.

The European Financial Transparency Gateway (EFTG)²⁵ is a pilot project funded by the European Parliament that aims to virtually connect the databases using the distributed ledger technology in order to provide a single European point of access to investors searching for investment opportunities on a pan-EU basis. The European Financial Transparency Gateway could be used as a basis for achieving a single European Electronic Access Point (EEAP).

64. Considering the modern technologies at hand to interconnect databases on information filed by listed companies with the OAMs, do you agree with the following statements?

	1	2	3	4	5	Don't know
A pan-EU digital access to databases based on modern technologies would improve investor protection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
A pan-EU digital access to databases based on modern technologies would promote cross border investments and efficient capital markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
The EU should take advantage of a pan-EU digital access to make information available for free to any user	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

65. Public reporting data in the form of structured electronic data submitted by listed companies could potentially be re-used for different purposes by different authorities. For instance, by filing a report once with an OAMs and re-using it for filing purposes with a business register. In your opinion, should the EU foster the re-use of data and the “file only once” principle?

☒ Yes

☐ No

☐ Don't know

Please explain your response and substantiate it with evidence or concrete examples.

A “file only once” principle is a sound basis for addressing introduction of structured electronic data. We have seen it work well in the United Kingdom where annual reports for private limited companies may be filed simultaneously with both Companies House and the inspector of taxes, HMRC. However, a “file only once” principle is limited to eco-systems where the first receiver is allowed to share the data with other parties.

A greater cost reduction for companies can be achieved through a more ambitious goal: “define once”. The re-use of data-definitions and –implementation in their administration is a way to achieve more in this field. We have seen it work well in the Netherlands where data-definitions are shared between tax reports, annual reports and reports which companies have to file at banks (credit-analysis).

Fostering the re-use of data is a good way to encourage rule-makers to devise data requirements that only extend the set of required data when it is absolutely necessary to achieve the underlying objectives of the requirement.

Coherence with other Commission initiatives in the field of digitalisation

On 1 December 2017, the Commission launched a Fitness Check on the supervisory reporting frameworks²⁶. In parallel, the financial data standardisation (FDS) project, launched in 2016, aims for a 'common financial data language' across the board for supervisory purposes. The Commission will report by summer 2019

	1	2	3	4	5	Don't know
66. Should the EU strive to ensure that labels and concepts contained in public reporting by companies are standardised and aligned with those used for supervisory purposes?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(1= totally disagree, 2= mostly disagree, 3= partially disagree and partially agree, 4= mostly agree, 5= totally agree)

Other comments

67. Do you have any other comments or suggestions?

Increased digitalisation diminishes Relevance of EU laws? – Q58

We found this a difficult question to understand. We have answered “No”, because we see the EU’s transparency directive (TD) working in harmony with increased digitalisation and acting as a catalyst for it. We cannot reconcile this with the question’s focus on whether digitalization “diminishes the relevance of EU laws”

We recognize that some users prefer a paper-based format for financial information and that some national laws require paper based formats. We see no particular need for conflict here – users should be able to access information in ways that they find most useful. It was why XBRL International devised the iXBRL format, where machine-readable and human-readable information can be combined in one document and which can be simply printed out. This is the format proposed for ESMA’s Regulatory Technical Standard created in response to the TD of 2013 and it has already proven successful in national regulatory initiatives

Alignment between Public and supervisory reportings - Q66

We answered “1” as we think that the introduction of structured reporting for listed company financial statements seems well overdue. Benefits will arrive from its prompt arrival. The ESEF taxonomy is fundamentally different to that used for supervisory purposes in the financial sector and ESEF should not be further delayed by seeking to harmonise labels and concepts with existing supervisory taxonomies. A sound approach would be for supervisory taxonomies to be reviewed and adjusted, once ESEF is introduced

ESEF and EEAP for listed companies

Listed company financial statements are a cornerstone of capital markets and investment across the European Union and indeed the world. ESEF and EEAP will combine to democratize the availability of

digital information within listed company financial statements. This will be wholly beneficial to society.

The members of XBRL Europe, including those in XBRL organisations at a national level, and of XBRL International stand ready to play a role in delivering the practical change and have large experience of delivering successful iXBRL and XBRL regulatory change. We urge the European Commission to adopt the ESEF rules at the earliest opportunity and to accelerate activities that will deliver the EEAP.

Auditor involvement with machine-readable data arising from ESEF

Auditing standards currently used for audits of EU-based listed companies are predominantly International Standards on Auditing (ISAs) or national standards based on ISAs. These standards explicitly exclude XBRL data from the scope of the auditor's work and reporting. On introduction of ESEF, this position will remain unless audit standards-setting activities to deliver change are completed.

Auditing standards that address electronic structured data have been developed in the Netherlands recently in connection with their Standardised Business Reporting initiative (SBR). Whilst SBR auditing currently addresses unlisted companies and the underlying SBR mandate differs from ESEF in some respects, the audit-related aspects of the SBR initiative provide strong indication that developing relevant auditing standards is a challenge that can be successfully met.

In June and November 2017, two representatives of DG-FISMA spoke to XBRL Europe and XBRL International meetings on the auditor involvement with ESEF and we were advised that a Q&A document was being drafted to clarify the position. There was a signal that audit work and reporting in connection with machine-readable data would be the likely result of the Q&A document which has not been published yet. XBRL Europe underlines that clarity over the role of the auditor is urgently required if professional standards for auditors are to be developed in time for implementation as part of the first year of ESEF reporting

The involvement of the auditor is not solely a question of whether the auditor will be required to deliver assurance in connection with the electronic structured data. Other aspects to be considered include the format of the auditor's report, the taxonomy for the auditor's report, securing the identity of the auditor and the link between electronic reporting by the company and the auditor report. Such issues have been addressed and resolved as part of the implementation of the SBR initiative

The prospect of auditor involvement with ESEF has strong resonances with the Tallinn Digital declaration's commitment to Trustworthiness and Security. However, the involvement of the auditor should not be clarified by development of new law. An explanation of how existing EU law and regulation should be applied seems the appropriate way to deliver a swift clarification

We encourage the European Commission to urgently engage with audit stakeholders and clarify its view on auditor responsibility in regard to electronic structured data within an Annual Financial Report compliant with ESEF