



## **Regulatory Technical Standards on the European Single Electronic Format (ESEF)**

ICAEW welcomes the opportunity to comment on the consultation paper *Regulatory Technical Standards on the European Single Electronic Format (ESEF)* published by European Securities and Markets Authority (ESMA) in September 2015, a copy of which is available from this [link](#).

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## MAJOR POINTS

### Strong support for the project

1. We strongly support moves to develop a regulatory technical standard (RTS) for the development of a European Single Electronic Format (ESEF). We also commend ESMA's efforts to consult widely with stakeholders about the policy options.
2. The requirement in the amended Transparency Directive for annual reports of EU listed companies to be prepared using a single electronic format is an important milestone in Europe's journey towards a more uniformly applied and coherent digital reporting framework for corporate reporting. It has the potential to bring about radical improvements in transparency, comparability and in particular the accessibility and usability of published financial information, which should bring capital market benefits that should not be underestimated. Our comments below should be read in this context.
3. Our overall view is that the right first step would be to move to a requirement for publication of annual reports and other periodic reports in searchable pdf format, and for ESMA to ensure that this is accepted as an appropriate means of making such information public as required by the Transparency Directive. This will be beneficial to both investors and companies, but it will also give a platform from which to take time to develop proposals to move to structured electronic reporting that meets the needs of markets and investors.

### Further analysis needed

4. The amended Directive sets very challenging deadlines for the introduction of uniform electronic reporting in Europe. We recognise the difficulties involved in obtaining all the evidence that would ideally be available to policy makers before making significant decisions in this respect, and accept that, given the practical experience of electronic filing in many jurisdictions, a detailed, comprehensive impact assessment may not be essential. However, were it appropriate to rely on that premise, we would expect ESMA by this stage to have reached a good understanding of:
  - the likely costs and benefits of the key technologies available for structured electronic reporting;
  - the various XBRL and iXBRL projects (including the corresponding taxonomies) already underway across (and within) member states; and
  - the preferences of users of annual financial statements regarding the publication of information in structured electronic reporting formats.

It is not clear from the consultation paper that this is the case, as we explain in the following paragraphs.

5. ESMA notes in the consultation paper that it received a very low response rate to its previous cost benefit analysis questionnaire regarding the technologies that could be used for an ESEF. ESMA has sought to address this lack of evidence in part by reproducing its cost benefit analysis questionnaire in the current consultation paper. However, we think that ESMA should reconsider how to obtain sufficient and appropriate evidence to support a proper assessment of the technologies, particularly in relation to the structured electronic reporting formats. This may well require the establishment of expert groups to assist ESMA with the assessment.
6. The consultation paper provides a high-level overview of the required or accepted formats in various member states. However, we find the analysis rather broad, with limited information on the different regimes that exist within individual member states and on major projects already underway in this area. This information is important because some member states, including the UK, have already introduced electronic reporting for specific purposes, including corporate taxation, but the scope and purpose of the requirements and the type of technologies used varies from case to case. We would emphasise the importance of ESMA ensuring and

demonstrating that it has achieved a good understanding of the relevant experiences of member states before finalising proposals for structured electronic reporting on a wider scale using specified technology as there is otherwise a risk that those proposals may not be appropriate to user or market needs, or cost-effective.

7. In fact it is not clear to us from the consultation paper how ESMA assesses current demand from European users for information published in a structured format or how it sees this demand evolving once all EU listed companies provide information on this basis. While we acknowledge that ESMA has sought to obtain this information through the previous cost-benefit analysis questionnaire, the low response rate is not satisfactory and this situation seems unlikely to change without ESMA taking the initiative to explain the rationale and potential benefits of the proposals to the user community. We suggest that ESMA organises a programme of public educational events in the coming months, which could be aimed at both potential users and potential preparers of structured information. We stand ready to assist ESMA in this endeavour in the UK.

### Phased and orderly approach

8. The need for further assessment need not prevent ESMA from continuing with plans to develop an RTS for a European single electronic reporting format. Indeed, we wish to see progress made as quickly as possible. However, ESMA should aim above all to ensure an orderly, widely-supported and well-understood transition across the member states to a structured reporting regime, with uncertainty, costs and unintended consequences kept to a minimum. With this in mind, all in all the timetable for implementing the current proposals for IFRS consolidated financial statements (ie, requiring from 1 January 2020 the publication of the annual financial report in pdf format with the financial statements component also published in a structured format) looks overly ambitious.
9. A better approach in the shorter term, as noted above, might be for ESMA simply to mandate publication of the full annual financial report in searchable pdf format, which recent research by the UK Financial Reporting Council's Lab suggests is at present the preferred format of a majority of investors. Even this step will need to overcome significant hurdles to be efficiently implemented across the EU. It is still the case in the UK, for example, that financial information can only be made public as required by the Transparency Directive through the use of unedited full text: it is not yet possible to use a pdf document for the purpose. If this is the short-term outcome, ESMA should ensure that momentum toward the development of Europe-wide structured electronic reporting is not lost. It should continue to gather and analyse the additional information required, establish and consult expert groups as necessary and engage with the intended beneficiaries to provide a firm platform and general support for a switch to mandatory structured electronic reporting.

### The benefits of iXBRL

10. Subject to our comments above, our working assumption based on extensive UK experience is that the objectives specified by ESMA will be met most effectively by opting for iXBRL, not XBRL. iXBRL reports are - critically - human-readable, based on HTML, and can contain unstructured data. This flexibility and the cost benefits this brings seems to us to be a tremendous advantage over XBRL, especially given the flexibility inherent in IFRS financial reporting.
11. We urge ESMA to ensure that this and other features of iXBRL are examined as part of the further in-depth analysis of both technologies by experts in the field we call for above.

## RESPONSES TO SPECIFIC QUESTIONS

### Question 1:

The provisions included in the amended Transparency Directive requiring a single electronic format were not subject to a formal impact assessment by the European Commission. While from a legal point of view ESMA could not address in this CP whether there is a need for the provisions included in the amended Transparency Directive, do you believe that a wider assessment should be performed on the requirements of introducing a single electronic reporting format in Europe? Please indicate your opinion and provide arguments.

12. As noted above, we recognise the difficulty of obtaining in the time available all the evidence that would ideally be available to policy makers before making significant decisions regarding the introduction of uniform electronic reporting in Europe, and accept that given the practical experience of electronic filing in many jurisdictions, a detailed, comprehensive impact assessment may reduce the necessity for such an assessment. However, at the very least, as explained in paragraphs 4 to 6, ESMA should gather additional information and engage further with the intended beneficiaries of structured reporting

### Question 2:

Do you agree with the description of the policy objectives as included in this section? Are there any further elements that you believe should be analysed? If yes, please indicate them.

13. We broadly agree with the description of the policy objections as outlined in Recital 26 of the amended Transparency Directive (and reproduced in the ESMA discussion paper).

### Question 3:

Do you believe that the introduction of electronic reporting should serve as a basis for further debate on auditing of electronic structured data? Please explain your reasoning.

14. We agree that further debate is desirable on the demand for assurance on electronic structured data and the challenges this might entail, taking account of any experience and debate to date in EU member states and in the United States.

### Question 4:

Are you aware of any further elements which are necessary to provide an accurate picture of the current reporting for the purpose of this CP?

15. As noted above, we understand that there are a number of different reporting regimes that exist within individual member states, including various structured reporting projects. Further analysis of the various regimes and projects is likely to be helpful, not least in relation to the extensive use of iXBRL in the UK.

### Question 5:

Do you agree with the description of the technologies included in the CP?

16. We are not convinced that the analysis in the consultation paper of iXBRL is of sufficient quality and suggest that an expert panel is convened to complete a rigorous analysis and review experience to date around the EU and in the United States. It is not acceptable to mandate additional costs for companies without adequate evidence that the information so produced meets the needs of users of annual reports and the market as a whole.

**Question 6:**

**Do you agree with the choice of the technologies to be further analysed as part of the CBA? If not, please indicate which other technologies you would propose for further analysis.**

- 17.** Yes, we agree with the choice of technologies to be further analysed as part of the cost-benefit analysis. However, we would not wish ESMA to be restrictive if other potential technologies come to light during the investigative process.

**Question 7:**

**Do you agree with ESMA's proposal to use the IFRS taxonomy as issued by the IFRS Foundation for reporting under IFRS, subject to formal endorsement in the European Union?**

- 18.** Yes, we agree in principle, although further consideration and analysis is required regarding the need to adapt or extend the IFRS Foundation taxonomy before it is adopted in Europe. We comment further on this in our response to question 8. We are not however convinced that formal endorsement is required given the underlying standards are already subject to endorsement; this needs to be reconsidered.

**Question 8:**

**Do you agree with ESMA's preliminary conclusions not to use regulatory and entity specific extensions? Please provide arguments in your answer in relation to the impact on issuers and users.**

- 19.** No, we anticipate that ESMA will need to permit a limited number of local regulatory extensions to ensure that useful information in the paper/pdf versions of reports is not less accessible to those making use of data submitted electronically. However, we would question the need for entity specific extensions. If iXBRL (rather than XBRL) is used, our understanding is that this would remove the need for all data included in a financial report to be tagged.

**Question 9:**

**Do you agree with the proposed approach in relation to the taxonomies of third countries GAAPs deemed equivalent to IFRS?**

- 20.** Yes, we agree with the proposed approach in relation to the taxonomies of third countries GAAPs deemed equivalent to IFRS.

**Question 10:**

**Do you believe that taxonomy shall be developed for other parts of the AFR (outside financial statements)? If yes, please indicate which ones and explain why.**

- 21.** In principle, yes, although this is less of a priority and would not necessarily extend to each and every element of the annual report. We recognise that the significant challenges to developing and using such taxonomies will require further analysis.

**Question 11:**

**Do you agree that non-structured electronic reporting should be required for the entire Annual Financial Report? Do you agree that the format used shall be PDF? If you disagree, please explain your opinion by providing arguments on the policy objectives and impact on the CBA.**

- 22.** As explained above, ESMA should aim to ensure an orderly, widely-supported and well-understood transition to a structured reporting regime, with uncertainty, costs and unintended consequences kept to a minimum. To achieve this, ESMA could in the shorter term simply mandate publication of the full annual financial report in searchable pdf format, which recent research by the UK Financial Reporting Council's Lab suggests is at present the preferred format of a majority of investors. If this is the short-term outcome, ESMA should ensure that

momentum toward the development of Europe-wide structured electronic reporting is not lost. It should gather and analyse the additional information required, establish and consult expert groups as necessary and engage with the intended beneficiaries to provide a firm platform and general support for a switch to mandatory structured electronic reporting.

**Question 12:**

**Do you agree with the solution of a single electronic format composed of structured and non-structured data (option B)? If not, please explain your opinion as well as the impact on the CBA.**

**23.** Please see our response to question 11.

**Question 13:**

**Do you agree that iXBRL and XBRL are the most relevant options available for the ESEF?**

**24.** Yes, although as noted above, we believe further assessment of both technologies, including the associated costs and benefits, and demand from users is necessary before either is introduced as a mandatory requirement for the publication of IFRS consolidated financial statements across Europe.

**Question 14:**

**Could you please indicate what is your preferred solution between iXBRL and XBRL? Please explain the reasons.**

**25.** Our working assumption based on extensive UK experience is that the objectives specified by ESMA will be met most effectively by opting for iXBRL, not XBRL. iXBRL reports are - critically - human-readable, based on HTML, and can contain unstructured data. This flexibility and the cost benefits this brings seems to us to be a tremendous advantage over XBRL, especially given the flexibility inherent in IFRS financial reporting.

**26.** We urge ESMA to ensure that this and other features of iXBRL are examined as part of the further in-depth analysis of both technologies by experts in the field we call for above

**Question 15:**

**Do you agree that structured reporting format should in a first stage be required for consolidated IFRS financial statements and eventually in a second stage for individual financial statements?**

**27.** We support a phased approach to widening the scope of the proposed RTS. However, we suggest that the initial move to structured electronic reporting should extend to the individual financial statements of IFRS reporters that do not prepare consolidated accounts.

**Question 16a:**

**Do you agree with a different approach for the financial statements under national GAAPs compared to IFRS on the grounds of the existence of a taxonomy?**

**28.** Yes, we agree in principle.

**Question 16b:**

**Do you agree with the proposed approach in terms of potential development of a EU core taxonomy to be used for national GAAPs in the future?**

**29.** We agree that the feasibility of developing a core taxonomy should be explored in due course, although we think the diversity of accounting practices permitted under the Accounting Directive will represent a formidable challenge to progress in this area.

**Question 17:**

**Do you agree that a single electronic format should not be required for financial statements under third country GAAP?**

**30.** Yes, we agree that a single electronic format should not be required for financial statements under third country GAAP.

**Question 18:**

**Would you be in favour for a phased approach for SMEs, if it would be allowed under the legal mandate? Would it be relevant in the context of the development of the**

**Capital Markets Union?**

**31.** We recognise that smaller listed companies would benefit from learning from the experience of larger companies in implementing structured electronic reporting, and agree that the potential benefits of a phased transition should be taken into consideration by ESMA when developing the RTS for a European single electronic reporting format.

**Question 19:**

**Do you have any other comment to make?**

**32.** We have no further comments.