

VIDEO TUTORIAL ON THE EUROPEAN SINGLE ELECTRONIC FORMAT

Introduction to the draft RTS on ESEF

Welcome to this tutorial on the European Single Electronic Format, or ESEF. This is the first video of a set of tutorials which ESMA is preparing to inform all relevant market participants of the new requirements set out by the ESEF regulation. The ESEF reporting regime will be coming into force starting in 2020 and will impact all issuers within the meaning of the Transparency Directive.

This first tutorial is a brief introduction to the key requirements foreseen by ESMA's draft regulatory technical standards (or RTS) on ESEF.

First of all, ESMA's mandate to develop draft RTS to specify the format in which all annual financial reports shall be prepared is contained in article 4.7 of the revised Transparency Directive.

Recital 26 explains the rationale and objectives that such format shall pursue, namely that 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.

The co-legislators already gave indication in the Directive that ESMA should give consideration to current and future technological options, and included an explicit mention to XBRL, or eXtensible Business Reporting Language– a technology we will be talking about at length in the next few slides.

Let us briefly turn to the development process of the draft RTS on ESEF. After an initial period of research, ESMA published a consultation paper in 2015 including a first Cost benefit analysis. Following review of responses and an assessment of the appropriate broad policy lines, ESMA published a Feedback Statement including a second Cost benefit analysis in 2016. In the following months, ESMA developed the relevant technical specifications and tested them out during field tests in summer 2017. The objective of the ESEF field test was to assess through a hands-on exercise of transformation of financial reports into inline XBRL instance documents if and to what extent the specifications had to be improved in order to increase the usefulness of the ESEF data and reduce the burden on preparers.

The lessons learnt were then incorporated into the Final Report on the draft RTS on ESEF which ESMA submitted to the European Commission in December 2017, including a draft of the RTS and the Field Test Report. Alongside the Final Report, ESMA also published the ESEF Reporting Manual, a document in which ESMA provides guidance on common issues encountered when generating Inline XBRL instance documents. The purpose of this document

is to promote a harmonised and consistent approach for the preparation of annual financial reports in ESEF.

Following publication, all draft RTS, undergo the scrutiny of the European legislators, whereby the European Commission has to decide whether to endorse the draft RTS and the Council and European Parliament have the opportunity to object. If there are no objections, the RTS are published in the Official Journal, which is when they become officially European Law without need for further transposition at national level. As part of the endorsement process, the RTS are also translated into all EU languages. As provided for in the Transparency Directive, the ESEF should apply to annual financial reports containing financial statements for financial years beginning on or after 1 January 2020.

So what are the key requirements of the ESEF.

First of all, all annual financial reports shall be prepared in xHTML or Extensible Hypertext Markup Language. xHTML is part of the family of XML markup languages, and extends versions of the widely used Hypertext Markup Language, the language in which Web pages are formulated. It is human readable and no rendering mechanism is necessary since it can be displayed in standard Internet browsers.

The second key requirement set out in the RTS on ESEF is that where annual financial reports contain consolidated IFRS financial statements, issuers shall mark up those consolidated financial statements using XBRL tags. The XBRL or eXtensible Business Reporting Language is an open and therefore non proprietary international standard for digital business reporting, managed by a global not for profit consortium, XBRL International. One of its key characteristics is that it allows software-supported analysis, it is well-established and in use in a number of jurisdictions and is currently the only appropriate markup language to mark up financial statements.

Tagging means attributing to financial data the most appropriate element chosen from a taxonomy, which is a dictionary of accounting terms. In our case, the taxonomy to be used is the ESEF taxonomy which is based on the IFRS Taxonomy. The IFRS taxonomy, prepared by the IFRS Foundation, lists and defines the specific elements that preparers can use to identify (tag) the information disclosed within IFRS financial statements.

The third key requirement foreseen by the ESEF is that XBRL tags shall be embedded in the xHTML document using the Inline XBRL technology. The inline XBRL allows the XBRL benefits of tagged data to be combined with a human-readable presentation of a report, which is under the control of the preparer.

Just very briefly to give you a visual idea of what we are talking about, this is a screenshot of what an xHTML file looks like – just like a standard webpage. What you are seeing here is one of the output files produced in the course of the ESEF field test in summer 2017.

In the next slide, you can see what embedded tags look like, again when looking at a file produced in the course of the ESEF field test. Indeed, as you can see on the dedicated page

on ESMA website, the ESEF field test report packages contain an Inline XBRL viewer, which can be opened using any recent standard internet browser, and allows for the visualisation of XBRL mark ups and the related meta data. Tagging of a financial information, for example of the figure circled in red, means that metadata attached to the chosen taxonomy tag can be visualised on the purple banner in the right side of the screen by clicking on the tagged item. This metadata can not only be visualised individually, but crucially can be quickly and massively extracted by software tools to perform analysis, to feed financial models or perform trending analysis, comparison with benchmarks and best performers, etc - within and across different firms and industries.

The ESEF requirements demand only detailed tagging of the primary financial statements, whilst for the Notes the only requirement is to apply block tags to the relevant text. Among the different levels of tagging whose costs and benefits ESMA assessed, it was decided that this would be the most effective compromise because it provides highly granular data for analysis on the primary financial statements whilst demanding only limited effort from preparers.

So how does a preparer go about marking up its disclosures? The ESEF requirements foresee that when marking-up disclosures (intended here as both the figures in the primary financial statements and the narrative disclosures in the Notes), preparers shall mark them up with the taxonomy element having the closest accounting meaning to marked up disclosure. If the closest taxonomy element misrepresents the accounting meaning of the disclosure, issuers shall create a so-called *extension* taxonomy element. Extensions allow issuers to tag information which is unique about a company and can therefore not be found in the core taxonomy.

In an attempt to strike the right balance between comparability and accuracy, when creating an entity specific extension taxonomy element, the ESEF also requires that those extension taxonomy elements are anchored to the core taxonomy element that has the closest accounting meaning. Anchoring means creating an anchor, a “link”, through an XBRL relationship. This requirement stems from the need to provide end-users with a better understanding of meaning of extension items and facilitate their usability in large-scale data analysis. The ESEF Reporting Manual provides several concrete examples of extensions and of anchoring, including guidance for both preparers and software providers. We shall be further elaborating on these in the next video tutorials.

To conclude, in this final slide we provide an overview of when the relevant requirements will be coming into force: first point to highlight, is that tagging will be required for IFRS consolidated financial statements only. Detailed tagging of the primary financial statements will be mandatory for annual financial reports containing financial statements for financial years beginning on or after 1 January 2020, whilst the requirement to block tag the notes will only be coming into force in 2022. Detailed tagging of the notes will be allowed on a voluntary basis.

As for individual financial statements, Member States shall be able to permit or require to mark-up individual financial statements and management reports of the issuers in a structured electronic format, if a taxonomy for the respective reporting framework exists.



You will find below this video some relevant links to find out more about the ESEF and XBRL reporting using the IFRS Taxonomy, both on the ESMA's website and on the IFRS Foundation website.

Thank you for your attention. Stay tuned for more video tutorials on the ESEF coming up soon.