THE 100 GROUP

Financial Reporting Committee

The Rt Hon Greg Clark MP
Secretary of State
Department of Business, Energy and Industrial Strategy
1 Victoria Street
London
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6 June 2018

Dear Secretary of State

The European Single Electronic Format

During 2013 the European Parliament undertook a review of the original Transparency Directive (2004), resulting in the revised Transparency Directive ('RTD'). The RTD required issuers listed on regulated markets to prepare their annual financial reports in an European Single Electronic Format ('ESEF') from 1 January 2020, with the stated objectives being easier submission for issuers and facilitating accessibility, analysis and comparability for investors and regulators.

We are writing to you to outline our concerns with the proposals, as well as the significant financial burden potentially being place on businesses.

The announcement also stated that ESMA would assist the European Commission by developing draft regulatory technical standards covering, the technical requirements for the operation of the central access point for regulated information and the technical requirements regarding communication technologies used by national storage mechanisms. ESMA issued a consultation in September 2015 seeking views on both the proposed scope of the requirements and the format of reporting. Following this consultation EMSA has outlined that the whole of the annual report will be required to be submitted in XHTML format with the implementation of structured electronic mark-up ('tagging') of financial statements being undertaken over a two-year implementation phase. During this implementation phase, tagging would only be required for the primary financial statements, i.e. for financial periods beginning on or after 1 January 2020 and 1 January 2021 only the primary statements will require tagging. Subsequent to this the notes accompanying the primary statement will be required to be block tagged.

ESMA wrote to the EC in January 2017 stating that the draft regulations would be delayed due to budget constraints. Additionally ESMA noted that technical requirements in relation to the XHTML format still need to be developed and field tests also need to be conducted as per the legal mandate. To date there has been no further update from ESMA on the progress of the regulations.

In our response to EMSA consultation we noted a number of practical implementation issues and concerns, principally:

- Whilst the IASB's taxonomy may be the best starting point for a European digital reporting project, it is not complete and there are points that will need addressing to ensure its relevance;
- We believe that requiring the use of any taxonomy conflicts with the FRC's Cutting the Clutter initiative, as it may drive a checklist mentality that can encourage the inclusion of immaterial disclosures;
- A taxonomy may also discourage the presentation of information in a useful format specific to a company. It is our understanding that company specific formats encouraged by many standards (e.g. IFRS 7, IFRS 8) would not be included in the tagging and would require extensions, and there are concerns as to whether there are any tools that make creating extensions a simple process for non-specialists;

- We believe lack of ability to include entity specific extensions highlights the limitations of both using a standard taxonomy and comparability between different entities.

We continue to believe that at present there is no need for further electronic reporting, with interested parties getting their data using other means (principally PDF). This supported by the supported by the FRC's F Financial Reporting Lab project work in relation to Digital Reporting, a report from the project says "Investors are not clear on what the benefits of XBRL are. They do not consider XBRL adds utility above current market solutions". It also goes on to list the attributes of the PDF annual report that investors say they value, which includes it being portable, ubiquitous, downloadable, searchable and assured.

A number of our members have a secondary listing on a US Stock Exchange and are now required to xbrl tag their annual reports for filing with EDGAR. Based on discussion with some such companies we are concerned that the cost of compliance significantly outweighs any benefits.

On a NPV basis our best estimate of the cost to the FTSE Index of meeting the proposed requirements will be at least £1.5 billion, approximately equivalent to the market capitalisation of Virgin Money (a FTSE 220 company). This estimated NPV cost of £1.5 billion is based on the average costs incurred by US foreign issuers extrapolated across the FTSE constituents. This cost estimate is relates to preparation only and does not include any required assurance costs, which ESMA commented in its December 2016 feedback statement as being more likely than not. As such, the real cost will be significantly higher. Furthermore, it should be noted that these are fixed costs and will not be scalable dependent on the size of the company.

With some countries using or developing electronic reporting projects, we appreciate that there is a concern that Europe, and the UK, may fall behind if electronic reporting is not moved forward. However, we understand the majority of other projects relate to providing electronic reporting for the purpose of regulatory bodies rather than putting it in the public domain for investors and we continue to believe that PDF is a preferential format.

We believe that In light of Brexit, that this represents a distinct opportunity for the UK government to reduce the regulatory burden on business and avoid a significant financial burden that businesses can re-invest elsewhere. We recognise that the effective date of the requirements, being 1 January 2020, is before the end of the transitional phase and as such would recommend that the UK government implement a stage-gate system, in which the tagging does not extend beyond the primary statement unless there is a genuine, demonstrable benefit to investors.

Please feel free to contact us, should you wish to discuss our comments.

Yours sincerely,

Russ Houlden
Chairman, Financial Reporting Committee
The 100 Group

<u>Who we are</u>

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses

the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers

Please feel free to contact us through the 100 Group's website, www.the100group.co.uk, should you wish to discuss our comments.