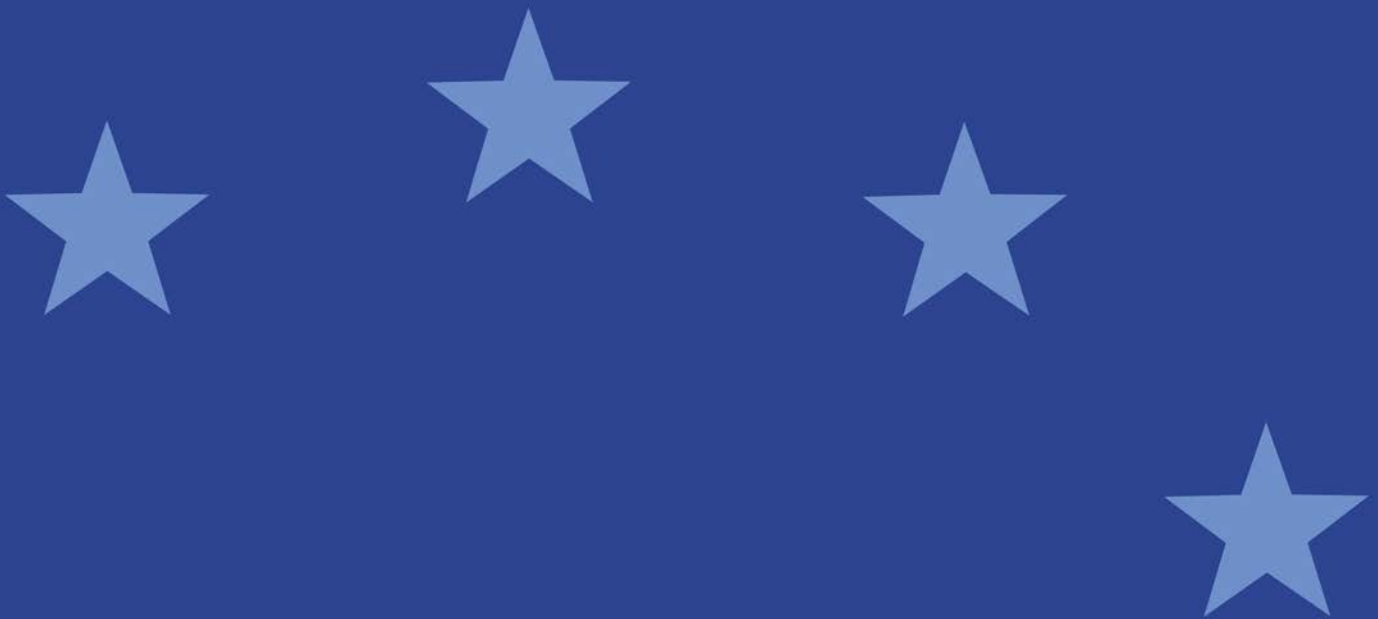




European Securities and  
Markets Authority

## **Reply form for the Consultation Paper on the European Single Electronic Format (ESEF)**



## Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in Consultation Paper on the European Single Electronic Format (ESEF), published on the ESMA website.

### **Instructions**

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

- use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
- do not remove the tags of type < ESMA\_QUESTION\_ESEF \_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
- if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

- if they respond to the question stated;
- contain a clear rationale, including on any related costs and benefits; and
- describe any alternatives that ESMA should consider

### **Naming protocol**

In order to facilitate the handling of stakeholders responses please save your document using the following format:

ESMA\_ ESEF \_NAMEOFCOMPANY\_REPLYFORM.

E.g. if the respondent were XXXX, the name of the reply form would be:

ESMA\_ ESEF \_XXXX\_REPLYFORM

To help you navigate this document more easily, bookmarks are available in “Navigation Pane” for Word 2010 and in “Document Map” for Word 2007.

### **Deadline**

Responses must reach us by **24 December 2015**.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input/Consultations’.



### ***Publication of responses***

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA's Board of Appeal and the European Ombudsman.

### ***Data protection***

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the headings 'Legal notice' and 'Data protection'.



## Introduction

**Please make your introductory comments below, if any:**

<ESMA\_COMMENT\_ESEF\_1>

### Who we are

The 100 Group 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 FTSE 100, collectively employing over 7% of the UK workforce and in 2015, paid, or generated, taxes equivalent to over 14% of total UK Government receipts. Our overall aim is to promote the competitiveness of the UK for UK businesses, particularly in the areas of tax, reporting, pensions, regulation, capital markets and corporate governance.

### Our views

We believe at present there is no need for further electronic reporting, with interested parties getting their data using other means (most likely PDF).

We strongly recommend that a full and complete assessment is carried out by ESMA on any proposed requirements as we believe the case for structured electronic information has yet to be made and its introduction is likely to burden companies with extra costs and compliance. Our view is that the introduction of structured electronic information brings with it considerable risks, to accuracy and presentation, that could lead to poor investment decisions. In addition, the ease of accessibility could lead users to inappropriately compare financial information without properly understanding it.

You received very few responses to the initial consultation, which we suspect is because both preparers and users do not fully understand the various structured electronic reporting formats and the associated costs and risks. As such the consultation (via responses to this consultation) lacks rigour and credibility; you are attempting to provide users with a format you/preparers (of financial statements) think users will want and will use, without knowing if there is even a need or desire for structured financial information.

We work closely with the Financial Reporting Lab, part of the UK's Financial Reporting Council, because they provide an environment in which investors and companies can come together to develop pragmatic solutions to today's reporting needs. The Lab currently has a live project that is looking at corporate reporting in the digital world. The latest 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 and assured. We strongly recommend that you contact the Lab to discuss their research as the outcome seems to be contrary to the proposals in your consultation.

With some countries using or developing electronic reporting projects, we appreciate that there is a concern that Europe 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. For the reasons discussed above and in our response to the questions, we believe that providing financial information to investors in the proposed formats would bring with it considerable risks that could lead to poor investment decisions.

If you do continue to explore electronic reporting formats, we strongly encourage ESMA to not accept the *best alternative* when it comes to deciding on a technology. If there are concerns, flaws or limitations with a technology, it should not be accepted and ESMA should wait for new developments.

Taking the above into consideration, we think that ESMA should properly assess all technologies against clear objectives that have been researched and agreed with users (investors and regulatory bodies) and preparers. Otherwise there is a significant risk that electronic reporting will just become a compliance exercise that results in large data sets that are not used by anyone.

<ESMA\_COMMENT\_ESEF\_1>



**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.**

<ESMA\_QUESTION\_ESEF\_1>

We strongly recommend that a full and complete assessment should be performed on any proposed requirements that are likely to burden companies with extra costs and compliance. We believe this is especially important when the benefits of any proposed requirements are unknown or unproven. You received very few responses to the initial consultation, which we suspect is because both preparers and users do not fully understand the various structured electronic reporting formats and the associated costs and risks. As such the consultation (via responses to this consultation) lacks rigour and credibility; you are attempting to provide users with a format you/preparers (of financial information) think they will want and will use, without knowing if there is even a need for structured financial information.

<ESMA\_QUESTION\_ESEF\_1>

**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.**

<ESMA\_QUESTION\_ESEF\_2>

The objectives as described in the consultation document are too broad in their meaning and should be fully developed in order to properly assess any proposed solution. For example:

*Policy objective 1: The electronic reporting should be easier for issuers compared to the current practices.*

We agree with this objective, however we do not see how introducing a single electronic reporting format will in any way be easier for issuers compared to the current practices. The majority of countries in the EU have local reporting requirements and therefore any further reporting requirement, such as a single electronic reporting format, will only be an extra burden for issuers.

In addition, the preparation of financial information in a structured electronic format would result in additional assurance procedures being required by issuers, and should involve additional procedures being performed by auditors in order to give users confidence over the quality of structured data. We envisage that this would extend the time required to release financial information, which could have a negative impact on the operation of efficient markets.

*Policy objective 2: The electronic reporting should facilitate accessibility to investors.*

The objective should take into consideration all types of users and all types of investors, and should make it accessible for all. For example: retail investors will be disadvantaged in not being able to access the information if the electronic reporting requires technology or training to access and use it.

The objective should also consider that investors need access to financial information on a timely basis. To ensure the electronic reporting is structured accurately, companies may have to include additional year-end processes, which may increase the lead time for companies to provide financial information into the market. As per the CBA study, any increase in the lead time would be a significant cost for investors.

It is unclear from the consultation why “competent authorities” are not included in this objective, but are included in objective 3.

*Policy objective 3: The electronic reporting should improve analysis for investors and competent authorities.*



The objective should take into consideration all types of users and all types of investors. For example, retail investors may be disadvantaged if the electronic reporting requires technology or training to access and analyse it.

Whilst we agree that electronic reporting could in theory improve analysis for investors our concern is over the resulting quality of such information. This is important as we understand that the experience of structured financial information in the US and by HMRC has shown the financial information can be of poor quality. The common issues include:

- Scale errors - e.g. reporting 15,000 rather than 15,000,000,
- Document & entity information errors - e.g. designating an incorrect financial year for a piece of data, and
- Sign switches - e.g. incorrectly designating positives and negatives.\*

If relied upon, these common errors could significantly influence investment decisions incorrectly. We note the consultation does not take into consideration the cost/benefits of ensuring quality through assurance. If this is to be considered, then this should be assessed against objectives 1 and 2. Any assurance process will add further lead time to the issuance of financial information to the market and will add to the burden for companies in terms of cost and time.

We are pleased to see the objective takes into consideration the point that providing figures from the annual report and accounts without explanations provides the user with only partial information.

*Policy objective 4: The electronic reporting should facilitate comparability of annual financial reports.*

The objective should make clear who will benefit from facilitating comparability through a single electronic format. If the intention is to facilitate comparability for investors, then we strongly recommend you consider the following;

- The lack of responses from investors to the initial consultation suggests that there is a lack of real market demand for facilitating comparability
- Through our discussions with investor bodies there are already tools in the marketplace that enable comparability of financial information to a certain degree (i.e. Bloomberg and other web based tools)
- The UK Financial Reporting Lab currently has a live project that is looking at corporate reporting in the digital world. The latest 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 and assured.

The policy objective should further define the meaning of ‘comparability’. This is important because having an objective to ‘facilitate comparability’ creates an assumption that everything is on a comparable basis, and there is a risk that users will assume they can use structured data in this way. The consultation rightly indicates the difficulties of achieving comparability when different GAAPs are used to prepare financial statements. However even within IFRS there exist numerous measurement and disclosure choices to enable companies to faithfully present their financial information, and it is difficult to compare information across different industries, which is why such financial information is presented and read within the context of the wider financial statements. As such there is a limit to which financial information can be compared at anything more than a superficial level.\*\* We have significant concerns that the promotion of structured electronic information might encourage users to compare financial information without fully understanding the contexts and limitations, which in turn could lead to poor investment choices.

*\*For examples of concerns raised in relation to the quality of structured data, please see the following:*

<https://xbrl.us/wp-content/uploads/2015/10/DQC-20150928.pdf> (US SEC experience)

[https://www.workiva.com/system/files/FE0913\\_Viewpoint.pdf](https://www.workiva.com/system/files/FE0913_Viewpoint.pdf) (US SEC experience)

<https://blogs.cfainstitute.org/marketintegrity/2015/10/26/pesky-extensions-how-to-improve-financial-analysis-through-structured-data/> (US SEC experience)

*A detailed analysis of common quality issues has also been undertaken by Calcbench. Please see <https://www.calcbench.com/Content/resources/Calcbench%20Report%20-%20What%20Filers%20Should%20Know%20about%20the%20Quality%20of%20XBRL.pdf>*



<http://www.datatracks.co.uk/ixbri-blog/hmrcs-experience-with-ixbri-data/> (HMRC experience)

We recommend that the points raised in the above articles should be carefully considered.

\*\* Please see <https://www.stir.ac.uk/media/schools/management/documents/accountingfinance/eufin2010/EUFIN%20-%20Cole%20-%20Branson%20-%20Breesch.pdf> for considerations around the comparability of financial information even when prepared under the same framework, and for a discussion of the uniformity-flexibility dilemma that should be considered in the context of structured electronic reporting.

<ESMA\_QUESTION\_ESEF\_2>

**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.**

<ESMA\_QUESTION\_ESEF\_3>

As stated above, if auditing or assurance is to be considered then this should be assessed against the policy objectives 1 and 2. We believe that any audit or assurance process will add further lead time to the issuance of financial information to the market, and will add to the burden for companies in terms of cost and time. As we have significant concerns over the quality of structured electronic financial information we would expect the audit to be extended to cover this.

<ESMA\_QUESTION\_ESEF\_3>

**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?**

<ESMA\_QUESTION\_ESEF\_4>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_ESEF\_4>

**Question 5: Do you agree with the description of the technologies included in the CP?**

<ESMA\_QUESTION\_ESEF\_5>

We are not experts in the field of information technology and therefore it is inappropriate for us to comment on the descriptions provided in the consultation. However, we are disappointed with the lack of research that has been carried out into what investors require from digital reporting and what companies can deliver. Without proper research and analysis we do not understand how ESMA has differentiated between the different technologies. We note also that these technologies are complex and wonder to what extent preparers and users actually understand what they are. This, in part, may be why the original consultation received such a low response rate. Given the technical complexity of the technologies, significant investment would be required by investors and preparers in terms of understanding the technologies well enough to produce structured information that is of a good enough quality for investors to feel confident in using it.

<ESMA\_QUESTION\_ESEF\_5>

**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.**

<ESMA\_QUESTION\_ESEF\_6>

The consultation highlights that PDF "is currently required or accepted in all EU Member states", however you have abandoned the Mark-Up PDF as an option because it "is not a mature technology". As noted earlier, the UK Financial Reporting Lab currently have a live project that is looking at corporate reporting in the digital world. The latest report from the project says how "most investors prefer PDF for digital annual reports". The report continues to discuss why investors prefer the PDF format:

"Attributes of the PDF annual report that investors say they value include that it:

- Has a clear boundary – Allowing Investors to have a clear understanding of the document, its scope and content.



- Is assured – The PDF benefits, in Investors' eyes, from the same level of assurance as the hard copy annual report.
- Covers a defined period at a point in time – Representing a report at a point in time that does not change versus web pages which could be subject to update.
- Can be downloaded – This provides comfort that the investor's copy will not be subject to manipulation or removal.
- Is searchable – As the search operates within the boundary of the single, clearly purposed document, Investors have more confidence that the results are relevant. This also allows them to quickly pinpoint areas of interest within that report.
- Is (relatively) timely – The PDF is available online prior to the hard copy arriving in the post, and can be accessed by investors as soon as it is released.
- Is portable – The PDF can easily be stored and it can be accessed across most devices.
- Is ubiquitous – Wide adoption by companies means that investors can access and analyse files across companies and years.

We work closely with the Lab because they provide an environment in which investors and companies can come together to develop pragmatic solutions to today's reporting needs. We strongly recommend that you contact the Lab to discuss their research.

We believe that abandoning a technology because it is not fully developed is the wrong approach. For example, the better option might be to wait a few years until technology has developed rather than accept a weaker alternative now.

<ESMA\_QUESTION\_ESEF\_6>

**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?**

<ESMA\_QUESTION\_ESEF\_7>

The IASB's taxonomy may be regarded as the best starting point for a European digital reporting project, but it is not complete and there are points that will need addressing to ensure its relevance.

We are in full support of the UK Financial Reporting Council's Clear & Concise Reporting initiative, aimed at clear, relevant Annual Reports that exclude excess 'clutter' or boilerplate information. We believe that requiring the use of any taxonomy conflicts with the Cutting 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 understand that in the US, the SEC's rationale for Foreign Private Issuers not having to file iXBRL accounts is because the IASB does not have a developed taxonomy. If the SEC do not think the IASB taxonomy is developed enough for structured data, then ESMA should research why this is the case.

<ESMA\_QUESTION\_ESEF\_7>

**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.**

<ESMA\_QUESTION\_ESEF\_8>

We believe that the question of entity specific extensions highlights the limitations of both using a standard taxonomy and comparability between different entities. As we note in our response to question 7, we believe that IFRS and the principles of Clear & Concise Reporting require the presentation of entity specific formats. On the one hand, if entity specific extensions are not used, this would mean that important information is not tagged. On the other hand, as we note above, we are not aware of tools that easily facilitate



the creation of entity specific extensions. Therefore, a balance needs to be struck between keeping the extensions used as simple as possible while also ensuring that they are sufficient to allow for the production of high quality information.

<ESMA\_QUESTION\_ESEF\_8>

**Question 9: Do you agree with the proposed approach in relation to the taxonomies of third countries GAAPs deemed equivalent to IFRS?**

<ESMA\_QUESTION\_ESEF\_9>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_ESEF\_9>

**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.**

<ESMA\_QUESTION\_ESEF\_10>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_ESEF\_10>

**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.**

<ESMA\_QUESTION\_ESEF\_11>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_ESEF\_11>

**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.**

<ESMA\_QUESTION\_ESEF\_12>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_ESEF\_12>

**Question 13: Do you agree that iXBRL and XBRL are the most relevant options available for the ESEF?**

<ESMA\_QUESTION\_ESEF\_13>

The Financial Reporting Lab, part of the UK's Financial Reporting Council, currently have a live project that is looking at corporate reporting in the digital world. The latest 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." We work closely with the Lab because they provide an environment in which investors and companies can come together to develop pragmatic solutions to today's reporting needs. We strongly recommend that you contact the Lab to discuss their research.

<ESMA\_QUESTION\_ESEF\_13>

**Question 14: Could you please indicate what is your preferred solution between iXBRL and XBRL? Please explain the reasons.**

<ESMA\_QUESTION\_ESEF\_14>

Please see our response to question 13

<ESMA\_QUESTION\_ESEF\_14>



**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?**

<ESMA\_QUESTION\_ESEF\_15>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_ESEF\_15>

**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?**

<ESMA\_QUESTION\_ESEF\_16a>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_ESEF\_16a>

**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?**

<ESMA\_QUESTION\_ESEF\_16b>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_ESEF\_16b>

**Question 17: Do you agree that a single electronic format should not be required for financial statements under third country GAAP?**

<ESMA\_QUESTION\_ESEF\_17>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_ESEF\_17>

**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?**

<ESMA\_QUESTION\_ESEF\_18>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_ESEF\_18>

**Question 19: Do you have any other comment to make?**

<ESMA\_QUESTION\_ESEF\_19>  
TYPE YOUR TEXT HERE  
<ESMA\_QUESTION\_ESEF\_19>