



18 January 2016

FRC response to the ESMA consultation on the European Single Electronic Format

Consultation response

Contents

	<i>Page</i>
Covering letter	3
Appendix - Response to questions.....	5

Covering letter

18 January 2016

Dear ESMA

FRC response to the ESMA ESEF consultation

The FRC is responsible for promoting high-quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing, and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries and oversee the regulatory activities of the accountancy and actuarial professional bodies.

This letter sets out the Financial Reporting Council's (FRC's) comments on the European Single Electronic Format (ESEF) Consultation.

In summary:

- The FRC has considerable relevant experience to contribute to the ESMA proposals. We consider that providing access to company information in a digital format can improve overall transparency and lead to positive outcomes for both companies and investors. That is why we have promoted the development of iXBRL tagging through taxonomy development for UK entities and are exploring the development of corporate reporting in a digital world in our Financial Reporting Lab. In developing a response to this consultation, we have drawn on evidence and insight from both initiatives.
- The FRC supports the ESMA consultation to seek evidence to determine the most effective electronic format (ESEF) to meet requirements of the Transparency Directive 2004/109/EC (amended 2013/50/EU) regarding the selection of a single electronic format for filing of the annual financial reports, effective from 1 January 2020.
- We consider that the development of a mandatory ESEF and its implementation should be limited to those entities subject to the Transparency Directive. Non-mandatory good practice is nonetheless likely to develop.
- In the UK, we have had a positive experience with the adoption of iXBRL on a mandatory basis for reporting to HMRC (the tax authority) and on a voluntary basis to Companies House (the public record). At present, some 1.9 million companies annually file in iXBRL. It is an important demonstration of the use and cost effectiveness of iXBRL and is the largest XBRL program in the world regarding the number of reports. The XBRL accounts tagging conventions ("taxonomies") are owned and maintained by the FRC, but importantly in liaison and consultation with market participants. Details of both how we govern the taxonomies and links to the zip files containing them can be found on the following link ([here](#)). We would be more than happy to share our experience in more detail.

- While we would encourage ESMA to consider our experience in the UK of using Inline XBRL, we also encourage ESMA to research thoroughly the experiences in other European countries to arrive at the best solution which is cost effective and does not introduce complexities for Member States such as the UK, who have already developed taxonomies.
- Moving to an assessment of the most suitable technology for the ESEF. We believe it is important to consider the application to structured and unstructured data separately. We consider iXBRL as being the best-suited technology for structured information. We believe that PDF represents the current best option for unstructured data.
- While we consider that PDF and iXBRL currently present the best solution for ESEF we note that as technology and practice develop, newer more effective formats might be developed to render both structured and unstructured data. We encourage ESMA to consider developments in technology and practice throughout the development phase of the ESEF and to consider how the risk of stifling innovation through potentially too early standardisation may be addressed. We also encourage decisions on ESEF to be considered in a broader context of how electronic information can be made accessible and useful to investors and other stakeholders, including the impact of other initiatives such as the proposal to create a European Electronic Access Point.
- We would like ESMA to consider the issue of taxonomy as a separate issue to that of the choice of technology for the structured element of the Annual Report and Accounts (ARA). We consider that the choice of technology for the structured element of the ARA should be a separate issue to its implementation. While we understand ESMA's role of recommending a technology based on the views of this consultation, we consider that implementation of the technology (and selection of a taxonomy) should be completed at Member State level.
- Our detailed responses to the questionnaire are set out in the appendix to this letter. We hope we can be of assistance in determining the most effective course of action for Europe to meet requirements of the Transparency Directive. Should you have any questions in relation to this letter or the attached completed questionnaire, please do not hesitate to contact me or Jennifer Guest j.guest@frc.org.uk.

Yours sincerely

Melanie McLaren
Executive Director Codes & Standards
Financial Reporting Council

DDI: 020 7492 2406

Email: m.mclaren@frc.org.uk

Appendix – Response to 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.

Yes. We think that in the spirit of the CMU action plan and a desire not to impose unnecessary burdens on business it will be necessary to carry out a thorough evaluation of the costs and benefits, quantifiable or otherwise.

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.

We agree with the general policy objectives. We highlight the importance of objective 1 and note that paragraph 18 describes such an objective in a very narrow way; ESMA should consider objective 1 in its widest sense.

Additionally, given the European Commission's Better Regulation Initiative we consider that ESMA should have a specific focus on saving costs, which we consider a component of objectives 3 and 4.

Related to paragraphs 28 and 29, we recommend that ESMA, EBA and EIOPA examine any benefits from synergies in their Single Electronic Format.

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.

We note that there are established international and developing European forums for the coordination of auditing standards. They would be the appropriate bodies to debate the auditing of electronic structured data rather than requiring ESMA to take on the task.

Our view is that there should not be a rush to standardise audit of structured data. If assurance is seen to be important, then it will be sought by market participants and may be delivered through more innovative and effective means than through immediate standardisation.

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?

Yes.

In addition to the current reporting processes under the transparency directive, ESMA should also take full account of all other current uses of XBRL for reporting of company accounts around Europe.

For example, in the UK reporting by companies in iXBRL to Her Majesty's Revenue and Customs (HMRC) is mandatory and reporting to Companies House (the United Kingdom's registrar of companies) is non-mandatory but there is a high take-up with around 1.9 million companies already filling iXBRL financial statements. The UK experience is an important demonstration of the use and cost effectiveness of iXBRL and is the largest XBRL program in the world in terms of number of reports. This means that UK companies, government and service providers have already made a significant investment in iXBRL. The FRC sets the relevant iXBRL taxonomies.

We are happy to share our experiences with ESMA.

We give further consideration on other elements in our response to question 19.

Question 5

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

Yes in general. We would like to clarify the description of iXBRL in paragraphs 78 to 80 and PDF in para 94:

The use of iXBRL is simpler than described in this section of the consultation document.

iXBRL provides a presentation format. In other respects, iXBRL is XBRL. iXBRL simply means the inclusion of XBRL tags within ordinary, human-readable XHTML documents. This avoids the need for a separate means of converting XBRL data into the human-readable form.

The same rules apply to taxonomy extensions whether iXBRL or XBRL is being used. iXBRL does allow the publication of layouts. Issuers in the EU are using iXBRL for reporting company accounts to tax authorities and other official bodies (see our answer to Q4).

A new ISO standard is (we understand) under development that will form PDF 2.0. ESMA should monitor the evolution of this area to ensure that any format selected based on PDF is the most appropriate version of PDF at the point of any ESEF implementation.

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.

Yes, we agree with the technologies that ESMA selected for analysis in the CBA for the structured element of the ESEF.

We would also highlight our answer to question 4 and note that there has been a significant investment in the UK and other jurisdictions in particular formats. ESMA should ensure that this has been appropriately reflected within the CBA.

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?

Based on our experience, we consider that the IFRS taxonomy issued by the IFRS Foundation, while being an important element of any taxonomy solution, would need much adaptation before being suitable for application.

In the UK, we have taken the IFRS taxonomy and extended it and made it more flexible to reflect better the way companies report in the UK. We understand that other countries such as Australia have also gone through this process, and ESMA might encourage the IFRS Foundation to improve the flexibility and ease of implementation of their taxonomy. However, we note this would not negate the need for extensions at a member state level.

We are not aware of any major XBRL project that uses the IFRS taxonomy published by the IASB without extension. Extensions for the differing European countries are likely to be essential to ensure that data reported under IFRS, in accordance with local legal, and other requirements, can be properly represented in XBRL. Selection of a technology (iXBRL / XBRL) for the structured element of the AFR would meet the demands of the TD without the need to mandate a taxonomy.

Reflecting the extensive investment already made by some countries the choice of taxonomy could be a member state responsibility and not a question for ESMA.

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.

The IFRS taxonomy issued by the IASB cannot be used effectively in its base form. Please see the answer to question 7 above.

We agree with the conclusion not to use entity-specific extensions at this moment. Entity-specific extensions may be a step too far at first and would benefit from a more standardised architecture being available. We understand XBRL International is developing best practice guidance for extensions.

Question 9

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

The question of the jurisdictions using taxonomies based on GAAPs deemed equivalent to IFRS constitutes a secondary problem in respect of the principal one, which is the choice of a SEF for the EU Member States.

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.

We agree with ESMA's conclusion that no mandatory taxonomy should be developed for elements of the AFR outside of the financial statements.

Development of any such taxonomy creates a risk of inappropriate standard-setting and undue standardisation. Reporting requirements should be determined by the need for relevant, clear and concise reporting to investors and other stakeholders and not by a mistaken belief that standardised structured data which is consistent/one size fits all will facilitate user understanding and analysis.

In the UK, we encourage companies to cross reference and signpost in the annual report and accounts (AFR) including within the financial statements and with other parts of the AFR as an effective way of assisting analysis and understanding.

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.

We agree with ESMA's conclusion that non-structured electronic reporting should be required for the entire AFR.

In the work of our Financial Reporting Lab, investors indicated that PDF is currently the most widely desired and used medium by them for reviewing company financial reporting. This was a reflection that PDF embodies some characteristics that they value (e.g. it is searchable within a clear boundary and mirrors the assured AFR). We believe that the characteristics that PDF represent are not medium specific. We would commend ESMA to consider how best to implement ESEF in a way that maintained and enhanced these qualities for users.

PDF may currently present the best solution for non-structured reporting. We highlight that as technology and practice develop newer more effective formats might be developed to render both structured and unstructured data. We encourage ESMA to consider developments in technology and practice throughout the development phase of the ESEF and to consider how best to manage the risk of EU investors and businesses being held back by requirements that may be based on outmoded technologies.

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.

Yes, on the balance of the available options, we favour option B. The entire AFR should be provided in PDF with (in addition) the financial statements at least provided in a structured format.

Question 13

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

We agree that iXBRL and XBRL are the most relevant options available for the structured element of the ESEF.

In order to be of most value, any XBRL reporting project must provide a means of viewing the XBRL information itself in a human-readable, understandable and familiar format to ensure it is complete, accurate and provided in the context of how it was originally reported. Both preparers and consumers require such visibility. All the major XBRL projects around the world provide an appropriate mechanism for this, although the specific technique used may vary with circumstances and form of data.

Question 14

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

Given the flexibility of iXBRL that we have experienced in the UK and given that the US is now looking like they are switching to iXBRL, we consider that ESMA should use the advantages that iXBRL offers.

We recommend that ESMA establish a technical study to examine the merits of available XBRL solutions and advise on the route forward. Given our positive experience in the UK, iXBRL can meet the requirements set out in the consultation document. However, other XBRL solutions may also satisfy the same requirements, and ESMA needs to be able to provide the European Commission with a technical study that establishes the merits of the solutions

We believe that ESMA should consult technical experts and review current experience in EU member states and elsewhere before confirming its detailed plans.

We are happy to share our experiences and input to ESMA our technical knowledge and would encourage ESMA to draw on the experiences of the UK and others in Europe. We encourage ESMA to draw on the skillset of relevant experts. This would then ensure the best use of the skills already present in Europe and ensure that the recommendation that ESMA submits to the European Commission will be the best fit for Europe and not introduce unnecessary cost for those countries that have already set up electronic reporting.

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?

In our experience in the UK, the majority of users of company AFR are focused on the consolidated IFRS financial statements, as such, we agree with ESMA that consolidated statements should form the first stage. We consider that any further roll out to cover individual financial statements would need to be supported by a clear cost benefit analysis and as such should not be taken forward at this time.

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?

We consider that where a national GAAP taxonomy exists that this should be considered the most appropriate for financial statements under national GAAP.

Question 16b

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

See our answer to 16a.

Question 17

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

Yes.

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?

In relation to SME's (as defined in Article 3(3) of the Accounting Directive) that are subject to the TD, we might support a phased approach. However, the CP does not provide sufficient information on the operation of such phasing to enable us to make a suitable judgement. Any phasing would need to be consulted on separately once details were clarified.

We would not support the extension of the results of this CP to SME's outside of those subject to the TD.

ESMA should consider carefully the CMU Action Plan and interactions it may have with SME's also impacted by the TD. In the FRC response to the CMU action plan, we supported alternative or reduced reporting requirements for SMEs.

Question 19
Do you have any other comment to make?

In summary, we think that there are considerable benefits to iXBRL over XBRL for structured data with PDF being the current most appropriate technology for the unstructured ARA.

We consider that this CP interacts with some other initiatives and ESMA should consider the impact that they may have on the operation of the ESEF and how ESEF might be optimised in relation to them. Key initiatives include:

- The European Commission has convened the European Multi-Stakeholders Platform on ICT Standardisation (MSP-ICT), which is promoting XBRL (among other specifications) as “Identified Standard”, according to the REGULATION (EU) No 1025/2012. See details at <http://standards.eurofiling.info/>.
- The European Committee for Standardization (CEN) convened the CEN Workshop 'WS XBRL' (Improving transparency in financial reporting) to standardise the usage of XBRL within the European and National Supervisory Authorities community. The final results were adopted by the CEN, and then officially published at <http://www.cen.eu/work/areas/ICT/eBusiness/Pages/WS-XBRL.aspx>.
- Electronic Access Point (EEAP) consultation). To make the best use of data in an ESEF access to the information needs to be easy, open and freely available. The EAP should be constructed in a way that is optimised for the results of the ESEF consultation.

The FRC’s Financial Reporting Lab is investigating how technology might impact financial reporting in the future as part of its Digital Future project. We will be happy to share the results of this work when it becomes available.