

# European Single Electronic Format - ESEF

xHTML and iXBRL in listed companies' financial reporting

# Drivers towards digitalisation of financial reporting

## Technology

- Structured data
- XBRL → iXBRL
- Robotics
- Artificial Intelligent Solutions

## Regulation

- ESEF-regulation gave start to XBRL-reporting

## Users of data

- Need for more accurate analytics, handling of big data, need for effectiveness

## Legal base of ESEF

2013: Change in  
Transparency regulation  
(2004/109/EY and  
2013/50/EU))

2017: A draft on  
Regulatory Technical  
Standard (RTS) on  
ESEF by ESMA

May 2019: Endorsement  
and publication as a  
Commission delegated  
regulation on ESEF-  
(ESEF-RTS)



## Who is impacted by ESEF?

- Issuers whose equity or debt instruments (bonds) are traded on a regulated market
  - 5 700 issuers in Europe
  - 154 issuers in Finland
  - 30 countries: 30 data storages (OAMs) and 30 national enforcers (NCA)

## Benefits of ESEF?

- ESEF is an opportunity - not only obligatory regulatory reporting
- ESEF is a communication tool for the annual financial report (AFR) in the new digital environment
- Structured data: accessibility, comparability, analysis
- Most of the decisions made today require data
- Doubts: use of data in ESEF-format?

# Key requirements of ESEF – xHTML (eXtensible Hypertext Markup Language)

Annual financial report (AFR) in xHTML-format starting from 2020

Audited financial statements

IFRS-consolidated  
financial statements

Parent company's  
separate financial  
statements (IFRS or  
local GAAP)

Management report

# Key requirements of ESEF – XBRL<sup>1</sup> tagging by using iXBRL<sup>2</sup>-technology

	IFRS-consolidated financial statements	Parent company's separate financial statements
Primary financial statements (P/L, BS, CF, Equity)	Obligatory starting from 2020	Possible on voluntary basis
Block-tagging of notes to financial statements	Obligatory starting from 2022	
Detailed tagging of notes	Voluntary	

<sup>1</sup>) XBRL = eXtensible Business Reporting Language

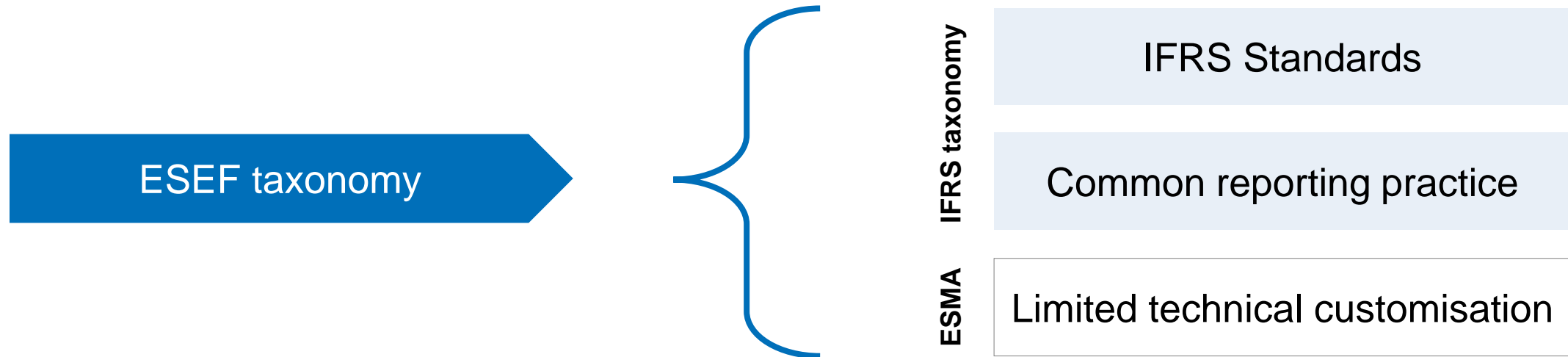
<sup>2</sup>) iXBRL = InlineXBRL

## Tagging with ESEF-taxonomy

- Starting point for tagging is the issuer's own IFRS financial statements
  - ESEF does not change the contents of the issuer's financial statements
  - it changes only the format
- Issuers are responsible for acquiring the needed software and XBRL-tagging services – no reporting templates provided
- Issuers have to use the ESEF-taxonomy
- Issuers should use extensions in tagging only if no existing ESEF-tag reflects the intended accounting meaning
- Anchoring: extensions shall be linked to the closest taxonomy element

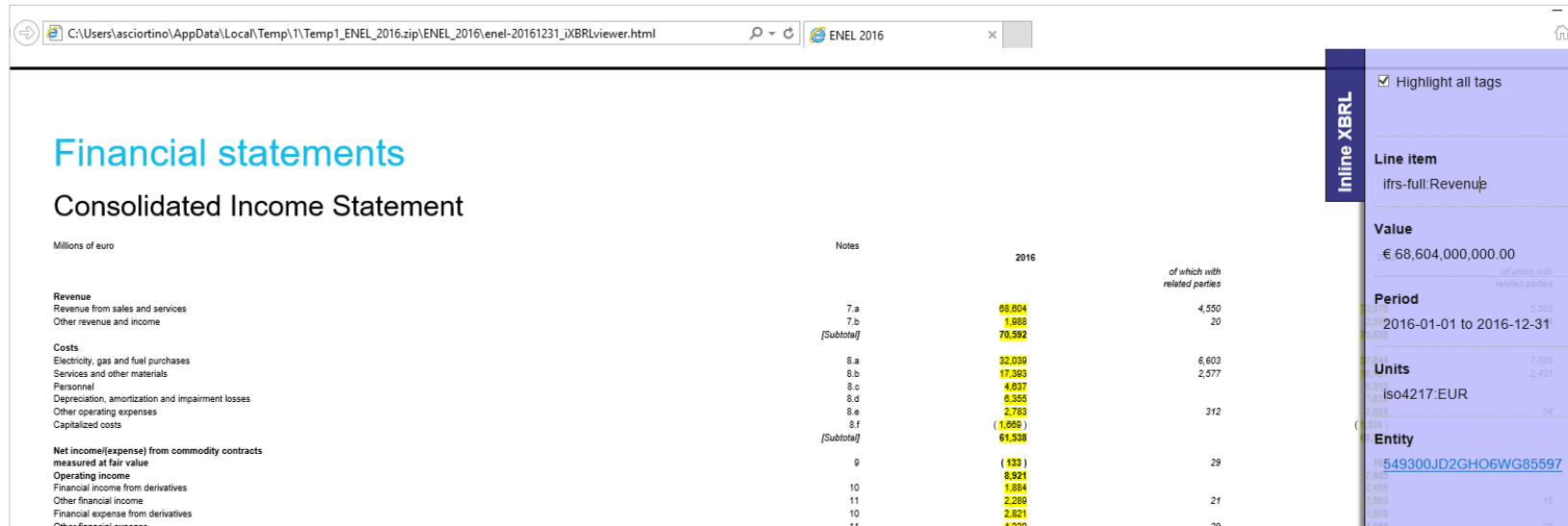


## ESEF-taxonomy based on IFRS-taxonomy



- The taxonomy is translated into all EU-languages
- Taxonomy files in all languages are available on ESMA web-pages
  - taxonomy files need to be loaded to tagging-software
- Language: the software used for the tagging should enable preparers to show the contents of the taxonomy in whichever EU-language

# What do embedded XBRL tags look like



**Financial statements**  
**Consolidated Income Statement**

Millions of euro

	Notes	2016	of which with related parties
<b>Revenue</b>			
Revenue from sales and services	7.a	68,604	4,550
Other revenue and income	7.b	1,999	20
[Subtotal]		70,603	
<b>Costs</b>			
Electricity, gas and fuel purchases	8.a	32,039	6,603
Services and other materials	8.b	17,393	2,577
Personnel	8.c	4,637	
Depreciation, amortization and impairment losses	8.d	6,355	
Other operating expenses	8.e	2,769	312
Capitalized costs	8.f	(1,696)	
[Subtotal]		61,538	
<b>Net income(expense) from commodity contracts measured at fair value</b>	9	( 933 )	29
<b>Operating income</b>		8,521	
Financial income from derivatives	10	1,894	
Other financial income	11	2,289	21
Financial expense from derivatives	10	2,821	
Other financial expense	11	4,356	36

**Inline XBRL**

- Highlight all tags
- Line item**  
ifrs-full Revenue
- Value**  
€ 68,604,000,000.00
- Period**  
2016-01-01 to 2016-12-31
- Units**  
iso4217:EUR
- Entity**  
[549300JDZGH06WG85597](#)

- XBRL tags are “hidden” within the code of the xHTML document (Inline XBRL Technology)  
→ XBRL is an additional layer of information (which is machine readable)
- Tags can be visualised using, for example, an Inline XBRL Viewer (as for example in the screenshot above).
- However, preparers must not include the Inline XBRL Viewer in their filings (see ESEF Reporting Manual, Guidance 2.5.1)

## Data quality

- Responsibility for the quality of data
  - Issuers and auditors (still under discussion at EU-level)
  - Validations should preferably be made as at the beginning of the chain
    - issuers and software vendors are in key position
  - Enforcement: National competent authorities (NCAs)
- Two types of validations:
  - 1) Accounting
    - For example all numbers in consolidated financial statements are tagged by using an appropriate taxonomy element
  - 2) Technical – automatic checks through software (RTS & Annexes, Reporting manual, ESEF-taxonomy) For example,
    - tags are embedded in the XHTML document using the Inline XBRL 1.1. specifications
    - extensions are created in compliance with the ESEF marking up and filing rules

## Assurance of annual financial report (AFR) in ESEF format

- Open questions, e.g. :
  - What is the status of the financial statements in ESEF format in accordance with the local laws?
    - What is the scope of the engagement?
  - What is the type of the engagement: audit or other assurance (or even something else)?
    - What is the underlying standard for auditors' work?
    - Is the reporting done separately or as part of the audit report?
    - What is the timing of auditor's work and reporting?
- Changes in the local legislation may be needed
- CEAOB – Committee of European Auditing Oversight Bodies
  - CEAOB works with stakeholders and prepares non-binding guidelines on the ESEF-assurance towards the yearend 2019.

## Assurance of annual financial report (AFR) in ESEF format

- ESMA Video tutorial 3:

**Can annual financial reports prepared in PDF format be used to comply with the obligations contained in Article 4 of the Transparency Directive? (Article 4: Publication and content of AFR)**

**Answer:** No, the annual financial report prepared on the basis of the ESEF Regulation (xHTML, or xHTML with iXBRL, as applicable) is the only version of the annual financial report which may be used to comply with the obligations set out in Article 4 of the Transparency Directive

- Q&A on the RTS on European Single Electronic Format (ESEF) by EU Commission:

**What kind of assurance will be provided for financial statements prepared in compliance with ESEF? Will auditors check ESEF-compliant reports?**

**Answer:** Considering that the ESEF Regulation is a binding legal instrument, the Commission services are of the view that the provisions included therein shall be considered as “statutory requirements” within the meaning of Article 28(2)(c)(ii) of the Audit Directive.

# The big picture on ESEF

## Regulation / Legal basis

- Transparency directive 2004/109/EC and 2013/50/EU
- Regulatory Technical Standard (RTS on ESEF) –EU Commission’s Delegated Act
- Local laws

## Important Supporting material

- ESMA website
  - ESEF Reporting Manual
  - Video Tutorials x 3
- FIN-FSA website: information on ESEF + links
- IFRS’s website:
  - IFRS taxonomy Illustrated, xIFRS
- EU Commission Q&A on ESEF
- Eurofiling, XBRL international, XBRL Europe ESEF Hub

## Parties to the implementation

- Issuers
- Software and other service providers, consultants
- XBRL International and its rules
- Auditors
- OAM –Data storage
- Distribution service providers
- National Competent Authorities (NCAs)

## Outcome

- Issuers prepare AFRs in xHTML format which is the only version of AFR to comply with obligations set in Article 4 of the Transparency Directive.
- AFRs are available in OAM’s (data storage) platform in xHTML format.
- Consolidated financial statements included in xHTML document are tagged with XBRL-tags.
- Users of data (investors, analysts, NCAs) take the information they need from the OAM.

## Updated ESEF-information expected on these topics

- Annual update of ESEF-regulations will be published in Official Journal towards yearend 2019 (including updated taxonomy)
- Taxonomy files updated with 2019 IFRS-taxonomy updates – towards year end 2019 on ESMA website
- Example of fully ESEF-compliant annual financial report (not existing yet) by ESMA planned Q1/2020
- ESMA Reporting manual update planned Q2/2020

## Challenges and future

Steven Maijor, ESMA Chair in June 2019: Big promises, what are the challenges?

1. Data quality and validations
2. Governance of electronic reporting
3. Maintenance of the ESEF – yearly taxonomy updates



“Change to electronic reporting will be a gradual process and not one without difficulties”



Thank you for your attention !