

## No Case for Mandatory XBRL Reporting for European Listed Companies

ESMA Should Recognize High Compliance and  
Maintenance Costs for Companies and Lacking  
Market Demand

**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, Deutsches Aktieninstitut<sup>1</sup> is of the opinion that a wider assessment should definitely be performed whether an ESEF would bring any benefit to the markets that could be worth the costs of implementation and maintenance on the side of the issuers.

This wider assessment has not yet undertaken from our point of view so that the legal conditions of Art. 4 para. 7 which call for an “adequate assessment of possible electronic reporting formats” “appropriate field tests” are not yet met.

As ESMA points out in the draft RTS the first cost-benefit-analysis (CBA) undertaken in summer 2014 cannot be regarded as representative since only “a very low response rate with a lack of representativeness from major markets” (p. 12 and 74 of the report) has been achieved. In particular, only 22 responses from issuers have been gathered from listed companies. Furthermore, field tests have not been undertaken by ESMA so far.

From our point of view there is only one conclusion possible that can be drawn from the feedback we have received from our member companies: European regulators and OAMs should accept PDF reports as standard electronic reports as any other format is lacking market demand and would turn the CBA into the negative.

We therefore do not understand why ESMA is proposing a more complex “solution” than demanded by both investors and issuers and necessary from a neutral perspective. A fair CBA would also take into account the negative effects that the additional bureaucratic burden would have on the attractiveness of capital market finance.

---

<sup>1</sup> Deutsches Aktieninstitut (identification number: 38064081304-25) represents the entire German economy interested in the capital markets. The about 200 members of Deutsches Aktieninstitut are listed companies, banks, stock exchanges, investors and other important market participants. Deutsches Aktieninstitut keeps offices in Frankfurt, in Brussels and in Berlin. This position paper is based on discussions in the issuers working group of Deutsches Aktieninstitut which is the central forum of discussion on regulatory issues among representatives of listed companies in the German market.



**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.**

No.

As pointed out from the beginning of the debate German listed companies have not been approached by private or institutional investors as the main addressees of an ESEF to change the formats of their reports so that there is no market demand. Market demand for the implementation of such a format is simply lacking.

Instead, publishing financial reports in PDF-format is widely accepted by private and institutional users. In addition, financial information is easily accessible on companies' websites for the purpose of investor information and investment analysis. Electronic formats other than PDF are only used, if this is exceptionally required by law.

In sum, we strongly doubt that electronic reporting based on XBRL (which is the ESMA's preferred solution) will make the reporting easier for issuers. We also doubt that investors will benefit. If XBRL really brought these benefits, it would be introduced by market forces on a voluntary basis. ESMA itself therefore correctly states that the "demand for a structured reporting ... is less clear for ... analysts" (p. 103).

In addition we would like to bring some further arguments to the attention of ESMA why we believe that XBRL reporting does not really helps investors in analyzing companies:

- First, analyst regularly take into account all soft and hard facts about a company in order to form a comprehensive view on the respective company. In particular, they have also to evaluate the explanations in the other parts of AFR, particularly the management report, which cannot be tagged.
- Second, the standard taxonomies cannot reflect the variety of the companies' business models as well as reporting needs resulting from these different business models and the appropriate interpretation of the accounting standards. It has also to be noted, that financial statements consist of several narrative disclosures which supplement financial (performance) measures, where comparability is particularly highly questionable. As a consequence, there will remain a number of XBRL tagged items that cannot be comparable across companies. We refer also to the issue "company concepts". In other words: XBRL tagging cannot remove the incomparability of reports because the economic meaning of



tagged item varies strongly depending on the business model and the application of the IFRS accounting standards.

- Third, a tagging exercise will most likely will be very time consuming (in addition to the costs that have to borne by the issuer) so that there is the reasonable risk,that markets will receive the information of an annual report later then in the status quo.

Having in mind that the TD requirements are defined for the very purpose of investor information the arguments above should lead the legislator to the conclusion that mandatory XBRL reporting will not better meet the objectives of the TD then existing reporting formats.

Even worse, issuers will definitely face massive additional implementation, maintenance and legal costs as well as compliance risks. This is partly due to the fact that from a technological point of view XBRL tagging is not the same as a simple conversion of an existing document into another electronic format (as it would be the conversion of a text document into a XML file or a PDF file) because XBRL tagging cannot be done without both a deep knowledge in accounting rules and the XBRL language. Neither accounting departments nor IT service providers have staff that is specialist in both fields at the same time.

**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.**

No.

As we oppose any form of mandatory XBRL reporting we are also of the opinion that it should be left to the issuer's decision whether any auditing of a possible additional electronic reporting is undertaken.

**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.

As pointed out above we feel that ESMA has not yet got a full picture on what investors expect from financial reporting. We do not expect that investors would broadly use XBRL tagged reports, because issuers have not been approached so far by their shareholders to introduce such a reporting format. However, we expect



massive additional compliance costs and additional legal issues that has not been discussed so far, such as liability risks resulting from an incorrect tagging of a report or an outdated taxonomy.

Besides, ESMA does not correctly reflect the situation in the German market on p. 28. German issuers are not obliged to file XBRL reports for consolidated financial statement according to IFRS for the purpose of investor information what is the main objective of the TD. Thus, there is no obligation to tag financial IFRS reports. However, it is mandatory to fill local GAAP reports for tax purposes in XBRL.

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

As pointed out above, it would be sufficient for ESMA to make the use of PDF reports mandatory in order to meet the obligations of Art. 4 para. 7 of the TD III. We therefore do not understand why this simple and efficient solution is not further analysed as an option although ESMA must be aware of the widespread skepticism of issuers across Europe and the lack of clear market demand.

**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.**

See Q 5. We clearly advocate the use of the PDF format which is easy to use and already well-known to investors and issuers.

**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?**

If ESMA and the EU Commission stucked to the idea of XBRL-reporting, it would be a natural solution to use the "official" IFRS taxonomy of the IFRS Foundation. However, we are not yet aware of any analysis on what would be the consequence of a wrong or outdated IFRS taxonomy from a legal point of view.



**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.**

That ESMA is proposing to limit the XBRL introduction to the standard set of taxonomies shows that ESMA feels uneasy about the complex issues and their interaction that have to be considered, in particular about the cost-benefit-balance as well as potential improvements for analysis and comparability. However, since obvious benefits of XBRL reporting are missing, ESMA should take the only self-evident view on the issue instead of suggesting a bad compromise: It should propose to make PDF- instead of XBRL-reporting mandatory (see also Q 10).

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

N/A.

**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.**

No. If any, the use of XBRL should be as limited as possible. It would be absurd to develop a taxonomy for other parts of the AFR, particularly the management report, although no standardized reporting requirements exist within the EU.

If, however, the PDF format was chosen, it would however be unproblematic to extend the use to other parts of the AFR. The consistency of application on different parts of the AFR is, by the way, another argument to use PDF-Reporting instead of XBRL-Reporting.

It has to be noted, that for investors financial statements are only one of several sources of information, they are considered to be important ones by the investors. Other information and other parts of the AFR contain important explanations to the “pure” financial statements. Every reasonable investment analysis needs to take into account these explanations in order to be complete. Thus, the XBRL tagging will not really ease the work of analysts because they still will have to take into view the whole available information.



**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.**

See Q 10.

**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.**

No. As explained above we would strongly prefer that AFR have to be filed in PDF-format only. In our understanding this would be in line with ESMA's option A (Full unstructured data format for all parts of the AFR).

If, however, ESMA and the EU COM stick to the idea of demanding XBRL or iXBRL as an ESEF we would prefer the as limited mandatory use as possible. It is our understanding that option B would impose such a limited approach. However, as pointed out above it is far more complex than option A and would create extra or double work for issuers and will most likely lead to AFRs published later than in the status quo. A less timely investor information stands in sharp contrast to the very objective of the TD.

In addition to that, the extra work that needs to be performed by issuers clearly countervails the objectives of the EU to promote growth through reducing bureaucracy and improving access to capital market finance (see also Q 18).

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

No. From our point of view the unstructured PDF-Format for all parts of the AFR is the most relevant option. The PDF-format is well known, AFRs can easily be converted into PDFs and private and institutional users are well familiar with the use of PDF reports.

In contrast, iXBRL or XBRL would result in additional implementation and maintenance costs (including training, IT investments additional recruitment) for listed companies and would create uncertainties regarding the availability and correctness of up-to-date taxonomies including potential legal issues resulting from this, although market demand is obviously lacking and there are significant doubts



about the potential benefits that are brought forward by proponents of the XBRL concept.

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

See Q 13.

**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?**

There should be no mandatory structured reporting format. If any, it should be limited to consolidated IFRS financial statements.

**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 agree, that there should be no XBRL reporting for national GAAPs.

However and as pointed out above, also for consolidated IFRS financial statements there should be no XBRL reporting.

**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?**

No. There should be no XBRL reporting at all – neither for the national GAAPs nor for the consolidated IFRS reporting.

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

N/A.



**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?**

Besides the SME issue the mandatory use of an ESEF will contradict one of the most important objectives of the Capital Markets Union, i.e. increasing the attractiveness of capital markets as a means of finance for companies.

In general, the willingness of companies to use the organized equity markets as a source of finance also depends on the compliance costs and risks associated with this financing channel. As pointed out in our position on the Capital Markets Union the EU should more stringently analysis the needs of the demand side of the market before introducing or amending regulation. The mandatory use of XBRL or iXBRL would clearly rise compliance costs for any issuer in Europe without an obvious benefits like increased investor attention. We rather fear that the automatic analysis of financial reporting data could reinforce automatic trading and investment strategies which may lack a clear interest in the company and thus may counter the initiatives of to improve investor engagement currently undertaken.

We will therefore recommend to delete Art. 4 para. 7 of the TD III or – at least not to introduce XBRL as an ESEF - as part of the general review process of financial market regulation currently undertaken under the CMU project.

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

In sum, we are of the opinion that Art. 4 para. 7 of the TD III has been introduced rather accidentally by the legislator due to the tight deadlines and the necessity to commit political and personal resources to an enormous number of dossiers at the same time.

However, the Art. 4 para. 7 neither prejudices the filing of AFRs (or parts of them) in a structured electronic format nor does it prevent ESMA or EU Commission to introduce the most simple and efficient solution of mandatory PDF-filing under Art. 4 para. 7.

At least, a more thorough analysis should be performed that takes into account all potential negative side effects of mandatory XBRL reporting before introducing an ESEF which has not yet proven to meet a clear market demand.

## Contact

---

Dr. Gerrit Fey  
Deutsches Aktieninstitut e.V.  
Niedenu 13-19  
60325 Frankfurt am Main  
Phone + 49 69 92915 - 41  
Fax + 49 69 92915 - 12  
fey@dai.de  
www.dai.de

