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ESMA's Draft Technical Standard on the European Single Electronic Format (ESEF) - Issuers Call For an Open Public Debate Before Finalisation

Dear Mr Guersent,

According to Art. 4(7) of the EU Transparency Directive, European listed companies will have to file their annual financial reports in a single electronic reporting format (ESEF) with effect from 1 January 2020 on. Details will be specified by a Regulatory Technical Standard the draft of which has been issued by ESMA on 18th of December 2017.

As provided by the Transparency Directive, ESMA conducted a field test with 25 preparers of financial statements over the summer 2017 in order to evaluate the preliminary proposal for the ESEF published last year, i.e. obliging listed European companies to file their annual reports as a XHTML document in which the consolidated financial statements in IFRS have to be encoded in the so called inline XBRL (iXBRL)-format.

I am writing you because from the perspective of German listed companies the field test was disappointing and cannot be regarded as being finalized by now. Generally, we wonder if the field test has considered entirely the criteria mentioned in the EU Transparency Directive, because iXBRL has not been tested as regards to the benefits, expectations or demands of the investors, in particular.

Consequently, we are concerned that the Draft Regulatory Standard will be accepted by the EU Commission, the Council and the European Parliament without really reflecting the experiences made and problems identified by participating companies.



More concretely:

- The field test was not performed as expected and announced. As stated in the call for volunteers, participants should have been “able to learn how the Inline XBRL format can be applied.” Furthermore, ESMA announced the following project milestones “clarification in case of remaining questions” and “individual feedback seminar to debate issues encountered by issuers in the process”. Unfortunately, the 1.5 days workshop in Paris only allowed for an initial preparation of a tagging. In contrast to the statement in Annex 1 “Schedule of sessions and workshops” in the Final Report (p. 473) feedback regarding form and content of the tagging was not collected. It was also not possible to review the final outcome within the announced feedback loop and communication regarding the work performed by ESMA to finalize the iXBRL-file, next steps and a time schedule was not provided. Finally an opportunity to review, discuss and understand the final iXBRL file was missing.
- There has been no or only little exchange on important material aspects such as which existing tag should be used for a certain position or disclosure, when an extension is appropriate or how the concept of anchoring should exactly work. In contrast to the statement in the Final Report (p. 454) there was no file distributed for external review regarding the anchoring relationships. Participants received the final file more than 2,5 months after the workshops with the call for approval of publication but without any call for review or feedback.
- Also, and in contrast to ESMA’s announcement that “participants will have the opportunity to contribute to the development of the specifications of a European Single Electronic Format that better fits their reporting needs”, there was no opportunity to discuss in a structured manner material aspects of the preliminary proposals of ESMA, such as the tagging of notes, treatment of roundings etc.
- Finally we were surprised, that ESMA asked participants for feedback on the field test before the iXBRL report had been finalized and distributed to the participants.

Overall, you may understand that it is our impression that the field test had been biased so that there was obviously no real interest in a discussion of material aspects of the proposal. From our perspective, the ultimate goal of a field test should be to improve the empirical basis of legislative decisions, in particular because there were both significant critique on iXBRL-reporting from listed companies over years and no real demand from investors or analysts.

Fortunately and even if ESMA has issued the Draft Regulatory Technical Standard it is not too late to remedy the shortcomings of the process because the EU-Commission as well as the European Parliament and the Council of the European Union have to accept the Regulatory Technical Standard before it can be enacted.

Our main request therefore is that there should definitely be the opportunity for a public debate on ESMA’s proposal based on the experiences made by preparers of financial statements in the field test. The existing report from the field test can only serve as the starting point for that debate, because a number of material and technical aspects proposed in the ESEF Reporting Manual and in the Final Report – albeit very important for the final impact – have not been discussed yet.

Given these shortcomings, the co-legislators should also take the upcoming process of endorsement very seriously and should take enough time to evaluate the results. The draft Regulatory Technical Standard should not be endorsed in haste without a public consultation.

The very objective of the upcoming discussions should be that the final Regulatory Technical Standard focuses on verified requirements of the investors and limits the impact on listed companies. If the legislator finally decides to implement iXBRL reporting against widespread concerns from listed companies and a questionable cost-benefit analysis, this obligation should also reflect the major concerns and experiences of the field tests from the issuers' perspective:

- Reduce the number of tags that are mandatory: The final Regulatory Technical Standard should only provide for a number of elements of the financial report that have to be tagged on a mandatory basis. An idea could be to define a set of core financial figures within the IFRS consolidated financial statements that are frequently used and asked for by investors for analysis and benchmarking. For these figures there could be a tagging obligation for companies, if and only if companies also use these figures in their financial reporting. Another idea could be to leave open the level of granularity for XBRL tagging, so that companies can freely decide whether they want to use extensions or not. We believe extensions are company-specific taxonomy elements and cannot meet the requirement "comparability" of the EU Transparency Directive. The usability and comparability of extensions for investors will also be severely limited by the guidance that issuers will not be required to provide labels in other languages, which are not the same language in which the annual financial report is prepared.
- No tagging of the notes: Tagging of notes will make the tagging exercise far more extensive for the preparers of financial statements. At the same time, notes are company-specific and contain much verbal information. This limits not only comparability between companies, but also the value of setting tags to the notes. We believe that a reporting of the notes prepared in XHTML without being marked-up with iXBRL tags would be sufficient and would not result in less usability.
- No mandatory anchoring: The provision of Draft Regulatory Technical Standard to anchor extension elements created by issuers to the IFRS Taxonomy led to a significant number of questions and is – by the way – a new concept not foreseen in the original IFRS Foundation work on taxonomies. It is most likely that this concept of anchoring will significantly increase the need for additional consulting services as well as Q&As issued by ESMA. Thus, anchoring should not be made mandatory.

In sum and notwithstanding our general position, that PDF reporting would be much more desirable for both companies and investors, we are deeply concerned on how the process of defining the ESEF and the details of its application has worked so far. Even if issuers may finally have to accept iXBRL-reporting, an open debate on important details should take place before finalising the RTS. Otherwise, the field test will turn out to be a missed opportunity.

We would therefore appreciate if you could support our view, so that market participants will have a fair chance to evaluate the results of the field test and the final decision will be based on that debate and the experiences made.

I remain at your disposal for any request or feedback and would appreciate to contribute to forthcoming debates. Please do not hesitate to contact me or my colleague Dr. Gerrit Fey (+49 69 929 15-41; fey@dai.de).

Yours faithfully



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