



DFIN

WHITE PAPER | EUROPEAN SINGLE ELECTRONIC FORMAT

The Future of Financial Reporting

DFINsolutions.com



BRINGING FINANCIAL REPORTING INTO THE DIGITAL AGE	3
THE ESEF REQUIREMENTS	3
THE IMPORTANCE OF ESEF	4
INLINE XBRL EXPLAINED	5
THE ESEF TIMELINE.....	6
HOW TO PREPARE FOR 2020.....	7
CONCLUSION	8

Bringing financial reporting into the digital age

The European Single Electronic Format (ESEF) is the electronic reporting format in which issuers on EU regulated markets must prepare their annual financial reports from 1 January 2020.*

Listed entities in Europe must file their annual report in the new digital European Single Electronic Format (ESEF). The requirement was first announced as an amendment to the Transparency Directive, which sets rules around harmonisation of transparency requirements for issuers.

As provided for in the Transparency Directive, the ESEF should apply to annual financial reports containing financial statements for financial years beginning on or after 1 January 2020. The ESEF mandate applies to all issuers who fall under the Transparency Directive.

Since 2015, the European Securities and Markets Authority (ESMA) has been running a consultation process to finalise the right approach to creating the ESEF. In December 2016, ESMA released an initial report, concluding that Inline XBRL, also known as iXBRL, is the most suitable technology because it enables both machine and human readability in one document. The presentation of financial data in annual financial reports will be standardised across the EU using a single electronic format.

Inline XBRL (iXBRL) is a format used for embedding XBRL into human-readable documents, like Extensible Hyper Text Markup Language (XHTML) web pages. In XHTML the financial statements are presented in HTML format with embedded XBRL tags inserted without the need for specialised review

tools. The document can be opened in any operating system using a simple browser. This means tags and all associated attributes, such as dates and balance type, can be seen without a special viewer or application.

Using iXBRL formatting will improve data quality, accessibility and continue the modernisation of financial reporting. The aim is to enhance transparency and accessibility for investors and regulators, while also making it easier to compare different sets of financial accounts.

The ESEF requirements

The regulatory technical standards on ESEF will apply to all issuers subject to the requirements contained in the Transparency Directive to make public annual financial statements.

The ESEF requirements, mandatory starting 1 January 2020 can be found on the ESMA website and are summarised below:

- Prepare annual financial reports in XHTML format, which can be opened with any standard web browser and is human readable.
- Annual financial reports containing International Financial Reporting Standards (IFRS) consolidated financial statements, must be labelled with XBRL tags to make the labelled disclosures structured and machine-readable.
- The XBRL tags must be embedded in the XHTML document using iXBRL, which allows the benefits of XBRL tagged data to be combined with the human readable presentation of annual financial reports.

* Since the publication of the ESEF mandate requirements, due to the Coronavirus pandemic, the EU agreed on an amendment to the Transparency Directive allowing EU member states to delay by one year the application of the ESEF mandate. Issuers would therefore be permitted to apply ESEF to their annual financial reports for financial years beginning on or after 1 January 2021. All but four EU member states agreed to the one-year delay. Those EU member states who decided not to delay are Austria, Czech Republic, Germany and Slovenia.

- The ESEF taxonomy is an extension of the IFRS taxonomy.
- Preparers must mark-up disclosures using the taxonomy element having the closest accounting meaning to the marked-up disclosure.
 - If the closest taxonomy element misrepresents the accounting meaning of the disclosure, issuers must create an extension taxonomy element and anchor the extension to the core taxonomy element that has the closest accounting meaning.
- Mandatory from 2020, primary financial statements (income statement, balance sheet, statement of cash flows and statement of changes in equity) must be marked up in detail.
- Mandatory from 2022, the Notes will need to be marked-up, applying block note tagging.
- Detailed tagging of the notes to the annual report will be allowed on a voluntary basis.

The importance of ESEF

Company accounts have always contained two distinct types of content: narrative prose, with its subtleties and important high-level messages and financial data, the facts and figures which, to the expert eye, can reveal so much more. These reports have traditionally been presented in printed format and as PDFs, but now tax and regulatory authorities increasingly require company financial information in electronic formats such as XBRL (eXtensible Business Reporting Language).

One of the aims of the ESEF initiative is to make the XBRL data more widely available to regulators and investors, with the hope that this will encourage investment and technological innovation and, in the words of Steven Maijoor, ESMA Chair, “bring financial reporting into the digital age.”

Benefits to change

The goal of mandating financial statement submissions in iXBRL is that data provided by public companies will be higher quality and therefore more widely used by regulators, investors and analysts.



Lower filing preparation costs.



Higher quality data.



More structured data.

Inline XBRL explained

So, what is iXBRL?

Inline XBRL — or iXBRL — is an international standard that merges machine-readable business reporting data into a human-readable XHTML page.

The HTML/XBRL dilemma reconciled

HTML and XBRL are both offshoots of XML-based standards, but each has limitations that iXBRL aims to address.

- HTML allows users to render data into any internet browser, but it's not readily machine-readable; it requires human intervention to copy and paste, read or retype the information into the system.
- XBRL, which is machine-readable, allows automatic data exchange, validation and analysis, but is not human-readable.
- Inline XBRL is yet another offshoot of XML, but is capable of reconciling HTML and XBRL data standards. Therefore, iXBRL makes traditional XBRL information readable from any web browser, just like an HTML document.

The Mandate

1. During the first phase, lasting two years and beginning on the 1st of January 2020, ESMA will implement the initial phase of ESEF to allow issuers to build expertise and become familiar with iXBRL. Furthermore, ESMA will limit the tagging of primary financial statements to basic information concerning the company and the reporting of core data such as period end, fiscal year end, registration numbers, etc. The primary financial statements are likely to include income statement, balance sheet, cash flow, comprehensive income statement and statement of changes in equity.

2. After the two-year period, tagging will be extended to all notes in the form of block note tagging.

Understanding iXBRL

An iXBRL document is an XHTML document in which XBRL data is embedded, so that the machine-readable XBRL tags and the human readable content are presented within a single document.

It can be read by a human being, yet can be searched more effectively than a PDF. And because it contains those machine readable XBRL tags, it will reduce inconsistencies.

Tagging will have a learning curve for all involved, so it will be introduced gradually. It will be limited for the first two years to primary financial statements and general information about the company and the statements. Later it will be extended to the financial statement notes.

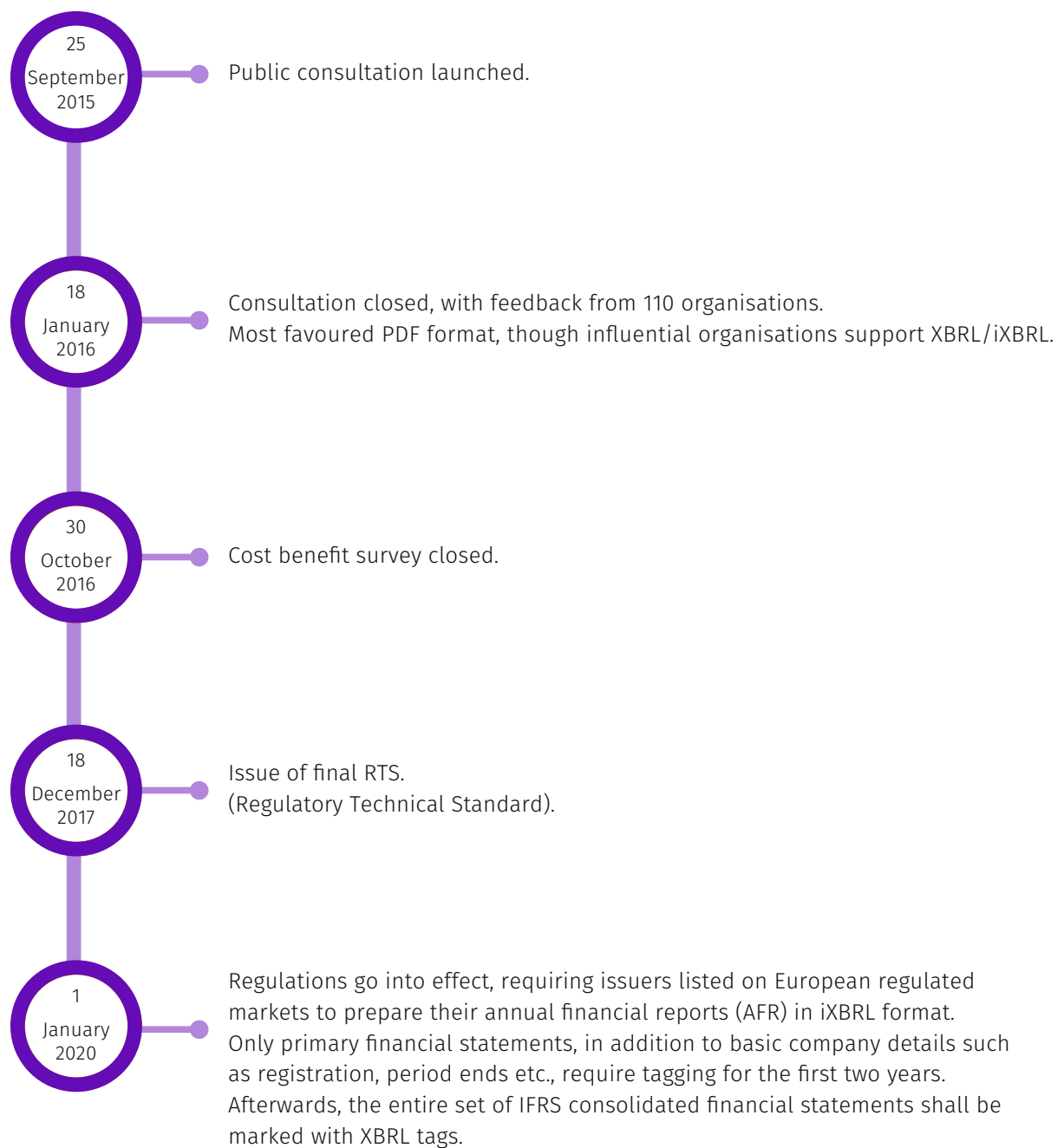
What iXBRL means for you

The good news for companies creating financial reports is that moving towards iXBRL holds out the promise of greater simplicity. In time, companies will only need to create one report – the iXBRL report. This change will be especially beneficial for smaller companies, who rely heavily on manual data input, because it will remove the need to create and update both an XBRL and HTML version.

What's more, the migration to iXBRL will mostly take place behind the scenes – since disclosure management systems will evolve to give users the ability to create a variety of different documents from centralised data, including reports in iXBRL.

While iXBRL will bring initial challenges and costs, in the long run it will deliver lower preparation costs and higher quality structured data.

The timeline



How to prepare for 2020

First, ensure you fully understand the detailed requirements of iXBRL tagging and the ESEF regulation. While many of the rules are likely to mirror SEC regulations in the USA, there are significant details to consider, for example the nature and extent of tagging.

Secondly, assess your internal capabilities. Do you possess the internal resources and capabilities to tag and file data in compliance with the rules or will you need to outsource? You should assess the costs and benefits of each approach.

- Preparing iXBRL files requires specialist software and most companies are likely to find it more cost-effective to outsource this to a specialist vendor rather than attempting an in-house solution.
- Potential vendors should be assessed; evaluate their record of **error-free** XBRL and iXBRL filings and compare solutions for efficiency, ease of implementation and cost. Since the company issuing the report is ultimately responsible for its accuracy, it is important that any outsourced solution gives you full control over report creation and updates.

Summary preparation points:

- Become familiar with the ESEF requirement
- Understand the ESEF IFRS Taxonomy
- Map all financial statements
- Assess the need to create an extension
- Apply base taxonomy tags
- Extend the taxonomy
- Anchor extensions
- Review and validate the report
- Publish the iXBRL report

Finding the right solution

The right software should not simply meet the basic requirements. It should pay for itself, in the medium to long-term, by streamlining workflows and through wide-reaching improvements in efficiency. DFIN's ESEF solution allows you to work faster using Microsoft Office, a product you already use. Take advantage of these benefits:

- Workflow controls expedite the production cycle. Streamline your workflow with reusable reporting templates and DFIN's suite of collaborative document management tools. Easily publish your document in multiple formats – Word, Excel, HTML, XBRL and iXBRL – for review and submission. Audit trails let you see who did what and when.
- Strong access controls and single sign-on. Control access easily by delegating the work to multiple individuals and monitor the process with version control, role-based access and audit trail functionality.
- Users can add their own side-bar commentary. Review with confidence using the review tools to easily produce and validate highest quality XBRL documents. Process task and check lists provide simple guidance.
- **Get expert support**, including 24/7 access to the industry's largest staff of highly qualified XBRL reporting specialists.

At DFIN, we believe that when implementing iXBRL, issuers should adopt the simplest schema possible. Getting started early and adopting the new approach ahead of the deadlines is vital; the change will bring significant benefits, including improvements in the quality of structured data and lower costs for report preparation.

Conclusion

Implementing new solutions always takes time. Smart companies will start their preparations early, and should think long and hard about the cost implications of an integrated approach, when purpose-built, tried and tested software already exists in the marketplace.

To discuss the implications of ESEF with one of our experts, learn more about DFIN's XBRL service offering and other solutions, please visit our website www.dfinsolutions.com.

For more information

ESMA's press release is available [here](#).

For more information on the ESEF mandate, see the ESMA's library on the mandate is available [here](#).

About Us

Donnelley Financial Solutions (DFIN)

DFIN is a leading global risk and compliance company. We're here to help you make smarter decisions with insightful technology, industry expertise and data insights at every stage of your business and investment lifecycles. As markets fluctuate, regulations evolve and technology advances, we're there. And through it all, we deliver confidence with the right solutions in moments that matter.

Learn more about DFIN's end-to-end risk and compliance solutions.

Visit DFINsolutions.com