



European Securities and  
Markets Authority

**ESMA REGULAR USE**

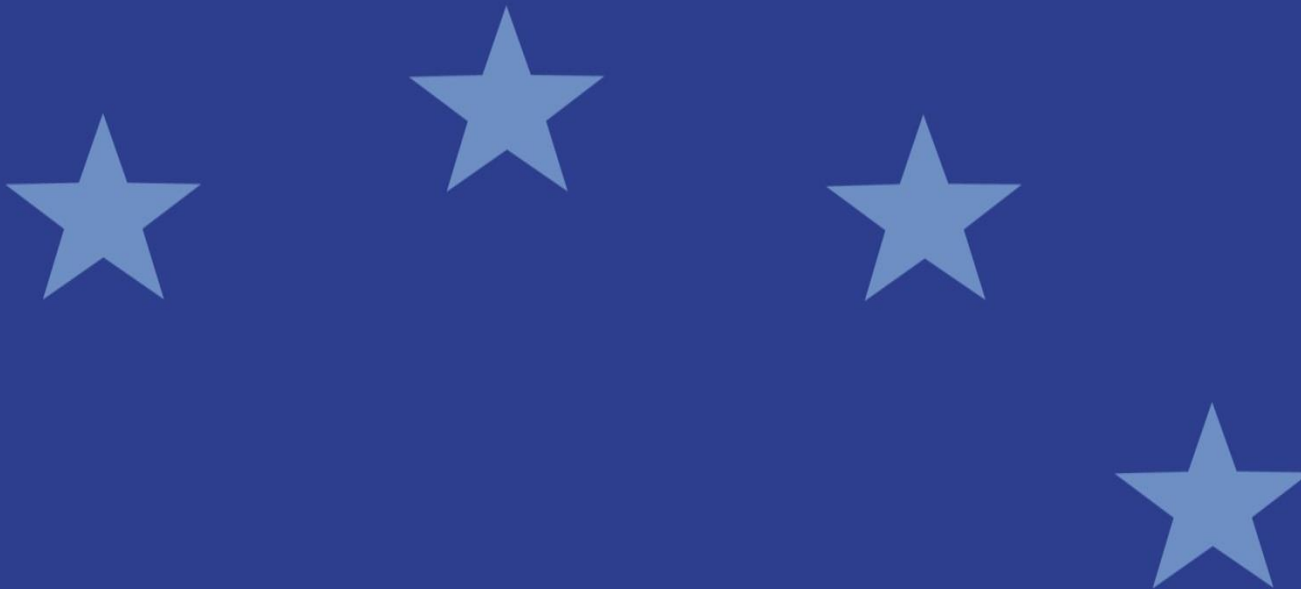
ESMA32-60-171

10 May 2017

# European Single Electronic Format (ESEF)

EFRAG TEG - 10 May 2017

Michael Komarek





# Background

- **Requirements:**
  - From 1 January 2020 issuers will have to prepare their annual financial reports (AFR) in a **single electronic reporting format**
- **Recital 26 of the Transparency Directive sets out the policy objectives of ESEF:**

*“A harmonised electronic format for reporting would be very beneficial for issuers, investors and competent authorities, since it would **make reporting easier and facilitate accessibility, analysis and comparability of annual financial reports...**”*

*ESMA should develop draft technical regulatory standards, for adoption by the Commission, to specify the electronic reporting format, with due reference to current and future technological options, **such as eXtensible Business Reporting Language (XBRL)**”*

Implies that ESEF should allow processing by software and thus become machine readable and ‘structured’



# Background

- **Number of affected companies:**

- About 7,500 issuers on regulated markets of which:
  - around 5,300 prepare IFRS consolidated financial statements
  - around 4,700 prepare local GAAP individual financial statements and 2,700 according to IFRS
  - 150 prepare financial statements under 3<sup>rd</sup> country GAAP



# ESMA Consultation

- **ESMA Consultation paper** (end of 2015):
  - Propose the use of XBRL or Inline XBRL for the IFRS consolidated financial statements using the IFRS Taxonomy
- **Feedback from constituents:**
  - Received 161 responses of which 88 were following one template
  - Enthusiastic support from software vendors and service providers
  - Generally relatively positive feedback from users and auditors
  - Mixed answers from issuers
    - They see no investor interest
    - they suggest that PDF should be used as single electronic format → however PDF does not fulfil the policy objectives set out in recital 26 of the TDA
- **ESMA Feedback Statement** (end 2016) including proposed policy line



## Scope

- **IFRS consolidated financial statements → structured format**
  - IFRS taxonomy exists and used in other jurisdictions outside EU
- **Everything else contained in annual financial reports → unstructured format**
  - Individual financial statements – due to lack of taxonomies for some national GAAPs
  - Financial statements prepared under 3<sup>rd</sup> country GAAP – due to lack of taxonomies for some 3<sup>rd</sup> country GAAP and limited number of issuers
  - Management report – narrative in nature
  - Other statements – narrative



## Technology to be used

- **All annual financial reports have to be prepared in xHTML**
  - is human readable and can be opened, viewed and printed with normal web browsers (e.g. Internet Explorer, Google Chrome, etc...)
- **If the annual financial report contains information in a structured electronic format, the issuer has to prepare an Inline XBRL instance document**
  - Information in the human readable presentation layer (xHTML), is marked-up with XBRL 'tags' that make the information machine-readable
  - Inline XBRL is a format that allows to embed XBRL tags in the xHTML document
  - Therefore there is a connection between the machine readable XBRL tags and the human readable xHTML presentation layer → should reduce inconsistency compared to scenario where XBRL instance document is fully disconnected from the AFR in e.g. PDF.



## Advantages of Inline XBRL

- Human readable presentation in xHTML → no rendering mechanism is necessary
- Contains XBRL tags that can be processed by software
- Content is presented as intended by preparer
- Supports phasing of reporting requirements and easy introduction of XBRL
- Connection between the machine readable XBRL tags and the human readable xHTML presentation layer → easy to check XBRL tagging



# Illustration of Inline XBRL

## LENNAR CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

November 30, 2016 and 2015

2016 (1)

2015 (1)

(Dollars in thousands, except shares and per share amounts)

#### Lennar Homebuilding:

Cash and cash equivalents	\$	<u>1,050,138</u>	<u>893,408</u>
Restricted cash		<u>5,977</u>	<u>13,505</u>
Receivables, net		<u>106,976</u>	<u>74,538</u>
Inventories:			
Finished homes and construction in progress		<u>3,951,716</u>	<u>3,957,167</u>
Land and land under development		<u>5,106,191</u>	<u>4,724,578</u>
Consolidated inventory not owned		<u>121,019</u>	<u>58,851</u>
Total inventories		<u>9,178,926</u>	<u>8,740,596</u>
Investments in unconsolidated entities		<u>811,723</u>	<u>741,551</u>
Other assets		<u>651,028</u>	<u>609,222</u>
		<u>11,804,768</u>	<u>11,072,820</u>
Rialto		<u>1,276,210</u>	<u>1,505,500</u>
Lennar Financial Services		<u>1,754,672</u>	<u>1,425,837</u>
Lennar Multifamily		<u>526,131</u>	<u>415,352</u>
<b>Total assets</b>	<b>\$</b>	<b><u>15,361,781</u></b>	<b><u>14,419,509</u></b>





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**Attributes**

**Cash and Cash Equivalents, at Carrying Value**

Tag	us-gaap:CashAndCashEquivalentsAtCarryingValue
Fact	1,050,138,000
Axis	Segments [Axis] - us-gaap:StatementBusinessSegmentsAxis
Member	Lennar Homebuilding East, Central, West, Houston, and Other [Member] - len:LennarHomebuildingEastCentralWestHoustonand OtherMember
Period	As of 11/30/2016

# Taxonomy to be used

## Proposal from the CP

- Use of the IFRS Taxonomy prepared by the IFRS Foundation
- Not allow to extend (neither entity-specific nor local regulatory) the IFRS Taxonomy

## Feedback received

- A large majority of respondents supports the use of the IFRS Taxonomy
- But most believe that currently it cannot be usefully used without extensions.

## ESMA proposal

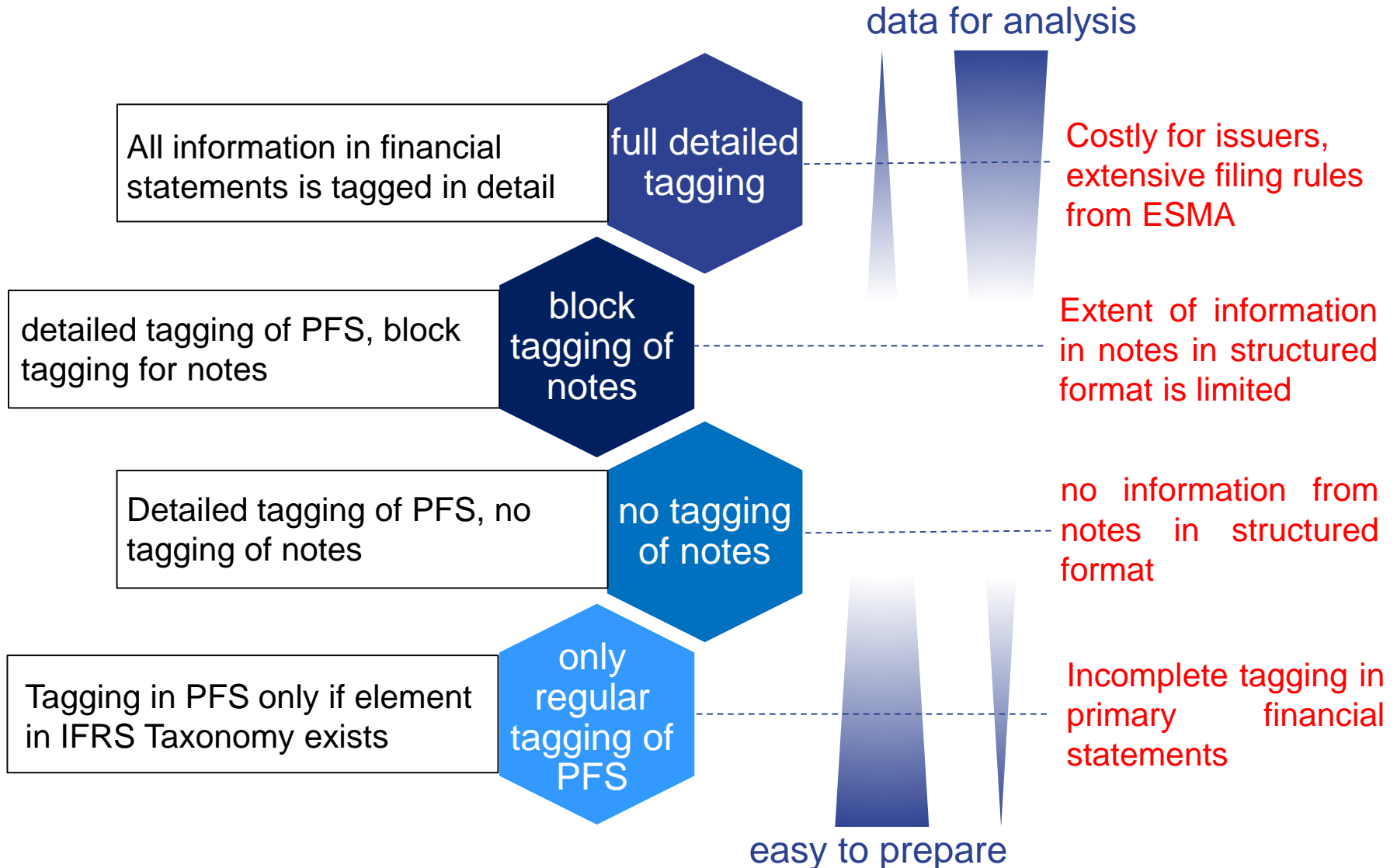
- Require the use of the IFRS Taxonomy
- Consider to allow both entity-specific and local/regulatory extensions on the basis of a robust framework to avoid proliferation of inappropriate extensions



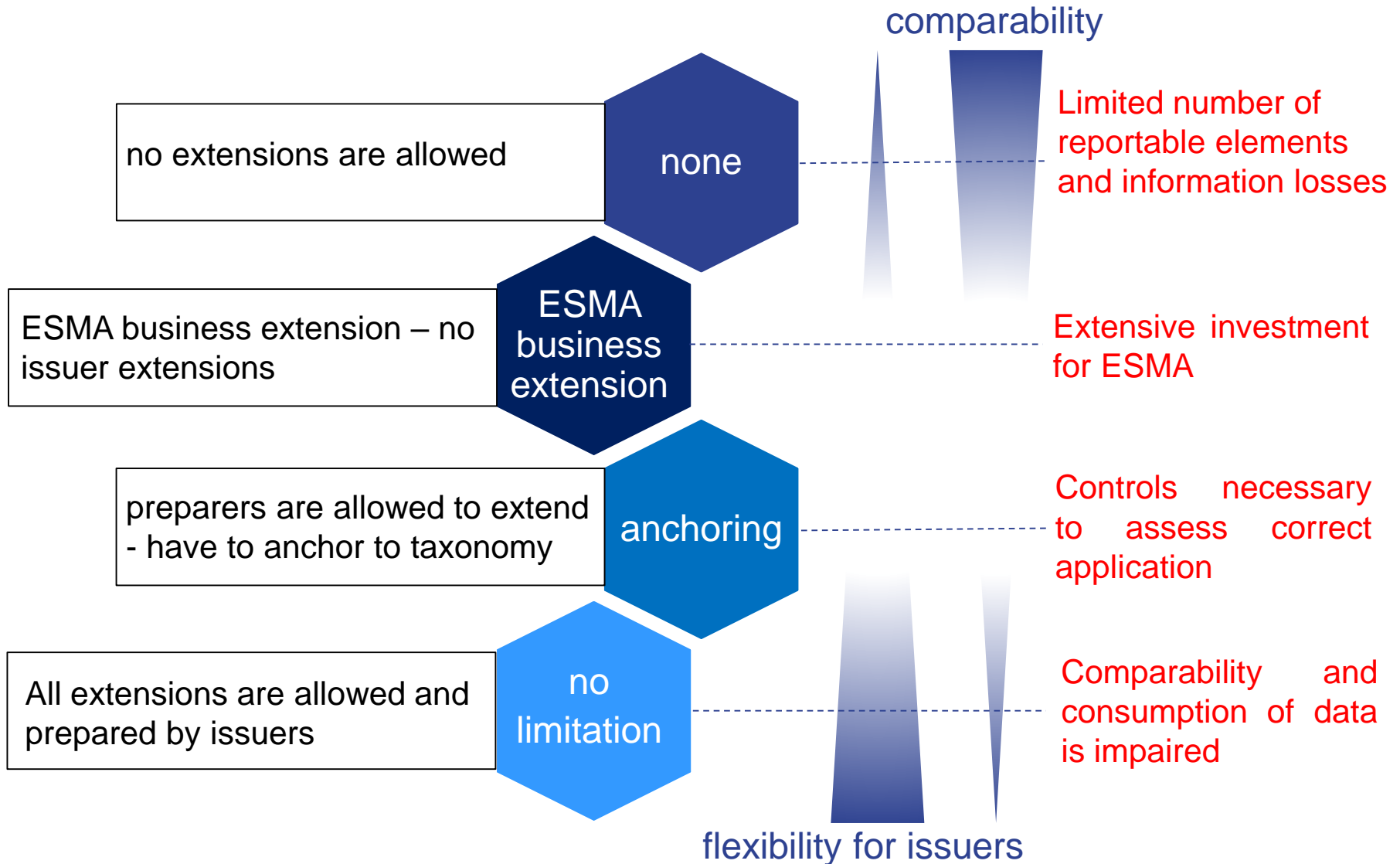
## Implementation options

- **A study was undertaken to assess implementation options regarding:**
  - » Scope of tagging (primary financial statements only or also the notes)
  - » Level of tagging (detailed tagging or block tagging)
  - » Use of extensions (no extensions or controlled use of extensions on the basis of a framework or free use of extensions)
  - » Development of a regulatory extension taxonomy (and if yes technical extension only or business extension)

# Contradicting objectives – level of tagging



# Contradicting objectives - extensions





# Implementation options

## Methodology used for the assessment of implementation options:

Scoring of each option (e.g. detailed tagging of notes vs. block tagging of notes) against the following set of criteria:

Criterion	Weight
Availability of data for automated processing	1.00
Data comparability and analytical possibilities	1.00
Effort on filers side	1.00
ESMA effort	0.75
Effort required to validate for correctness and completeness	0.25
Definition and execution of data quality checks	0.25
Risk of incomplete or wrong tagging	0.25
Compatibility with other projects	0.25



## Current considerations: scope of tagging

- During the consultation a number of preparers expressed concerns about the implementation and that there is a lack of familiarity with the technology.
- Therefore ESMA proposes to limit the mandatory tagging requirement for an implementation phase of 2 years to the primary FS
- Also other major regulators that implemented structured electronic (especially the US SEC and the Japanese FSA) required in the first phase only the tagging of the primary financial statements
- After 2 years, tagging would be extended to the notes as well but early application would be allowed
- Inline XBRL is well suited for a phased approach

# Current considerations: level of tagging

- Detailed tagging vs. block tagging
- Consider requiring all elements in primary financial statements to be tagged in detail
- Notes: only block tagging might be required – with the following few exceptions:

Name of reporting entity or other means of identification	string	IAS 1 51 a
Explanation of change in name of reporting entity or other means of identification from end of preceding reporting period	string	IAS 1 51 a
Domicile of entity	string	IAS 1 138 a
Legal form of entity	string	IAS 1 138 a
Country of incorporation	string	IAS 1 138 a
Address of entity's registered office	string	IAS 1 138 a
Principal place of business	string	IAS 1 138 a
Description of nature of entity's operations and principal activities	string	IAS 1 138 b
Name of parent entity	string	IAS 1 138 c, IAS 24 13
Name of ultimate parent of group	string	IAS 24 13, IAS 1 138 c
Length of life of limited life entity	string	IAS 1 138 d
Statement of IFRS compliance [text block]	text block	IAS 1 16
Explanation of departure from IFRS	string	IAS 1 20 c, IAS 1 20 b
Explanation of financial effect of departure from IFRS	string	IAS 1 20 d
Disclosure of uncertainties of entity's ability to continue as going concern [text block]	text block	IAS 1 25
Explanation of fact and basis for preparation of financial statements when not going concern basis	string	IAS 1 25
Explanation of why entity not regarded as going concern	string	IAS 1 25
Description of reason for using longer or shorter reporting period	string	IAS 1 36 a
Description of fact that amounts presented in financial statements are not entirely comparable	string	IAS 1 36 b
Disclosure of reclassifications or changes in presentation [text block]	text block	IAS 1 41
Explanation of sources of estimation uncertainty with significant risk of causing material adjustment	string	IFRIC 14 10, IAS 1 125
Disclosure of assets and liabilities with significant risk of material adjustment [text block]	text block	IAS 1 125
Dividends recognised as distributions to owners per share	X, duration	IAS 1 107



# Illustration of block tagging

Block tags can be applied with different levels of granularity – e.g.:

The Company has entered into agreements to lease certain office facilities and equipment under operating leases. Future minimum payments under the noncancellable leases in effect at November 30, 2016 were as follows:

(In thousands)		Lease Payments
2017	\$	35,443
2018		33,877
2019		24,816
2020		18,767
2021		14,999
Thereafter		16,120

**Attributes** 🔍 ✕

**Commitments and Contingencies Disclosure [Text Block]**

Tag	us-gaap:CommitmentsAndContingenciesDisclosureTextBlock
Fact	Commitments and Contingent LiabilitiesThe Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, the disposition of these matters will not have a material adverse effect on...
Period	12 months ending 11/30/2016
Type	textBlockItemType

**Attributes** 🔍 ✕

**Schedule of Future Minimum Rental Payments for Operating Leases [Table Text Block]**

Tag	us-gaap:ScheduleOfFutureMinimumRentalPaymentsForOperatingLeasesTableTextBlock
Fact	The Company has entered into agreements to lease certain office facilities and equipment under operating leases. Future minimum payments under the noncancellable leases in effect at November 30, 2016 were as follows:(In thousands)LeasePayments2017\$35,44320...
Period	12 months ending 11/30/2016
Type	textBlockItemType

# Current considerations: level of tagging

- Text blocks required might be on a high level – examples for disclosure text blocks:

Disclosure of accounting judgements and estimates [text block]	text block	IAS 1 10 e
Disclosure of accrued expenses and other liabilities [text block]	text block	IAS 1 10 e
Disclosure of allowance for credit losses [text block]	text block	IAS 1 10 e
Disclosure of associates [text block]	text block	IAS 27 17, IFRS 12 B4 d
Disclosure of auditors' remuneration [text block]	text block	IAS 1 10 e
Disclosure of authorisation of financial statements [text block]	text block	IAS 1 10 e
Disclosure of available-for-sale financial assets [text block]	text block	IAS 1 10 e
Disclosure of basis of consolidation [text block]	text block	IAS 1 10 e
Disclosure of basis of preparation of financial statements [text block]	text block	IAS 1 10 e
Disclosure of business combinations [text block]	text block	IFRS 3 Disclosures

- Examples for accounting policies text blocks:

Description of accounting policy for available-for-sale financial assets [text block]	text block	IAS 1 117 b
Description of accounting policy for biological assets [text block]	text block	IAS 1 117 b
Description of accounting policy for borrowing costs [text block]	text block	IAS 1 117 b
Description of accounting policy for borrowings [text block]	text block	IAS 1 117 b
Description of accounting policy for business combinations [text block]	text block	IAS 1 117 b
Description of accounting policy for business combinations and goodwill [text block]	text block	IAS 1 117 b
Description of accounting policy for cash flows [text block]	text block	IAS 1 117 b
Description of accounting policy for collateral [text block]	text block	IAS 1 117 b
Description of accounting policy for construction in progress [text block]	text block	IAS 1 117 b
Description of accounting policy for contingent liabilities and contingent assets [text block]	text block	IAS 1 117 b





## Current considerations: use of extensions

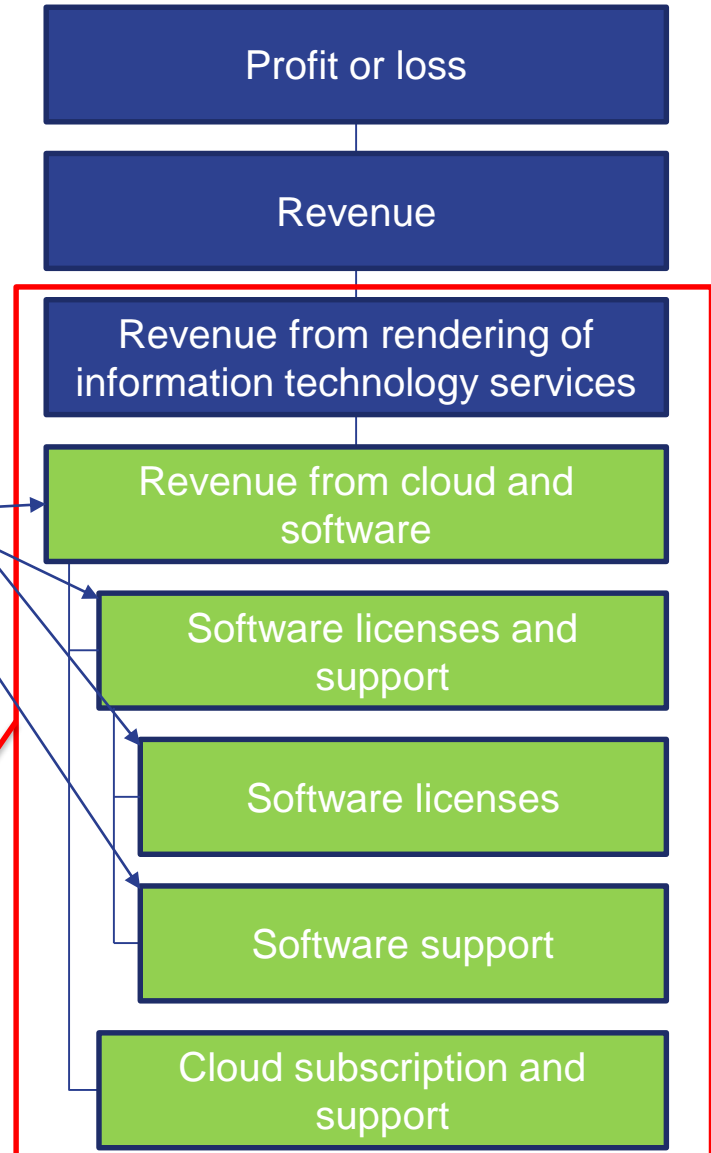
- Respondents to the consultation pointed out that the IFRS Taxonomy as it is cannot be reasonably used without the use of extensions
- An appropriate way forward would be to allow entity specific extensions but to develop rules guiding their application
- XBRL International set up an Entity Specific Disclosure Task Force
- This task force recommends to anchor entity specific extensions to the elements in the IFRS Taxonomy

# Current considerations: use of extensions

Example: SAP 2016

millions, unless otherwise stated	2016 €
Cloud subscriptions and support	2,993
Software licenses	4,860
Software support	10,571
Software licenses and support	15,431
<b>Cloud and software</b>	<b>18,424</b>
<b>Services</b>	<b>3,638</b>
<b>Total revenue</b>	<b>22,062</b>

-  Elements contained in IFRS Taxonomy
-  Extension elements



to be anchored in IFRS Taxonomy



## Next steps

- **ESMA Work in 2017**
  - Drafting of detailed filing and tagging rules
  - A regulatory extension taxonomy and
  - Rules regarding the use of extensions
- **Field testing**
  - Before submission of the RTS to the European Commission (EC), ESMA has to field test the ESEF
- **Procedure for RTS**
  - After RTS is submitted to the EC, the EC has to decide on endorsement within 3 months. It is subject to amendment only in very restricted circumstances
  - After adoption of the RTS by the EC, European Council and European Parliament can object to the adoption of the RTS within a period of 3 months
  - Afterwards publication in the *Official Journal of the European Union* as a Commission Delegated Regulation → directly applicable in Member States without transposition



# Field test

## Possible design of the field test:

- Call for volunteers amongst issuers (around 20-30)
- Would be invited to come to Paris and to transform their annual financial report together with XBRL experts provided by ESMA to Inline XBRL
- Annual financial reports in Inline XBRL would be published and users invited to provide comments
- It will be explored whether Officially Appointed Mechanisms (OAMs) that are responsible for storage of regulated information of issuers are willing to participate



## Questions to EFRAG TEG

- Do you agree with the preliminary considerations of ESMA to require for now only block tagging of the notes?
- Are there additional elements in the notes which in your opinion should be tagged in detail?
- Do you agree that a phased approach would be appropriate for the introduction of ESEF?
- Do you have any comments on the considered design of the field test?
- Do you have any other comments?