

# ESMA-ESEF Reporting: An opportunity rather than a mere obligation

**LISE CHORQUES**  
IFRS – TECHNICAL ADVISOR, GININI ANTIPODE



*In this first part of this series, Lise Chorques reviews the challenges for listed companies across Europe preparing for the European Single Electronic Format (ESEF) reporting and recommends that companies must adopt the right approach to safeguard their reputation given that other similar XBRL reporting frameworks, like the US SEC appear to suffer from high levels of errors.*

## **How did you get involved with ESEF?**

Ginini Antipode is a leading independent consulting firm for Consolidation and Controlling systems and our customers represent some of the largest companies in France, Italy and other European countries. We help them by transferring our extensive expertise and assisting the Finance Departments in major transformative projects.

ESEF is such a project and many firms outside specific sectors like Financial Services have not encountered XBRL reporting before. The European Securities and Markets Authority (ESMA) is responsible for defining the regulatory technical standards for ESEF, which forms a major part of the EU's broader goal for a single digital market strategy, developed from the 2013 EU Transparency Directive. It means that all listed companies will be required to produce these reports in a machine-readable format, by providing them in inline XBRL.

I believe that projects like ESEF can be looked at as an IT burden or as an opportunity for firms to move into a digital world and away from PDF's. I believe that in future investors will only trust information from companies that has been verified and validated. That is the promise of ESEF.

## **Why did you form a relationship with UBPartner?**

Ginini Antipode does not have in-depth knowledge of XBRL and UBPartner are one of the leading firms in Europe providing systems to over 500 banks and insurers around CRD4 and Solvency. Plus, they provide XBRL technology to government agencies, market regulators and other software application vendors.

UBPartner has developed a range of tools to help companies with their ESEF reporting and the partnership has enabled Ginini Antipode to specify the type of functionality we would like to see in these solutions. It is the old cliché, a Win: Win for both sides as our skills are complimentary.

## **What is your approach to ESEF?**

I think, you have to start by convincing financial departments to stop thinking about their annual returns in paper or PDF terms, but think digital, then to adopt a more dynamic approach to the presentation of their

financials. By doing this they will move closer to the way information will be consumed by future users of financial data.

The focus should be on material and relevant information and being aware of the Interconnection between financial and non-financial data. Thinking beyond the compliance exercise and more broadly about the new way of designing and consuming the information contained in an Annual Return. To do this you need to work at a very early stage with all internal and external contributors.



*Rethinking the way, you communicate*

## What are the challenges companies face?

There are essentially two challenges: first how to get the right report model which represents the information you want to present and to get this into what is termed an XBRL Taxonomy, basically a description of the data and most importantly how it is interconnected. This requires a thoughtful and consistent approach to all financial statements and can be an opportunity to think differently on the current structure of your financial statement and to benchmark with other preparers. The second challenge is how to present this in a document formatted in HTML (the format used for the web) where the significant data is 'tagged' consistent with the model you have developed. So ESEF is not just an IT issue and should and, in my opinion, remain driven by a financial approach.

The first step is often termed 'Mapping', where the information that needs to be reported is compared or 'mapped' in the technical jargon to the ESEF IFRS Taxonomy. There are around 4,500 of these standard elements, which can then be added to, 'extended', by concepts that are specific to the reporting company. The standard concepts that the company wants to report, plus the custom concepts specific to the company are encapsulated in what is termed the 'Extension Taxonomy' which is specific to this report.

In the first two years of ESEF reporting, companies will only need to tag the Primary Statements which have between 500 to 600 standard concepts, however, when you analyse company reports, many incorporate elements from other parts of the IFRS Taxonomy in their primary statements. These need to be searched for among the 4.500 standard concepts and checked that the ESEF definition of the concept is the same as your own usage of the financial element, else an extension must be created. This 'mapping' and 'tagging' process raises lots of challenges and questions like: alignment of the fundamental properties, such as debits vs credits, instants vs durations of the selected concepts; How far to tag and extend? What is a good Taxonomy Extension?

The second challenge is to prepare the document in an Inline XBRL format as required by ESEF. iXBRL is based around the xHTML format, which is very different to PDF and requires a different set of tools. Many companies may decide to give this problem to a Creative Agency, but the financial department will still need to understand the impact on the process and resulting document. It also raises issues such as how to keep the report in sync as the data is updated.

At the end of the above process both the company's own Extension Taxonomy and inline XBRL document will need to be reviewed and validated. This is where XBRL can really help, if the User has used it properly.

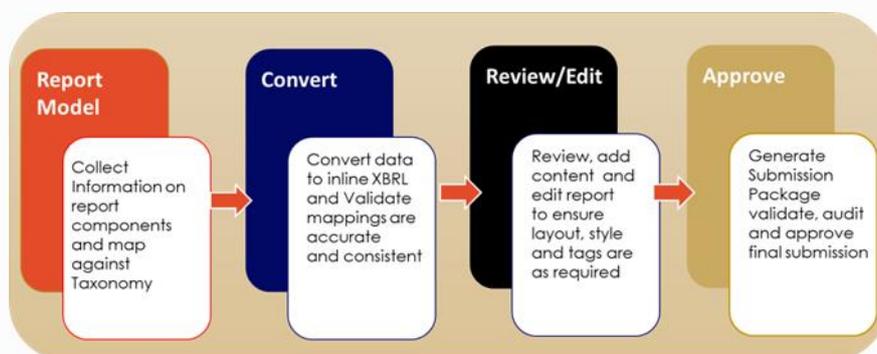
XBRL contains the model by which all of the data is related to each other, so it can check that the data is consistent, that tags are not used or items in that are not present in the Taxonomy are used. There is also much discussion today about what level of audit obligation will be required. Getting the model correct in the first place will help both internal and external auditors to verify the document and hence get the timely approval and release of the document

## Is there are Right or a Wrong way to do this?

Well, each company will have its own processes and our main objective is to help find a flexible solution to ensure that companies can generate reports like their current financial statements. However, looking at other similar XBRL reporting requirements, like the US SEC and UK HMRC, it is concerning that the level of errors in the data is still so high, even years after the initial adoption. Yet in reporting frameworks like Solvency II for European insurers and CRD4 for banks, more data is reported, and XBRL ensures that the reports are always 100% correct before being accepted. This has drawn us to the conclusion to look at approaches that focus on data quality, as no company wants investors to find systemic errors in the public reports.

Many commentators have come to the same conclusion, including Charlie Hoffman recognised as the founding father of XBRL, that you must start with the underlying model of the data that you want to report. Unfortunately, to date many tools simply try to tag the final report and hence do not focus on getting the correct model that can be reused in following years.

As said previously, one of the key benefits of the ESEF approach is that XBRL can 'validate' using the model and rules developed in the Taxonomy. Getting the report model correct facilitates the verification of the data that is reported and its consistency. With UBPartner with have developed a simple 4-step model that ensures the model is correct from the beginning and then the reports and data is correct at each step.



*4-step model of XBRL Reporting*

So, the advice we give is that like most systems, it is the detailed work that goes in at the beginning that influences the outcome. The initial mapping to the data to be reported and generating the Extension Taxonomy is critical. The process is made easier if you use the features of XBRL and validate at each step of the process and trying to fix issues in the final document is a costly approach. Companies will need both technical XBRL and financial domain expertise and should adopt a methodical approach that will eradicate errors as early as possible and hence, give themselves a platform to develop their financial reporting in future years.

