Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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57_02c_IFRS-FA_Taxonomy_ESMACP_CL_Hintergrundmaterial

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Berlin, 18 January 2016

Dear Mr Maijoor,

Re: ESMA Consultation Paper 2015/ESMA/1463 on the *Regulatory Technical Standards on the European Single Electronic Format* (ESEF)

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on ESMA's Consultation Paper 2015/ESMA/1463 on the *Regulatory Technical Standards on the European Single Electronic Format* (ESEF) issued on 25 September 2015. The ASCG welcomes the opportunity to contribute to the discussion. Given our remit as a national accounting standard setter, we are primarily looking at the proposals from a normative end rather than from a preparer's, user's or regulator's point of view. Further, our responses have been developed from a conceptual, general angle and do not (and most likely, will not) reflect any practical considerations that we expect will be put forward separately by the constituents in our country. Hence, our positions should be read with caution and should not be inferred as constituting "the German view".

As the majority of the questions in the Consultation Paper (CP) drill down further than we are able to comment on, we restrict ourselves to overall comments on your considerations as well as some more detailed comments on selected proposals contained in the draft Regulatory Technical Standards (RTS).

Overall comments on the considerations in CP 2015/ESMA/1463

ESMA proposes that issuers shall make public their AFR available in a non-structured format by making use of the PDF technology. Where the issuer's AFR includes consolidated accounts prepared in accordance with IFRS, the issuer shall make them public in a structured format based on XBRL technology and use the relevant provisions of the latest available IFRS Taxonomy as endorsed in the EU [legal tool yet to be specified].

We believe that when assessing electronic filing, one needs to consider both, the starting point and the ultimate goal of the journey. As to the starting point, we note that whilst entities may provide their AFRs in PDF format today, hardly any entity is reporting using a structured format. This needs to be born in mind when looking at costs and benefits. With regard to the ultimate goal, the CP appears a bit vague: Whilst ESMA states that it would be unrealistic to mandate structured filings for every entity and all sorts of AFRs at this stage, a question arises as to whether the current proposal is to be regarded a stepping-stone towards such a goal, or whether it represents a definitive end point for the foreseeable future.

As an accounting standard setter we have difficulty in taking a definitive position on this question. We would, however, like to put a marker down as regards the costs involved: ESMA seems to assume that, especially for entities reporting under IFRS, the data requested already exists and is ready to be submitted. We do not believe that this is case: Whilst entities are complying with the presentation and disclosure requirements of IFRSs, it is highly unlikely that they follow a uniform approach (this is especially true for taxonomy levels (b) and (c)). Hence, if a taxonomy, and a closed-end taxonomy in particular, was to be introduced and mandated, preparers are likely to incur implementation and ongoing costs for acquiring extended licenses for the mapping, additional staff time, and necessary IT changes. These extra costs need to be assessed against the additional benefits that users will derive from the structured format.

Currently, we note that the demand for structured data formats is limited – which may owe to the fact that users are well-served with the current ways of information proliferation (esp. in PDF format), or may indicate that users have so far shied away from making any investment due to the low number of entities submitting filings in structured format. And whilst that number of entities would certainly increase were ESMA to mandate the use of a structured format for IFRS consolidated financial statements, we believe that further feedback was necessary as to what users actually seek to get out of the data submitted, as this might inform ESMA about the degree of standardisation that is worth pursuing (noting that any standardisation comes at the cost of abandoning entity-specific information, which, at least for quite a few users, is more relevant than unified comparable data). We would not be surprised to learn if users processing large numbers of data were happy to receive key financial statement information in a structured format only.

In summary, we believe that it is necessary to carefully consider which benefits can be achieved at what costs and under which circumstances.

If one were to support the proposal for introducing a structured format, we:

a) concur with ESMA's evaluation that only financial statements (including the notes) shall be subject to such a structured format as other elements like the management report and governance-related statements are difficult to bring into a uniform structure;

b) agree with ESMA's conclusion that, for the time being, only financial statements required to be prepared in accordance with the IAS regulation should be subjected to the structured format – if any. For other financial statements prepared under national or 3rd country GAAPs, some of the objectives of the ESEF as introduced in the Amended Transparency Directive (such as comparability or improved analysis for investors and competent authorities) are difficult to achieve when there is no common ground for a joint taxonomy;

c) think that ESMA's proposal to consider the taxonomy of the IFRS Foundation as a starting-point for the content of a structured format of these financial statements is sensible and appropriate.

As the endorsement process has not yet been defined in the RTS, we are unable to comment on the appropriateness as to the content of the taxonomy though. This is because the content is highly dependent on the answer to the question how compatible the information submitted in structured format with the AFR in non-structured format should be.

For more details on the analysis we refer to our responses on the individual Articles of the draft RTS in the Appendix of this letter. If you would like to discuss our comments further, please do not hesitate to contact Sven Morich or me.

Yours sincerely,

Andreas Barckow

President

Appendix – Detailed comments on the draft RTS

Article 1&2: Structure of the ESEF and ESEF requirements

We agree with the draft RTS's proposal that only non-structured electronic reporting should be required for the entire AFR.

When developing the concept of an electronic format, one needs to distinguish between the need to report structured and non-structured data. We understand ESMA's consideration that the entire AFR should be published in a non-structured format for legal reasons, audit concerns, and to ensure the adequate availability of relevant information to users unable to process structured electronic data.

As ESMA envisages, in addition, some information to be published in a structured electronic format, we think it is reasonable to split the content of the AFR between financial statements (including the notes) on the one hand and all other statements/components such as management report, audit report, statements on corporate governance, etc. on the other. If one were to advocate structured filings, only financial statements should be subjected to such a requirement. The other elements should be reported in an electronic but non-structured format. We agree with ESMA that an assessment of a need for structured format of these other elements should be performed in the future.

As far as the financial statements are concerned, and from a conceptual point of view, we support that the draft RTS envisages a mixed approach depending on the sets of accounting standards used, in conjunction with the existence of taxonomies that are needed to be reported as structured data.

a) If one were to mandate consolidated financial statements prepared under IFRSs to be subjected to a structured format, we agree with ESMA that the IFRS taxonomy, as issued by the IFRS Foundation and subject to endorsement by the EC (through ESMA RTS or otherwise), should apply.

b) Individual financial statements, regardless of whether they are prepared under IFRSs or national GAAPs, should not be subjected under a structured format. Should a structured data format reporting already be in place or be allowed by a Member State at the national level, the RTS should not limit the possibility of using it.

c) Consolidated or individual financial statements prepared under 3rd country GAAPs equivalent to IFRSs should not be subjected to a structured format.

Article 3: Technological means

The draft RTS proposes that for the non-structured format of the ESEF, the issuer shall make use of the PDF technology. For the structured format of the ESEF, the issuer shall make use of the [XBRL/IXBRL] technology. The issuer shall use the technological version of PDF or [XBRL/IXBRL] that is compatible with those applied by the Officially Appointed Mechanism (OAM).

As a National Accounting Standard Setter we are not in the position and have no empirical evidence to argue for or against a particular technology to be used for financial reporting purposes. However, we have not heard any in our constituency that, whilst being negative as regards the policy objectives and their impact on the Cost Benefit Analysis, would object to the use of PDF for the non-structured format and the use of XBRL/IXBRL for the structured format.

When looking at our constituency, we note that there are different approaches entities use when filing AFRs in PDF format: some use OCR versions (including a search function), others do not. We note that the draft RTS is silent on whether the PDF shall be an OCR version (including a search function) or just an electronic paper scan or secured file which does not allow such search functions and would suggest a clarification in that regard.

As far as the technology for structured formats is concerned, the RTS, and the endorsement process in particular, need to be clear as to which type of files the endorsed taxonomy would encompass. For example, the IFRS taxonomy as published by the IFRS Foundation does not only consist of element schemes, but also of linkbases containing the components of the taxonomy that provide information about relationships between the elements.

Article 4: Taxonomies

The draft RTS proposes that when making public their audited consolidated financial statements in accordance with the IAS Regulation, issuers shall make use of the relevant provisions of the latest available IFRS Taxonomy as endorsed in the EU. A legal tool for the endorsement is still to be specified in the final RTS.

In our view, the proposal in the draft RTS is quite vague as regards to the content of the structured data and it does not reflect several considerations covered in the CP that we summarise and comment on as follows: It is our understanding of your CP's proposal that the endorsed IFRS taxonomy will be the taxonomy as issued by the IFRS Foundation for reporting under IFRS, subject to formal endorsement by the EC (through ESMA RTS or otherwise). According to ESMA's own categorisation in paragraph 116 of the CP, this covers the first three levels of the taxonomy without local regulatory concepts or company concepts:

a) Core disclosure requirement concepts – elements that must be reported according to IFRS;

b) Implementation Guidance and example concepts – elements that may be presented as indicated in the examples if a company is in the situation indicated in the example;

c) Common practice concepts – elements which may be included depending on the industry an entity is part of.

Any assessment of the appropriateness of the taxonomy levels to be used depends on the wider consideration whether or not the information to be provided in structured format should match the information proliferated in an unstructured format (which touches on ESMA's conclusion in paragraph 150 of the CP). We believe that there are at least two views, and the arguments they use are each legitimate. Further, each view can be brought in line with the basis for including the provision on ESEF in the amended Transparency Directive, which can be found in Recital 26. It refers to a harmonised electronic format, points out to a solution for a single electronic format and outlines several objectives that should be achieved for the benefit of issuers, investors and competent authorities. Inter alia, the electronic reporting should facilitate analysis for investors and competent authorities and the comparability of annual financial reports.

Proponents of the first view (View A) would maintain that the two sets of data should be aligned as much as possible, i.e. the structured filing would mirror the AFR in PDF format as closely as possible and would, thus, merely be a different way of presenting the same kind of information. Under a second view (View B), the two sets of data submitted would necessarily differ from each other as the structured data would follow a standardised format that may or may not be compatible with the presentation and disclosure format the entity has made use of in its AFR in PDF format. What follows is a list of arguments that the proponents for either view would put into the debate.

Arguments in favour of View A

Proponents of this view would state that by restricting the taxonomy to the three levels listed above, some company specific elements could not be tagged; thus, information contained in the audited financial statements would be lost in the course of conversion into a structured electronic format. We acknowledge that ESMA considered this fact when developing its proposals but retained, as a proposal for the draft RTS, to mandate the use of the first three levels as a closed IFRS taxonomy only, thus prohibiting the use of the extensions related to local regulatory concepts and company concepts. This could lead to tensions with national requirements in Member States if there were additional local accounting provisions that are mandatory parts of statutory IFRS consolidated financial statements (e.g. additional disclosure requirements) but are not covered by the closed taxonomy. Further, proponents of View A would argue that IAS 1 *Presentation of Financial Statements* gives preparers of financial statements a certain degree of freedom concerning presentation of their financial statements. Using a closed taxonomy for reporting purposes of financial statements in a principles-based accounting standards environment of IFRSs runs a highly likely risk of creating a filing requirement with content that differs from the audited statements.

Furthermore, both, the CP and the draft RTS are silent on the consequences arising from different presentation and disclosure formats in the financial statements and the structure of the given taxonomy, e.g. as regards the quality and relevance of the structured financial information provided. A difference might occur for the line items of primary financial statements as well as for any disclosures and might lead to the conclusion to leave certain areas of the taxonomy empty, i.e. to prepare an incomplete set of taxonomy. Hence, proponents of View A have difficulty in believing that a closed taxonomy would be practical and would lead to useful and relevant information for users. For the above mentioned reasons they would encourage ESMA to consider an open approach for the IFRS taxonomy to be used as a basis for structured data of IFRS consolidated financial statements and explicitly consider the use of the further taxonomy categories for:

d) Local, regulatory concepts – these are mainly extensions based on the elements above and are subject to development based on the needs of each jurisdiction (e.g. disclosure requirements in consolidated IFRS financial statements derived from national or EU legislation other than the IAS regulation or sector-specific reporting schemes for financial institutions); and

e) Company concepts – these are extensions developed by issuers in the case of the use of an open reporting system and allow for customisation and therefore representation of more entity-specific elements.

Lastly, the proponents of View A would point out that using a restricted financial reporting format seems contrary to the IASB’s latest thinking it pursues with its Disclosure Initiative. They would claim that it was also obvious from the IFRS Foundation’s own publications that the IFRS taxonomy shall not be understood as a comprehensive and complete set of IFRS financial statements. In that regard, they would particularly point at the IFRS Taxonomy regulator’s guidance published in May 2015.

Arguments in favour of View B

Proponents of View B, especially from the user camp, would argue that in order to achieve and foster comparability, mandating a closed-end taxonomy would clearly help achieve that goal. AFRs are not comparable today, and by merely reproducing the content in PDF format the AFR does not become any more comparable. It is the introduction of a certain structure, through mandated closed-end tagging, that ensures that financial information becomes comparable.

Further, preparers supporting View B would hold the argument that the taxonomy levels should not be extended beyond level (c), if at all: They would probably already disagree with ESMA's statement in paragraph 117 of the CP saying that "The first two levels (a and b) […] may be considered as *common* to all issuers reporting under IFRS." This is because level (b) of the taxonomy would mandate a uniform presentation for something that IAS 1 *Presentation of Financial Statements* does provide preparers with a certain degree of flexibility as to how information can be displayed.

We point out that the number of arguments presented above for either view should not be regarded as constituting a view of the ASCG. As stated before, we believe that either view has merits and is legitimate in its own right. The purpose of presenting the arguments was to contribute to ESMA considering them in their future debate.

Finally, and on a more conceptual note, we would like to point out that, as a matter of principle, endorsement of IFRSs under the IAS Regulation does not encompass any accompanying material of the standards, such as Illustrative Examples, Application or Implementation Guidance and the Basis for Conclusions. Since part of the proposed IFRS Taxonomy (in particular ESMA's category (b) is derived from this material, a taxonomy endorsement process under the RTS will cover more specific requirements than the endorsement of the underlying IFRSs themselves under the IAS Regulation and could be perceived as endorsing Volume B of the IASB's Bound Volume for use in Europe through the backdoor.

Additional aspects: Quality assurance

In order to achieve the policy objectives of the amended Transparency Directive as described above, electronic reporting in a structured format needs to be of appropriate quality. This is particularly challenging to observe, if – as in the CP proposal – the structured format differs from the financial statements in the AFR, as it is difficult for users to evaluate the quality of the different financial data. This might lead to an additional burden for preparers and users as there is no objective evidence that the information provided are consistent with the financial statements in the AFR: Firstly, an additional audit of the structured format might be expected from users (even if its scope of work was limited). Secondly, a reconciliation for the structured data to the AFR might be stipulated.

Whilst we are not in a position to argue as to whether or not there should be any audit, we point out that the Transparency Directive does not require the audit of the single electronic format. However, as stated above, and depending on ESMA's decisions, we could see a *potential* demand for having some sort of audit assurance. In any case, and to avoid any expectation gaps, we urge ESMA to clarify that issuing an audit opinion on the complete AFR does not mean that an audit firm has performed any audit of the structured data.

A further aspect in this context is the concept of materiality, which is not covered by the CP. We encourage ESMA to consider and clarify the interrelation of materiality levels for statutory financial statements (that are part of the non-structured AFR format) with the structured format of these statements. There is a general lack of guidance on how to apply the principles of materiality for ESEF.