18 January 2016

Dear Sirs

Consultation response on the European Single Electronic Format

The purpose of this letter is to set out the response of KPMG UK to ESMA’s consultation on the European Single Electronic Format (ESEF) of 25 September 2015.

In the following pages we address the questions contained in the consultation paper.

We believe that consistency in filing financial information across Europe would enable a level playing field and enhance cross border investment. We hope that our comments are useful for ESMA’s efforts to establish the technical guidelines on the ESEF across Europe.

Yours faithfully

Bivek Sharma
Partner, KPMG LLP
KPMG LLP (UK) - consultation response on the European Single Electronic Format

1. The provisions included in the amended Transparency Directive requiring a single electronic format were not subject to a formal impact assessment by the European Commission. While from a legal point of view ESMA could not address in this CP whether there is a need for the provisions included in the amended Transparency Directive, do you believe that a wider assessment should be performed on the requirements of introducing a single electronic reporting format in Europe? Please indicate your opinion and provide arguments.

We do not consider an impact assessment is needed.

Many consultations and discussions took place on the merits of a Single Electronic Format in preparation for the Transparency Directive. Many countries already have considerable experience of the electronic reporting formats under consideration. Indeed European bodies such as EBA and EIOPA have implemented SEF based on XBRL.

Further assessment would incur delay and costs and provide less time for the stakeholders to ready themselves for SEF.

2. Do you agree with the description of the policy objectives as included in this section? Are there any further elements that you believe should be analysed? If yes, please indicate them.

We agree with the policy objectives, namely:

1. The electronic reporting should be easier for issuers compared to the current practices;
2. The electronic reporting should facilitate accessibility to investors;
3. The electronic reporting should facilitate analysis for investors and competent authorities; and
4. The electronic reporting should facilitate comparability of annual financial reports.

3. Do you believe that the introduction of electronic reporting should serve as a basis for further debate on auditing of electronic structured data? Please explain your reasoning.

Yes. The use of electronic structured data continues to develop, so it is inevitable that the demand for the data to be reliable and trustworthy will grow over time. The debate on auditing this data should continue in order to facilitate the policy objectives.
4. Are you aware of any further elements which are necessary to provide an accurate picture of the current reporting for the purpose of this CP?

Yes. ESMA should consider the current practices of reporting company accounts in XBRL across Europe (e.g. UK, Germany, Ireland, Netherlands, Denmark, Spain and Belgium). However, ESMA should contrast the differences in approach and technology for the electronic filings of complex group accounts versus smaller, simpler entity accounts. The production of and electronic ‘tagging’ of small simple accounts is very different to that of group accounts.

5. Do you agree with the description of the technologies included in the CP?

Yes in general, but the description of iXBRL in paragraphs 78 to 80 is not correct. The use of iXBRL is simpler than described in this section of the consultation document.

iXBRL provides a presentation format. In other respects, iXBRL is XBRL. iXBRL simply means the inclusion of XBRL tags within ordinary, human-readable XHTML documents. This avoids the need for a separate means of converting XBRL data into human-readable form.

The same rules apply to taxonomy extensions whether iXBRL or XBRL is being used. iXBRL does allow the publication of layouts. Issuers in the EU are using iXBRL for reporting company accounts to tax authorities and other official bodies, although not to OAMs.

6. Do you agree with the choice of the technologies to be further analysed as part of the CBA? If not, please indicate which other technologies you would propose for further analysis.

Yes, we agree.

7. Do you agree with ESMA’s proposal to use the IFRS taxonomy as issued by the IFRS Foundation for reporting under IFRS, subject to formal endorsement in the European Union?

We agree with the use of the IFRS Foundation’s IFRS Taxonomy as a basis for the European Single Electronic Format (ESEF).

The ESEF will require a high-quality taxonomy that is maintained for IFRS disclosures. The IFRS Foundation’s taxonomy is regularly developed using a proper due-process and includes common practice. However, the IFRS Foundation taxonomy is not fully complete to be ready for immediate use. It is a starting point and requires an extension to be used to adapt its use. In all of its major applications around the world extension taxonomies are used to suit requirements.

An extension for ESEF is required to ensure that data reported under IFRS can be properly represented in XBRL. Without such an extension, a large range of critical IFRS data in
accounts cannot be reported in XBRL. It is also required to ensure comparability of data across the EU.

8. **Do you agree with ESMA’s preliminary conclusions not to use regulatory and entity specific extensions? Please provide arguments in your answer in relation to the impact on issuers and users.**

No. We believe that Regulatory or national extensions may be required to add extra data at the national level. ESMA should allow these, although they should be specifically authorised by ESMA.

Entity level extensions should generally be avoided unless they are essential. The general intention is to prevent such extensions from amending the basic content and relationships defined at the European or IFRS levels, so that comparability across countries and entities is maintained. A basic principle is that all data should be handled by the highest-level taxonomy possible. In other words, data should if possible be handled by the ESMA / EU extension – not by lower-level extensions at the national or company level.

One factor in the potential need for extensions is the iXBRL format. It can be used to deliver full company electronic financial statements electronically but without requiring all of the data to be XBRL-tagged. The eases taxonomy development, implementation and the introduction/updating of XBRL reporting.

9. **Do you agree with the proposed approach in relation to the taxonomies of third countries GAAPs deemed equivalent to IFRS?**

Yes, we agree with the proposed approach.

10. **Do you believe that taxonomy shall be developed for other parts of the AFR (outside financial statements)? If yes, please indicate which ones and explain why.**

Yes. For example, a simple taxonomy may be developed to cover standard, key data in the audit report and other essential information in the AFR. This is a normal feature of most XBRL projects. It could cover basic data to assist automated analysis (e.g. on the country of incorporation, industry sector), on the audit report (e.g. qualified audit opinion), and other matters such as Corporate Social Responsibility, Integrated Reporting and Carbon Disclosure.

11. **Do you agree that non-structured electronic reporting should be required for the entire Annual Financial Report? Do you agree that the format used shall be PDF? If you disagree, please explain your opinion by providing arguments on the policy objectives and impact on the CBA.**

No. We do not recommend the use of PDF as the mandatory format for reporting. We accept it is viewed as the current preferred digital format (for example see the FRC report:
An XBRL-based filing should be used as the primary format in line with the Digital Agenda for Europe. This filing should be used to encompass both structured and unstructured data. A key requirement is that the XBRL filing has a means of viewing it in a human-readable, understandable format. This is required to ensure that preparers can create it accurately and consumers can check it correct.

iXBRL would meet these requirements and can reproduce the content and formatting of annual reports as per a PDF. This includes all text, graphs, photos and the like which are not being ‘tagged’ in XBRL.

Mandating a PDF as a second part of the filing to the tagged data would create issues in terms of version control, consistency, and use of the data.

The use of iXBRL can provide a simple and efficient approach. It also promotes flexibility, allowing authorities freely to choose the scope of structured, XBRL data they require. It greatly eases the task of auditors and others involved in the process of financial reporting.

This does not stop issuers supplementing their reporting with PDFs.

PDF is a proprietary format whereas XBRL and iXBRL are open standards.

12. Do you agree with the solution of a single electronic format composed of structured and non-structured data (option B)? If not, please explain your opinion as well as the impact on the CBA.

Continuing the answer to question 11 above, providing a PDF in addition to an XBRL filing is unnecessary.

13. Do you agree that iXBRL and XBRL are the most relevant options available for the ESEF?

Yes.

14. Could you please indicate what is your preferred solution between iXBRL and XBRL? Please explain the reasons.

We expect ESMA to set up a technical study to examine the merits of available solutions. Based on our experience in the UK we recommend that iXBRL represents the best solution for ESMA.
iXBRL was specifically designed by XBRL International to handle reports which appear in flexible format and may contain unstructured data. A single iXBRL file can include all text, graphs, images and other content contained in a typical annual report, as well as all XBRL ‘tags’ required to support automated analysis and comparison.

Reports in iXBRL are in a standard, human-readable format, based on HTML, the language of the internet. Computer-readable ‘XBRL tags’, identifying particular items of data, are in a hidden layer in the HTML file.

Companies using iXBRL are free to present their accounts in the style, structure and format they choose. No additional mechanism is required to present XBRL data in human-readable form.

Authorities like ESMA are free to choose the scope of XBRL data they require. They can require certain data to be ‘tagged’ in XBRL and allow other data to be left as text. This promotes flexibility and easy phasing and control of XBRL use.

iXBRL provides a simple and efficient approach, greatly reducing any cost of XBRL reporting for issuers and receivers. The underlying HTML format is well understood and commonly used by software developers. Many ‘off-the-shelf’ software components for HTML are available, further reducing the cost of implementation.

XBRL UK has published a white paper explaining the use and benefits of Inline XBRL. This is available at [http://www.xbrl.org.uk/resources/whitepapers/](http://www.xbrl.org.uk/resources/whitepapers/).


15. Do you agree that structured reporting format should in a first stage be required for consolidated IFRS financial statements and eventually in a second stage for individual financial statements?

No, we do not agree. Companies that report under IFRS for their individual financial statements should also follow this timing.

It is more efficient for companies, auditors, regulators, users and the software industry to introduce the chosen electronic format for both consolidated and individual financial statements.

For individual financial statements prepared under a national GAAP please see our answer to 16a.
16a. Do you agree with a different approach for the financial statements under national GAAPs compared to IFRS on the grounds of the existence of a taxonomy?

Yes, we agree.

16b. Do you agree with the proposed approach in terms of potential development of a EU core taxonomy to be used for national GAAPs in the future?

We agree that ESMA should establish a technical study on the feasibility and benefits of the development of an EU core taxonomy. However, this is not a straightforward issue. The Accounting Directive sets out general principles and high-level reporting requirements but it is not yet clear how far it will succeed in harmonising detailed reporting under disparate European country GAAPs. It is thus uncertain how far a core taxonomy can go in providing comparable data from countries with disparate GAAPs. It may be necessary to keep the issues under review as national reporting evolves under the impact of the Directive. It should be noted that a number of countries already have their own taxonomies for national GAAPs (such as the UK) and, for them, any need to incorporate a new core taxonomy might increase costs and complexity for stakeholders.

17. Do you agree that a single electronic format should not be required for financial statements under third country GAAP?

Yes, we agree. Financial statements under third country GAAP should be made available in their locally required format.

18. Would you be in favour for a phased approach for SMEs, if it would be allowed under the legal mandate? Would it be relevant in the context of the development of the Capital Markets Union?

There does not appear to be a need for a phased approach. Many countries are used to electronic filings with iXBRL and XBRL and the ESEF will start in 2020 which provides enough lead time for filers to be ready. Software vendors will have enough time to prepare various solutions and they will be encouraged to do so with a wider audience.