ESMA
via email

Dear ESMA

FRC response to the ESMA ESEF consultation

The FRC is responsible for promoting high-quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing, and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries and oversee the regulatory activities of the accountancy and actuarial professional bodies.

This letter sets out the Financial Reporting Council’s (FRC’s) comments on the European Single Electronic Format (ESEF) Consultation.

In summary:

- The FRC has considerable relevant experience to contribute to the ESMA proposals. We consider that providing access to company information in a digital format can improve overall transparency and lead to positive outcomes for both companies and investors. That is why we have promoted the development of iXBRL tagging through taxonomy development for UK entities and are exploring the development of corporate reporting in a digital world in our Financial Reporting Lab. In developing a response to this consultation, we have drawn on evidence and insight from both initiatives.

- The FRC supports the ESMA consultation to seek evidence to determine the most effective electronic format (ESEF) to meet requirements of the Transparency Directive 2004/109/EC (amended 2013/50/EU) regarding the selection of a single electronic format for filing of the annual financial reports, effective from 1 January 2020.

- We consider that the development of a mandatory ESEF and its implementation should be limited to those entities subject to the Transparency Directive. Non-mandatory good practice is nonetheless likely to develop.

- In the UK, we have had a positive experience with the adoption of iXBRL on a mandatory basis for reporting to HMRC (the tax authority) and on a voluntary basis to Companies House (the public record). At present, some 1.9 million companies annually file in iXBRL. It is an important demonstration of the use and cost effectiveness of iXBRL and is the largest XBRL program in the world regarding the number of reports. The XBRL accounts tagging conventions (“taxonomies”) are owned and maintained by the FRC, but importantly in liaison and consultation with market participants. Details of both how we govern the taxonomies and links to the zip files containing them can be found on the following link (here). We would be more than happy to share our experience in more detail.

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While we would encourage ESMA to consider our experience in the UK of using Inline XBRL, we also encourage ESMA to research thoroughly the experiences in other European countries to arrive at the best solution which is cost effective and does not introduce complexities for Member States such as the UK, who have already developed taxonomies.

Moving to an assessment of the most suitable technology for the ESEF. We believe it is important to consider the application to structured and unstructured data separately. We consider iXBRL as being the best-suited technology for structured information. We believe that PDF represents the current best option for unstructured data.

While we consider that PDF and iXBRL currently present the best solution for ESEF we note that as technology and practice develop, newer more effective formats might be developed to render both structured and unstructured data. We encourage ESMA to consider developments in technology and practice throughout the development phase of the ESEF and to consider how the risk of stifling innovation through potentially too early standardisation may be addressed. We also encourage decisions on ESEF to be considered in a broader context of how electronic information can be made accessible and useful to investors and other stakeholders, including the impact of other initiatives such as the proposal to create a European Electronic Access Point.

We would like ESMA to consider the issue of taxonomy as a separate issue to that of the choice of technology for the structured element of the Annual Report and Accounts (ARA). We consider that the choice of technology for the structured element of the ARA should be a separate issue to its implementation. While we understand ESMA's role of recommending a technology based on the views of this consultation, we consider that implementation of the technology (and selection of a taxonomy) should be completed at Member State level.

Our detailed responses to the questionnaire are set out in the appendix to this letter. We hope we can be of assistance in determining the most effective course of action for Europe to meet requirements of the Transparency Directive. Should you have any questions in relation to this letter or the attached completed questionnaire, please do not hesitate to contact me or Jennifer Guest j.guest@frc.org.uk.

Yours sincerely,

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