Consultation Paper on the Regulatory Technical Standards on the European Single Electronic Format (ESEF)


Responses to specific questions

1. Do you believe that structured electronic reporting of financial information would be useful for users of financial statements?

We believe that electronic reporting is very helpful. Analysts use it all the time, although often it is not the primary source of information for the companies they specialize on (the target companies). It is more often used as a secondary information source, for example to gather financial information about competitors of the target company.

Analysts will usually look at a variety of companies, which can be broadly divided into:

1. Target companies, on which you issue buy/sell/hold recommendations, and
2. companies that you cover to improve your recommendations (e.g. industry competitors).

Databases can also be very helpful when an analyst is initiating coverage (starting to cover a company in depth). To manually retype historical data into a model can be extremely time consuming and error-prone and therefore if the data is already available in an electronic format, it is a potentially substantial cost saving.

Today, there are several problems with the available electronically processed data:

- The cost of subscribing to a database is a major issue, as all the currently available databases are privately owned. If ESMA requires issuers to publish data electronically, and makes access to that data free, this would result in a substantial cost saving for investors.

- Ease of use and comparability is also an issue, since different providers use different reporting frameworks. Often it is very difficult to understand whether a single line (or data point) represents a total, a subtotal or a single item included in the totals. As the proprietary databases available today typically give only individual data points, it is often not possible to replicate the reporting structure you get when you look in an ordinary financial report.

- The third issue is adjustments to the accounts. Since providers of databases often make adjustments to the data, there can be a concern about reliability and comparability over time. For example, since the IASB has not set a formal definition for net debt or required that
companies disclose this information, the database providers, themselves, have defined the number. This number can very often be totally wrong.

In order for the data to be useful to investors, the amount of data points needs to be managed so that the important information can be seen. Therefore ESMA should use a taxonomy which limits the amount of lines that are available to companies to report on. However, given differences in industry reporting there must be at least two different taxonomies available:

a) One for non-financial companies, and
b) One for financial companies. (It is probably important to have different subsets of the taxonomy for banks and insurance companies, since the structure of their financial reports differ.

From an investor perspective it is also important that any database also records quarterly reports (if quarterly reports are not published, the interim report). We believe that the database should include only reports that comply with IAS34. Summaries for Q1 and Q3 and similar press releases should not be included as the data is normally distorted and incomplete, so to have them processed electronically does not make them more reliable, but it might look so.

2. Do you agree that some parts of the AFR (such as management reports and other statements) are not easily to be reported in a structured format?

We believe that the pdf is a starting point, but in order to electronically interrogate less structured data or prose it will still be necessary to place it into a more accessible format. This could include free text fields, possibly splitting up by section of the report. Whilst the structure that is most useful might not be apparent at the current time, we feel that this data should be included in the project at this early stage.

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

Yes, the structured electronic reporting is only interesting on a consolidated basis. It is time consuming and confusing to have parent companies, subsidiaries and other equity holdings reported in a database (with similar names), since it makes it more difficult to know whether you actually are analysing the group accounts or just a part of the business. The second stage should not be for individual financial statements instead, we believe it would be helpful to focus on the quarterly/interim reports, to bring them into the database.

It is also important to ensure that the database includes whatever segment reporting is available. Normally at least “revenue” is reported, but ideally all the segmental numbers in the financial reports should be included in the electronic reporting database.

It is also important that completion of the IASB’s Financial Statement Presentation project should be seen as an essential step to create more commonality and cohesiveness in reporting, which would help to ensure that electronically tagged data would be aligned across companies.

4. Could you please indicate what is your preferred solution between iXBRL and XBRL?

There is no preference for either iXBRL or XBRL. In fact, given the potentially limitless number of lines available to companies for tagging it is understandable that investors do not currently use either.

The critical success factor is that the data must be easily and flexibly importable into excel and that all lines are clearly defined; either according to IFRS or, if non-GAAP, by the reporting company.
About the Corporate Reporting Users’ Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organizations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users’ Forum and not as representatives of our respective organizations. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

Peter Malmqvist
Chairman of the Swedish Society of Financial Analysts

Gunnar T. Miller
Managing Director
Global Head of Equity Research
Allianz Global Investors GmbH

Jean-Philippe Dorp

Marietta Miemietz
Director of Pharmaceutical Advisory Services
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