CESR's call for evidence "The Use of a Standard Reporting Format for Financial Reporting of Issuers Having Securities Admitted to Trading on Regulated Markets" – Deutsches Aktieninstitut's Response

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Deutsches Aktieninstitut[1] appreciates the opportunity to comment CESR's call for evidence on the use of a standard reporting format for financial reporting, in particular XBRL.

Deutsches Aktieninstitut understands that CESR takes this initiative with regard to Art. 21 and Art. 22 of the Commission Recommendation of 11 October 2007 (2007/657/EC) which requests CESR to compile a report on the future developments of the net of officially appointed mechanisms for the central storage of regulated information, and a more recent call of the European Parliament to promote electronic means of communication.

DAI appreciates the CESR has not yet taken any position on this issue.

Therefore, we would like to bring to CESR's attention a number of arguments why we believe that standard reporting formats, in particular XBRL, should only be applied on a strictly voluntary basis.

The main concerns with a mandatory use of XBRL on the European level issuers have are the following

- Negligible benefits: To our knowledge neither analysts nor shareholders have complained about the status quo with respect to the use of XBRL. If there were a widespread demand for XBRL in the market and if (and only if) XBRL proved to be as beneficial for market participants as advocates of a mandatory use seem to assume, we would expect market forces to lead to a widespread voluntarily implementation. One should therefore be extremely cautious to prematurely implement a standard which raises doubts on its acceptance in the market and its overall economic benefits.

[1] Deutsches Aktieninstitut e.V. is the association of German exchange-listed stock corporations and other companies and institutions which are engaged in the capital markets development.

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- Costs: In addition to the absence of market demand it can be expected that the introduction of electronic reporting format will cause massive implementation and compliance costs for issuers and a massive draw on high level personal resources. Furthermore, as financial reporting standards change over time, there will be changes in standard reporting formats, as well. Therefore, the cost-benefit analysis is clearly negative.

- Problems with XBRL and excessive standardisation: One of the reasons why we do not expect financial analysts and investors to rely on XBRL data, is because there is a fundamental problem with XBRL taxonomies. 'Official' or 'standardized' taxonomies already available to the market do not cover many firm specific reporting needs. So companies have to create company-specific extensions to deal with this problem. An increase in firm-specific XBRL tags directly interferes with the need of investors and analysts to get comparable financial data about companies. As a result, XBRL will either result in too less flexibility (if companies were not allowed to provide extensions or – even worse – were not allowed to employ a given scope of national or international reporting standards) or in too little comparable data and high compliance costs (if companies were allowed to provide extensions). It is not achievable to make all the required information available through pure data processing. Excessive standardisation of data must be avoided as it may render financial communication overly inflexible: concerns have been raised by companies with regard to the presentation formats resulting from standardisation of data or to the difficulty of disclosing additional information.

For these reasons we are generally of the opinion that there is no need for public intervention and XBRL should not become mandatory through regulatory action in Europe. This is not to say that XBRL or any other standard format may have no benefits at all in the future. It should simply be left to market forces whether listed companies introduce and use XBRL for financial reporting reasons on a voluntary basis.

Q1. Do you consider that there should be a standard reporting format for financial reporting of issuers having securities admitted to trading on a regulated market? What kind of pros and cons would a standard reporting format have?

No. See general comments.

Additionally, we doubt that the need for manual re-entry and comparison will be cut out by introducing a standard reporting format. To the contrary, analysts who are the main user group of financial information do manually re-enter financial information because this gives them the opportunity to

double-check the information, to adjust it to their specific needs and to carefully weight arguments for buying or selling the respective share. From this perspective the manual re-entry of information improves the process of analysis.

Q2. If yes to Q1, do you consider that XBRL would be an appropriate format? Are there any other reporting formats that CESR should consider in this context?

See general remarks and response to Q 3.

Q3. What kind of benefits would you consider a standard reporting format to bring for issuers, investors, auditors, analysts, OAMs or other users of financial information?

We do not think XBRL to be appropriate as there are problems with taxonomies applied (see above). However, this is not our only counter-argument as taxanomies may improve in the future.

The main argument is simply to leave it to the market forces to decide whether any standard format is desirable with regard to benefits and costs and which format would be appropriate.

Q4. What kind of disadvantages would you consider a standard reporting format would cause to issuers, investors, auditors, analysts, OAMs or other users of financial information? Do you see any obstacles to such reporting?

See general remarks.

As stated above, one should expect enormous implementation and compliance costs for any listed company. Additionally, standard formats may have too less flexibility and therefore may frequently force issuers and users to adjust standards to specific needs which will raise application costs further.

One should also keep in mind that experiences with XBRL are very limited – at least in the German market. Two years ago, not a single issuer was able to provide the German central storage mechanism, the Bundesanzeiger, with XBRL tagged reports. After recognising these massive application problems the Bundesanzeiger finally withdrew this obligation.

To overcome these problems, to implement a XBRL compatible reporting regime within due time and to keep it updated for regular reporting means issuers will have to commit enormous high level personal resources.

Furthermore, liability issues have to be taken into account which might cause further costs to issuers (see Q8).

Q5. What kind of costs (one-off or recurring) would you consider a standard reporting format would impose on issuers, investors, auditors, analysts, OAMs or other users of financial information? Please provide estimated costs, if possible.

See general remarks.

Q6. Are the above benefits, disadvantages, obstacles and costs different if the standard reporting format would only cover income statement, balance sheet and cash flow statement instead of full financial report? Please explain the differences.

As Deutsches Aktieninstitut is of the opinion that standard reporting would cause huge costs without noteworthy benefits for investors, any limitation in the scope of application would improve the cost-benefit analysis. However, the costs would still outweight the benefits even within a regime of limited application.

At any means standard reporting has to be prevented beyond core financial reports, e.g. prospectuses.

Q7. How would you assess the benefits of the use of standard reporting formats against the costs?

See general remarks.

The benefits are very limited as missing market demand clearly shows while the costs would be very high.

Q8. Do you envisage any liability and/or audit issues arising from the use of standard reporting format?

Yes, there are severe liability and audit issues arising from the use of a standard reporting format.

Due to the fact that regular financial statements have to be translated in the standard reporting format (in case of XBRL by tagging different positions of the report) translation errors may occur. Therefore, it has to be avoided that issuers may held liable for those errors as long as the regular financial statements are correct.

Furthermore, it has to be avoided that the "translation" into an electronic format will only be possible if the translation is audited. This would cause enormous additional auditing costs for issuers.

Q9. Are there any other issues CESR should take into account in the analysis of the issue?

CESR should keep in mind, that the current reporting and storage regime already offers investors and their service providers easy electronic access to numerous financial information on various reporting channels. So there is a good economic argument that the marginal benefit of standard electronic reporting will be very small. This might be one of the reasons why there is no market demand for this additional feature.

Again, this is not to say that XBRL or any other standard reporting format will not develop in the future. But this should be left to the decision of market participants.