

ZENTRALER KREDITAUSSCHUSS

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BUNDESVERBAND ÖFFENTLICHER BANKEN DEUTSCHLANDS E.V. BERLIN • DEUTSCHER SPARKASSEN- UND GIROVERBAND E.V. BERLIN-BONN
VERBAND DEUTSCHER PFANDBRIEFBANKEN E.V. BERLIN

Mr Carlo Comporti
Committee of European
Securities Regulators (CESR)
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**Response to 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"**

Ref.: CESR/09-859

AZ ZKA: 413-EU-Transp

AZ BVR: 413-EU-INFO

Dear Mr Comporti,

we are grateful for the opportunity to respond to CESR's Call for Evidence on the subject mentioned above. Please find enclosed our respective response.

Yours sincerely,

on behalf of the ZENTRALER KREDITAUSSCHUSS

Bundesverband der Deutschen
Volksbanken und Raiffeisenbanken e.V.

by proxy 
Daniel Selle

by proxy 
Dr. Diedrich Lange

Enclosure

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Response to 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

Ref.: CESR/09- 859

BVR: 413-EU-INFO
ZKA: 413-EU-Transp

30 November 2009

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?

With regard to the standard reporting format we have differentiated between a) the rather technical "file format / data format" and b) the "template / standard form" which determines the content of the report.

a) File format / data format

In the context of the publication of financial information, standard technical formats significantly enhance the efficiency (avoidance of the need to switch between different formats). Whilst not limited to, the automation benefits would particularly allow professional users (e.g. analysts) faster access to similar information from different companies. This presupposes the prior specification of a standard file format to which all corporations may assign their financial information. In Germany, there are data standards for delivery in XML or XBRL format as far as notifications to the electronic Federal Gazette (*elektronischer Bundesanzeiger*) are concerned. This results in a higher efficiency for the electronic Federal Gazette when it comes to electronic processing and publication on the internet.

b) Template / standard form

IFRS only stipulates minimum standards for reporting formats. This has led to a situation where particularly banks and other financial sector companies developed very heterogeneous formats for presenting their financial statements.

Moreover, when drawing up annual accounts under IFRS, not only the standards set by IASB have to be complied with but also national rules and regulations need to be observed (e.g. in Germany the German Securities Trading Act (*Wertpapierhandelsgesetz*, "**WpHG**"), the German Commercial Code (*Handelsgesetzbuch*, "**HGB**"), Accounting Regulation for Credit and Financial Services Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute*, "**RechKredV**")). Therefore, a standard format would have to be developed for every single country. Yet, this would only be of limited use to an international comparability of information.

Furthermore, both under IFRS and under national rules and regulations there are numerous options regarding the specific nature of individual reporting requirements which, in our view, are at odds with any specific template / standard form requirements. Should the dynamics of

change witnessed in recent years continue unabated, we feel that the resulting need for ongoing structural changes will create problems for the implementation of standard reporting formats.

Therefore, in our opinion, a standardised reporting format will not be capable of replacing traditional financial reporting. In addition, in order to fully assess the standardised information, users will still need additional explanations. Furthermore, only a small fraction of users (especially professional analysts) will have the technical preconditions that are necessary for fully benefitting from a standardised reporting format.

Conclusion

It remains questionable whether the goal of improved analysis and data comparability can be achieved by means of a standard technical format such as XBRL. Rather, there is a risk that the market will expect comparability which cannot be achieved by a standard data or file format.

A single technical XBRL format cannot eliminate the diverging accounting and valuation practices, based on the diverging use of discretion offered in this regard, nor the different accounting and valuation practices used even within one and the same industry.

As far as templates / standard forms are concerned, we should like to point out that a standardised reporting format brings additional costs for the reporting entity because – besides the traditional reporting – the reporting entity would have to draw up (and test) an additional template.

For the purposes of the pan-European exchange of financial information we therefore suggest resorting to existing national XBRL formats like, for instance, the one used for the transmission of data to Germany's electronic Federal Gazette.

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?

a) File format / data format

In our view, XBRL (as a technical format) constitutes an appropriate "technical language" for financial reporting purposes. XBRL would be a suitable format because it has been designed specifically for financial reporting.

b) Template / standard form

However, comparability of information hinges less on the technical formats but rather more on the templates / standard forms which determine the content of the report. Annual reports which – technically speaking – have been drafted using the XBRL format, are better comparable only if a comprehensive and harmonised taxonomy is deployed (cf. Q1 on the disadvantages of predetermined template / standard form requirements). In our opinion, the current IFRS taxonomies cannot guarantee this harmonised reporting approach. On the other hand, in order to ensure comparability of information individual adjustments or, moreover, additions to the XBRL taxonomy should be avoided wherever possible. Hence, the different sectors (e.g. banks, insurance companies, industrial enterprises) would have to be assigned their own unified taxonomy which would then have to be amended in order to include country-specific requirements and their use would have to be made mandatory. Yet, we do not feel that such an approach would be very constructive.

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?

Our answers to the questions below can be broken down into two different segments: (1) issuers and the entities drawing up the financial reports (in the XBRL context: "**Producers**") as well as (2) investors, analysts and all other users of financial reports (in the XBRL context: "**Consumer**").

a) File format / data format

(1) Producer:

Provided it is possible to optimise the in-house data flow in this way, the reporting process may benefit from technical standards. Efficiency gains may extend to both the data quality as well as the timeline of the reporting process (delivery dates).

(2) Consumer:

A standard data format enables a more efficient processing since there are no format mismatches, as well as a faster and less erroneous analysis and review.

b) Template / standard form

(1) Producer:

Benefits arise only if the templates are recognised and used by a large number of Consumers (ideally, all Consumers). This may help to avoid duplication of work/multiple data collection with different levels of aggregation and disaggregation.

(2) Consumer:

Where the financial reports are comparable as regards content, this may contribute to an enhanced capital market efficiency since scarce equity and debt capital can be allocated to those businesses which - from the investor's point of view – offer an optimal risk/yield profile.

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?

a) File format / data format

(1) Producer:

For Producers, the conversion of the financial reports into a specific technical format creates additional expenses. This is due to the fact that the problem of format mismatches are shifted from the Consumer to the Producer.

Furthermore, we should like to add that the XBRL format cannot replace the presentation format which is used for the annual report. Many companies use their annual report in order to illustrate their corporate identity / for marketing purposes. Already on a visual basis, this is something that the XBRL format cannot achieve.

(2) Consumer:

For Consumers, there are no obvious disadvantages. However, we have the concern that identical technical standard formats may mislead Consumers into believing that there is also congruence with regard to the content, which is not the case.

b) Template / standard form

(1) Producer:

Templates / standard forms may incur the risk that Producers will be forced to change their current practices of data collection already at the source (aggregation and disaggregation), without being able to use the information thus obtained for any other purposes. This may mean significant additional costs without any added value.

Especially for companies in the financial industry, we see as one key hurdle in the application of XBRL the lack of templates / standard forms which are simultaneously suitable for different Consumers as well as the preparation of the IFRS financial statement. The Producers would have to amend the current IFRS taxonomies to include a multitude of additional information.

However, these individually amended versions would be useful to but a small number of Consumers.

(2) Consumer:

Due to the higher degree of automated processing, standard templates may incur the risk that a lower priority will be given to the critical assessment of the financial information itself. In particular, due to its highly complex nature, the analysis of IFRS financial statements requires not only detailed knowledge of the different accounting rules but also a comprehensive wholistic review.

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.

a) File format / data format

(1) Producer:

In our view, today's technical data conversion costs (e.g. from pdf into XBRL) for the publication of financial reports which are already incurred - either directly at the electronic Federal Gazette or when using another service provider - are still economically justifiable. We feel that under cost-benefits aspects there is no sound business case for a stand-alone implementation of the data conversion by the Producer itself which would incur both one-off costs as well as recurring costs for the administration and control of the data conversion.

(2) Consumer:

The Consumers would incur costs for switching the consumer-side processing methods as well as recurring costs for the ongoing maintenance and monitoring of the processing methods.

b) Template / standard form

(1) Producer:

Mandatory complex and comprehensive templates / standard forms would potentially require dramatic changes to the Producers' data collection process which would interfere with the very foundations of data collection and thus the reporting structures. Corresponding downstream costs will arise whenever data requirements change.

(2) Consumer:

The Consumers would incur costs for implementing the standard template / standard for the Consumer as well as recurring costs for the administration and ongoing updates of templates / standard forms.

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.

Question Q6 can only be answered from the point of view of a Producer.

a) File format / data format

External service providers generally charge conversion costs based on the volume of the data to be converted. If only the components income statement, balance sheet and cash flow statements need to be converted into a standardised reporting format, then this would significantly reduce the amount of data to be processed. Whilst this would have a positive effect on the cost-benefit analysis, it should, however, be noted that the conversion costs on the whole are only of minor importance.

After all, if only certain segments had to be prepared in XBRL, this could give rise to the impression of a "lower quality" of certain information, i.e. XBRL information could be regarded as more important than the non-XBRL information.

b) Template / standard form

Income statement, balance sheet and cash flow statement constitute reports with a high level of aggregation. However, if the aggregations differ fundamentally from those aggregation levels that were previously applied by the Producer, then the data acquisition will need to be amended already at the source of information (see above). This change will also have a knock-on effect on lower levels of aggregation. Hence, the requirement of an income statement, balance sheet and cash flow statement *in lieu* of a comprehensive annual report may potentially only lead to a slight relief for the Producer.

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

Question Q7 can only be answered from the point of view of a Producer.

a) File format / data format

It only creates additional costs for the Producer.

b) Template / standard form

Besides the additional expense there may be higher efficiencies for the Producer. This depends, however, on whether the standard forms are accepted by as many Consumers as possible. The higher the Consumer take-up rates (within and outside the company) the better the cost-benefit ratio. If the standard forms are suitable only for a limited group of Consumers then there will be no further benefit; in this case, the costs will very clearly outweigh the benefits.

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

When the Producer converts data into XBRL format, there will be a higher risk of errors in the annual financial report, which will result in a higher liability risk.

As far as the audit is concerned, we should like to point out that the data collecting process also has an influence on the audit. In principle the audit processes may be facilitated by means of standardised reporting formats (both technically speaking and in terms of content). This also applies to cross-company comparisons. The enhanced transparency may, in turn, give rise to a redefinition of the audit scope.

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

In general, we recommend carefully weighing the pros and cons of technical file formats / data formats and templates / standard forms.

The introduction of file formats / data formats needs to be accompanied by a clear identification of the concomitant benefit. However, we doubt that standard data files will help achieve improved analysis and comparability of data. Rather, there is a risk that the market will expect comparability which cannot be achieved by a standard data format / file format.

Additionally, we would like to point out that in Germany, the data of all publicly traded companies are already available at the electronic Federal Gazette in XML or XBRL format. The electronic Federal Gazette could, potentially, install enhanced data exchange / data analysis capabilities for its users.

In our view, standard templates would require a consultation with the various national regulators and standard setters. For example, the presentation and content of IFRS financial statements (e.g. income statement, balance sheet) should be liaised with the IASB.

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