



EFFAS THE EUROPEAN FEDERATION
OF FINANCIAL ANALYSTS SOCIETIES

CESR
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Call for Evidence: The Use of Standard Reporting Format for Financial Reporting of Issuers having securities admitted to Trading on Regulated Markets
Comments by EFFAS European Federation of Financial Analysts Societies

Dear Madams, dear Sirs,

The European Federation of Financial Analysts Societies, EFFAS, is the European umbrella organisation of national analysts societies. It comprises 25 members representing more than 14,000 investment professionals in the areas of Equity and Bond Research, Asset Management as well as Investment Advice.

As the European Analysts' organisation we appreciate this opportunity to contribute to the discussion process surrounding the use of a standard reporting format for financial reporting. We are pleased to provide you with the following comments.

Questions:

1) 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?

Answer:

EFFAS supports a standard reporting format for financial reporting especially in the area of regulated markets such as securities markets. EFFAS Centre for Corporate Reporting has drafted guidelines for corporate reporting (forthcoming paper) which consider comparability, consistency, completeness and reliability as the most important features of a standardised reporting format. Such features are deemed necessary for the task of investment analysis which firmly rests inter alia on the comparison of different investment objects such as stocks. We consider a standardised reporting format as a necessary step forward to given investors and financial analysts the access to data on companies which today require burdensome and error-prone manual extraction.

However, EFFAS considers it important to consider standardising reporting format both from the perspective of content i.e. which data points and facts companies report and the delivery process i.e. the vehicles, means and formats used for transporting reports from companies to investors and financial analysts. We are critical towards any approach which merely replicates the current predominantly paper-based reporting process into a standardised form. In as much as data are being consumed through electronic and digital means by users of these data we propose to consider a format which embraces available, and free-of-charge, web-based and non-proprietary technologies.

A standardised reporting format will enable users to more automated processing of data, make data easier to process and transfer and will reduce the risk error in the publication of data.

2) 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?

Answer:

We think that XBRL is a very appropriate format. Within the last 10 years or so XBRL adoption has spread around the globe. XBRL uses the concept of “tagging” which effectively codes each data point so that data points are electronically processable and retraceable to its point of origination.

In technical terms XBRL is rooted on a very mature and well-distributed data standard – XML – and in terms of capacity to cover and reflect the necessary level of complexity inherent in financial and business reporting XBRL has proven its strengths already. Moreover, XBRL uses taxonomies which can be described as a data dictionaries for financial and business data. The development of taxonomies has been closely linked to the development of accounting standards so that for the majority of line items reported in financial reports taxonomy elements are either available or can be created with very little effort.

We are not aware of any other data format with similar global distribution and/or equal conceptual strengths.

3) 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?

Answer:

Standardisation is a means of reducing complexity and transactional costs for all stakeholders of the reporting process or supply chain. A standard reporting format would render the following benefits to the stakeholder groups as listed below

Issuers:

- reduced transaction costs and less resources needed for the preparation of financial reports
- comparability of data among peer groups increases fair and a “level-playing-field”

Investors and financial analysts:

- more efficient and timely access to data, less errors through avoiding manual data recovery (e.g. from paper to calculation spreadsheets)

- data being available as reported, albeit in a comparable manner, less reliance on data vendors
- opportunity to endeavour into new ways of analysing companies, linking formerly isolated data points etc. in as much as the worldwide web has changed information reception in general

4) 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?

Answer:

We do not see any material disadvantages. We also assume that the benefits of implementing standardised reporting formats in an interactive format will outweigh any initial implementation costs by far.

5) 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.

Answer:

We would like to answer the questions building on the assumption that a standard reporting format would be based on XBRL. We do not possess sufficient empirical and reliable data on costs associated with XBRL implementations to arrive at a sustainable cost/benefit calculation.

EFFAS recognise that the cost of a standardisation of reporting as well as its implementation will most likely have to be carried by filers i.e. companies.

However, there are several indications about implementation of XBRL which may be helpful. First of all, most issuers in the US report that their initial concerns about resources needed and costs involved in implementing XBRL reporting as a response to the SEC's Mandatory Filing Program have proven unsubstantiated. Today, XBRL standard reporting has become a line function within the corporate accounting department. Also, as XBRL is a free-of-charge, non-proprietary standard based on XML the technical migration costs are neglectable as XML technologies and expertise are a standard with most IT departments.

6) 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.

Answer:

As we have already stated in Q2 we believe that XBRL is by far the best vehicle for implementing standard reporting as the concepts of XBRL is built on the use of data dictionaries which are called taxonomies. These taxonomies facilitate the creation and use of a commonly shared number of reporting elements in a consistent, thus comparable quality.

First of all, we consider the primary financial statement (income statements, balance sheet and cash flow statement) as a natural starting point for standardised reporting in XBRL. However, we strongly suggest to thoroughly determine the scope by aligning with needs of users.

The primary financial statements typically do not contain so-called non-GAAP measures (EBIT, EBITDA, ROCE, EPS etc.) which are as the name would suggest not governed by GAAP (Generally Accepted Accounting Principles).

Secondly, for years EFFAS has been engaged in the area of Non-Financials i.e. reporting elements on ESG (Environmental, Social, Governance Issues) and Intellectual Capital. These aspects of corporate performance form an important part of investment analysis. EFFAS has already created an XBRL taxonomy for its Key Performance Indicator model for ESG and is in the process of creating a taxonomy for Intellectual Capital together with its allies in the WICI (Worldwide Intellectual Capital Initiative) consortium.

7) How would you assess the benefits of the use of standard reporting formats against the costs?

Answer:

The benefits of standardised reporting clearly lie with users and consumers of the then standardised formats. Many users would receive financial reports in a quality they do not have access to today. Speed and efficiency of data consumption will provide additional benefits. Issuers will have to bear the costs of adhering to standard reporting but as we pointed out above we consider any costs and overheads involved as moderate.

8) Do you envisage any liability and/or audit issues arising from the use of standard reporting formats?

Answer:

The data delivered through a standardised format such as XBRL must be 100% equal in terms of reliability, granularity and quality in general to traditional data as provided through annual reports, PDF files, web pages etc. This will be the crucial for the uptake of data by consumers. We would thus support the idea that legal accountability is placed toward companies releasing XBRL filing to the market similar to the one issuers have currently for paper based filing. An intermediary period may however be required before that objective may be reached. As far as the audit of XBRL filing, a similar objective should be seek whereby external auditors should be providing assurance on XBRL filing similar to existing paper based filing. This would also require that aquedate auditing standards are being available.

From our perspective a standard format can only make auditing better.

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

Answer:

There are two issues we would recommend CESR to take into account:

First of all, as we have pointed out in Q6 financial reports as defined in our constituents also comprises non-financial data on ESG and Intellectual Capital whenever risks or opportunities arise from the management of these aspects. A holistic reporting model governing the creation of a standard reporting format needs to take these issues into account.

Secondly, while there is an IFRS taxonomy for XBRL available this taxonomy is currently limited to the core accounting rules of IFRS ("Bound Volume"). Industry-specific line items and those reporting items reflecting national reporting obligations do not form a part of the current IFRS XBRL taxonomy.

The IASCF's XBRL team has embarked on an initiative to identify a comprehensive list of additional elements for its XBRL taxonomy. We strongly support this initiative.

Yours sincerely,



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