ESMA : consultation paper on the Regulatory Technical Standards on the ESEF

##  The Transparency Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 calls for the harmonisation of electronic reporting formats and ESMA was charged with performing an analysis of stakeholder requirements, a cost/benefit analysis and preparing a standardised application proposal to be imposed within the European Union.

SFAF and its Accounting and Financial Analysis Commission which represents users of issuers' accounting and financial records (sell-side analysts, buy-side analysts and managers) were consulted by ESMA on past years. On these occasions, the members of the Commission expressed low levels of interest in such an approach which they feel would not have a positive impact on the quality of financial analysis on which they base their recommendations. However we view with a strong interest the creation of a single database for listed company in Europe but in such case our first choice would be to base it on the existing Excel software.

IT and network developments have influenced the way in which information is obtained, analysed and communicated. With the powerful arrival of the Internet during the 1990s, the associated XML language assumed a new major role. Consequently, at the end of the 1990s, leading global auditors began to look into the development of an independent, international, financial reporting language. And so XBRL was born, the one example cited by the Transparency Directive.

A computer language must respond to a need and this need must be comprehensively analysed. The use of a language does not create a concept and it is preferable to gather the views of those users for whom the language is intended. Financial analysis is not restricted to the collection and comparison of financial statements. It should also take into account the corresponding notes, the management discussion and analysis report and other reports published (ESG,…) by the issuer, as well as comparison with similar information published by of competitors, suppliers or clients. The concern expressed by many analysts is that the implementation of these electronic reporting formats would lead to the automated processing of financial information being favoured above everything that makes up this information, i.e. non-quantifiable aspects or issuer specific elements that ought to be considered.

In particular, the low levels of standardisation with regard to the presentation of primary financial statements in IFRS (segment information in particular) have a negative impact on the comparability of accounts and call for extreme caution in the use of data extracted from electronic formats.

The XBRL standard uses computer syntax and an extendable core of shared definitions found in data dictionaries and/or taxonomies, thereby providing a structure for the elements found in financial statements. It is undeniable that this approach, using one typology of databases, can be very useful for public and/or private aggregator bodies. Financial institutions and insurers subject to Basel III and Solvency II are obliged to produce their regulatory reporting in XBRL format. Vendors of financial information based on a technical analysis also have interest in the draft proposal.

The ESMA consultation paper concerns the electronic reporting of European IFRS consolidated financial statements. The SFAF would have liked ESMA to present a study on the application of electronic reporting in the United States. Every company in the USA is free to have its own taxonomy, resulting in this practice not being used by investment professionals. The American authorities, the US Securities and Exchange Commission, have not yet taken a decision on whether to continue this trial or to introduce a mandatory standard.

The SFAF asks whether the XBRL language results in any costs being incurred (training, purchase of equipment and software, etc.) by users of the information, such as analysts and managers, which would create a situation of discrimination in the use thereof, in turn going against the key concept of equality. Lastly, the SFAF would have liked the concept of responsibility to be defined, as well as the domain in which it applies between the time at which the data is integrated into the software and the time of its extraction or use by professionals.

For all of the above reasons, the SFAF's first recommendation is that the approach used should be the bolt-on approach (reporting added on to the existing format) rather than the built-in approach (complete reworking of the format) which would require substantial changes to the entire accounting reporting format.

Secondly, the SFAF requests that only primary financial statements are affected.

Generally speaking, the question of electronic reporting is a difficult topic, with which users are not very familiar.. The low levels of interest shown by users in the United States have also resulted in a decline in the appeal of these concepts in Europe. Association with other concepts such as the integrated report, the development of reports linked to governance and to ESG, challenges, and the changes to IFRS standards render these matters particularly arduous.

### *Question 1: The provisions included in the amended Transparency Directive requiring a single electronic format were not subject to a formal impact assessment by the European Commission. While from a legal point of view ESMA could not address in this CP whether there is a need for the provisions included in the amended Transparency Directive, do you believe that a wider assessment should be performed on the requirements of introducing a single electronic reporting format in Europe? Please indicate your opinion and provide arguments.*

Yes, SFAF considers that an impact study is necessary in order to assess the cost and efficiency of a system based on the current experiences of financial analysts and investors in the United States. .

### *Question 2: Do you agree with the description of the policy objectives as included in this section? Are there any further elements that you believe should be analysed? If yes, please indicate them.*

Mandatory standardisation must be implemented in an open architecture and must allow end users such as analysts and managers to be able to export data into Excel or elsewhere. This does not appear to be the case in the chosen solution.

It is essential that actual users of accounting and financial information are consulted, in addition to those who use only databases. A decision cannot be based solely on the views of auditors who face a conflict of interest between the common good and their private interests.

### *Question 3: Do you believe that the introduction of electronic reporting should serve as a basis for further debate on auditing of electronic structured data? Please explain your reasoning.*

Our members, financial analysts and fund managers, have frequently constructed their proprietary models of analysis of company financial statements, with database using Excel. This work, which has been carried out over a number of years, has significant added value. The ability to repatriate issuer financial data into their databases would be considered an important benefit, which is not allowed by the proposed XBRL model..

A cost/benefit analysis could provide information on whether such a solution is possible. Provided of course that this analysis is performed by an independent party and not by any body in whose interest a favourable response would be. If the cost is significant, does this not pose a risk of discrimination between users depending on whether or not they have the ability to invest in the adaptive technology?

### *Question 4: Are you aware of any further elements which are necessary to provide an accurate picture of the current reporting for the purpose of this CP ?*

### No comment.

### *Question 5: Do you agree with the description of the technologies included in the CP?*

No comment

### *Question 6: Do you agree with the choice of the technologies to be further analysed as part of the CBA? If not, please indicate which other technologies you would propose for further analysis.*

Yes, in the United States, financial statements are often presented in XBRL, in Word, PDF and Excel. We believe that the best venue would be the launch of an Excel database as this is universally used. An XBRL solution could only be a second best.

### *Question 7: Do you agree with ESMA’s proposal to use the IFRS taxonomy as issued by the IFRS Foundation for reporting under IFRS, subject to formal endorsement in the European Union?*

Yes, in the event that a technical solution is found, the SFAF supports the use of the taxonomy provided by IFRS standards, subject to a review of its application. The SFAF, however, recalls that the IFRS taxonomy is not yet stable. This positive answer is related only to the implementation of the taxonomy to the primary financial statements.

### *Question 8: Do you agree with ESMA’s preliminary conclusions not to use regulatory and entity specific extensions? Please provide arguments in your answer in relation to the impact on issuers and users.*

No we disagree, users need to have also sector specific data, and company reporting outside the primary financial statement shouldn’t be defined under that taxonomy. Entity and regulatory data are an important source of information and should be developed freely as Alternative Performance indicators.

***Question 9: Do you agree with the proposed approach in relation to the taxonomies of third countries GAAPs deemed equivalent to IFRS?***

No comment

### *Question 10: Do you believe that taxonomy shall be developed for other parts of the AFR (outside financial statements)? If yes, please indicate which ones and explain why.*

No, SFAF is not in favour of such an expansion, due to standardisation difficulties caused by issuer and sector diversity.

### *Question 11: Do you agree that non-structured electronic reporting should be required for the entire Annual Financial Report? Do you agree that the format used shall be PDF? If you disagree, please explain your opinion by providing arguments on the policy objectives and impact on the CBA.*

### Yes, we agree, PDF format has changed significantly in terms of quality and data extraction abilities. SFAF is in favour of this option which would meet the requirements of the Transparency Directive as well as users' needs. SFAF has recommended, in its response to the European Commission's Consultation on the Prospectus, an interactive PDF format which offers keyword searches within the document as well as a number of advance search functions.

### *Question 12: Do you agree with the solution of a single electronic format composed of structured and non-structured data (option B)? If not, please explain your opinion as well as the impact on the CBA.*

We have a mixed view on it , An XBRL impact analysis beginning in the late 1990s would have provided an overall view of advantages and disadvantages based on the experiences of users such as analysts and managers. The United States is a good example because over 5,000 listed companies have had to apply it.

To our knowledge only couple of providers propose an access to XBRL structured database, thanks to the financial help of XBRL associations. It seems that they could be useful for investors in the area of industry of topical issues. However we understand that the utilisation is not yet widespread and that cost could be an issue with still a part of the subscription cost due to the linkage of XBRL onto Excel.

### *Question 13: Do you agree that iXBRL and XBRL are the most relevant options available for the ESEF ?*

SFAF does not agree and would have liked a cost/benefit analysis to be carried out by an independent third party, taking into account the keyword search criteria and the extraction of data to Excel type tables.

It fears that the inclusion of XBRL will result in the automated analysis of financial data, without any qualitative consideration of the information contained in the management report and the other reports, notes and appendices. We are therefore concerned that this type of automated analysis would result in end investors (savers) taking unidentified risks. The advantage of a solution such as this is the reduction in the amount of time spent on producing a fundamental analysis, and therefore the cost thereof, but at the expense of an analysis that is as objective as possible and one that complies with regulatory provisions on financial analysis (clear, accurate, not misleading, produced and distributed with due diligence).

### *Question 14: Could you please indicate what is your preferred solution between iXBRL and XBRL? Please explain the reasons.*

###  No comment.

### *Question 15: Do you agree that structured reporting format should in a first stage be required for consolidated IFRS financial statements and eventually in a second stage for individual financial statements?*

If a solution is adopted, progress must be made step by step in order to have a reliable review on consolidated accounts implementation.. It is important not to move too quickly whilst the American authorities are still undecided as to whether they will stop the current trial or whether they will move towards reinforcing taxonomy at SEC level, as opposed to at company level. In addition, individual accounts in the vast majority of European countries are often prepared in accordance with national reporting standards: the use of XBRL, already sensitive in IFRS, appears to us to be fairly unrealistic and would provide a misleading sense of security.

### *Question 16a: Do you agree with a different approach for the financial statements under national GAAPs compared to IFRS on the grounds of the existence of a taxonomy?*

SFAF is not in favour to the use of the IFRS taxonomy to individual accounts. .

### *Question 16b: Do you agree with the proposed approach in terms of potential development of a EU core taxonomy to be used for national GAAPs in the future?*

No, no approach has been taken with regard to SME. Is it therefore necessary for the Capital Markets Union to ask itself this question, as this does not come under the response of the European Commission. This direction would lead to the introduction of a European accounting standard, an approach that the Commission has always dismissed.

***Question 17: Do you agree that a single electronic format should not be required for financial statements under third country GAAP?***

 No comment

***Question 18: Would you be in favour for a phased approach for SMEs, if it would be allowed under the legal mandate? Would it be relevant in the context of the development of the Capital Markets Union?***

No, we are not in favour of the inclusion of SME in that scope A question could be added on the specific needs of listed SME but this is a question addressed to accounting standard setters and should deserve a public debate on the different options available.

### *Question 19: Do you have any other comment to make?*

See introductory presentation



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 Président