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|  |  |  |
|  | 18 January 2016 |  |
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Dear Sirs

ESMA Consultation Paper on the Regulatory Technical Standards on the European Single Electronic Format

Deloitte Touche Tohmatsu Limited is pleased to respond to ESMA’s Consultation Paper (CP) on the Regulatory Technical Standards on the European Single Electronic Format (ESEF).

Our response to the detailed questions is included as an appendix to this letter in the format that you requested.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours faithfully

Yours sincerely



Veronica PooleGlobal IFRS Leader

**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.**

<ESMA\_QUESTION\_ESEF\_1>

We welcome the initiative shown by ESMA in proposing a single electronic reporting format in Europe. This initiative is part of a broader trend in moving corporate reporting from paper to digital reporting. A single electronic reporting format (along with the separate work stream of a single depository) has the potential to benefit investors with easier access of annual reports that are filed in a consistent format.

The introduction of a single electronic format across Europe that benefits investors will take time to introduce and ESMA is right to recognise that there are many unanswered questions that will need to be addressed before this can be achieved.

The longer term objective should be for investors to have easy access to electronic reporting presented in a human readable format that enhances the dialogue preparers have with users of that information. To achieve this objective we consider that there are three aspects that need to be addressed in more depth before going to the next stage of selecting the technology platform that would achieve this objective:

1. How can tagged information be presented in a human readable format that will make electronic reporting easier to use
2. What enhancements need to be made to the IFRS Taxonomy and possible adaptation to satisfy European needs and legal requirements, and how the use of a taxonomy is aligned with the broader debate that financial reporting should serve as a better tool for preparers to communicate with investors (e.g. in view of developments in financial reporting like the IASB’s *Disclosure Initiative* project); and
3. What work needs to be undertaken in order for statutory auditors to be able to issue an audit opinion that includes electronic financial reporting and for that to meet the assurance needs of users.

<ESMA\_QUESTION\_ESEF\_1>

**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.**

<ESMA\_QUESTION\_ESEF\_2>

We agree with the policy objectives.

<ESMA\_QUESTION\_ESEF\_2>

**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.**

<ESMA\_QUESTION\_ESEF\_3>

We believe further debate is needed.

In accordance with Article 32 of the Accounting Directive 2013/34, where the annual financial statements and the management report (when combined as the AFR) are issued they shall be “reproduced in the form and text on the basis of which the statutory auditor or audit firm has drawn up his/her/its opinion”. Where the annual report is filed as a pdf this will not be a change. However, if there is electronic filing of structured data (e.g. for financial statements as proposed in the CP) and unstructured data (e.g. the management report as a pdf as proposed in the CP) this link is more complex as it raises questions whether the audit opinion includes assurance on the structured electronic information (i.e. its accuracy, completeness, appropriateness of tagging). In order to progress with a single electronic reporting format it is essential that ESMA understands what assurance investors will want from structured electronic information and work with the audit firms and the audit standards setters in establishing what can be achieved and by when. Currently, agreed upon procedures may be performed on structured electronic information but this approach will not be satisfactory in the long run if investors seek the same level of assurance that they currently do with the ‘paper’ version of the annual financial report. A standard for auditing such information will be needed to ensure a consistent approach is applied and work is carried out to a professional standard that will meet the assurance needs of users.

<ESMA\_QUESTION\_ESEF\_3>

**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?**

<ESMA\_QUESTION\_ESEF\_4>

No. Paragraphs 34-66 are comprehensive and are helpful in highlighting the different member state options for application of national GAAPs and IFRS in individual financial statements and the formats currently accepted by each member state.

<ESMA\_QUESTION\_ESEF\_4>

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

<ESMA\_QUESTION\_ESEF\_5>

Yes, we agree with the description of the technologies.

<ESMA\_QUESTION\_ESEF\_5>

**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.**

<ESMA\_QUESTION\_ESEF\_6>

Although XBRL and iXBRL are proven technologies for tagging business information, we believe further analysis on the presentation of tagged information in a human readable format is needed. In order to allow for auditing digital financial statements, the link between the human readable format and the digital format must be in a clear and unambiguous manner. As such we suggest ESMA should consider setting up an expert group to analyse and assess these capabilities using the XBRL/iXBRL formats with a view to assess whether the chosen technology will have the necessary longevity.

<ESMA\_QUESTION\_ESEF\_6>

**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?**

<ESMA\_QUESTION\_ESEF\_7>

We agree with ESMA that the IFRS Taxonomy is the most advanced taxonomy for IFRS financial statements and therefore understand why ESMA has chosen this route. However, the IFRS Taxonomy, to our knowledge has not, to date, been applied on a scale that would be the case if the proposals in the CP were implemented. Consequently, before concluding that the IFRS Taxonomy should be used a further work is needed in a number of areas.

We propose that ESMA considers how the introduction of a single electronic format using the IFRS taxonomy interacts with the IASB’s *Disclosure Initiative* project and ESMA’s recent statement (2015/ESMA/1609) *Improving the Quality of Disclosures in Financial Statements.* There is an important trade-off between the granularity and specificity of a taxonomy and the right behaviours standard setters and regulators are trying to promote by encouraging the issuers to ‘tell their story’ in a concise and clear way. We would not wish to see the introduction of a single electronic format inhibit issuers from disclosing their financial information in a way that is innovative and that they consider most meaningful for users.

We note that since ESMA issued the CP the IASB has published its proposed amendments to the IFRS Taxonomy due process. We have not yet concluded on these proposed amendments but note that the IASB has proposed an IFRS Taxonomy Review Panel that includes IASB Board members in assessing what is common practice and therefore what to include in the taxonomy. This exercise is critical in making the taxonomy relevant. Given issuers disclose information in financial statements that go beyond the minimum requirement in IFRSs, including alternative performance measures, the use of a taxonomy may impact how, and whether, issuers choose to disclose additional information.

We agree that the taxonomy that is required for use will need European endorsement.

<ESMA\_QUESTION\_ESEF\_7>

**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.**

<ESMA\_QUESTION\_ESEF\_8>

We broadly agree, however we note that should the IFRS taxonomy be required there will be further standardisation of extensions needed in some areas where it is not covered by the IFRS taxonomy in order to meet European needs. Namely, in order to facilitate comparison between issuers, extensions that include the identification of the entity such as trading name, head office, address and industry will be needed. This could be defined at a European level.

<ESMA\_QUESTION\_ESEF\_8>

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

<ESMA\_QUESTION\_ESEF\_9>

Yes. We agree with ESMA that there should not be a requirement, but a member state may choose to allow, the filing in a structured format where third country GAAPs are applied by an issuer. We support ESMA’s proposal in this respect given there is no common taxonomy across each of all the third country GAAPs.

<ESMA\_QUESTION\_ESEF\_9>

**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.**

<ESMA\_QUESTION\_ESEF\_10>

We believe at this stage there should be no requirement to file in a structured format the parts of the AFR that exclude the financial statements. We acknowledge that there are minimum requirements for information contained in the management report and audit report because of the Accounting and Audit Directives and so to some extent there is a degree of standardisation, but as noted in the CP this information is predominantly unstructured in nature. Therefore, we agree with ESMA that such information is not currently suitable for filing in a structured format.

<ESMA\_QUESTION\_ESEF\_10>

**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.**

<ESMA\_QUESTION\_ESEF\_11>

We agree that for unstructured data, as a minimum, this should be filed as a PDF. We note that the majority of member states require the AFR to be filed as a PDF so this minimum requirement for unstructured electronic reporting will not lead to significant disruption. We also note, as highlighted in paragraph 57 of the CP, that eight member states still permit paper filing, so moving to ‘as a minimum PDF filing’ in this area would be a significant step forward.

<ESMA\_QUESTION\_ESEF\_11>

**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.**

<ESMA\_QUESTION\_ESEF\_12>

We believe that the introduction of a single electronic reporting format will be a significant change for many issuers and so support the staged introduction of it. In the long term we may get to a point where some aspects of the management report could be included as structured information, but it would be premature to include such information in the initial stage. Therefore, we support ESMA in focusing initially on the filing of structured information for consolidated financial statements of listed companies only. Given this, we do not support Option C in the CP.

However, as noted in our response to Question 1, 3 and 7 we believe further work is needed before mandating the filing of consolidated financial statements in a structured format (as proposed by ESMA as Option B). This includes having a clear vision of how the information can be presented in a human readable format; how the IFRS taxonomy and extensions will promote better communication between preparers and users of that information, and finally, how investors’ demands for assurance can be met.

<ESMA\_QUESTION\_ESEF\_12>

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

<ESMA\_QUESTION\_ESEF\_13>

We agree that if ESMA were to require filing in a structured format these two technologies are preferable. However, as noted in our response to Question 6, although XBRL and iXBRL are proven technologies for tagging business information, an important outstanding issue is to address how tagged information should be presented so it may be used in a human readable format to facilitate its use and the audit of it.

<ESMA\_QUESTION\_ESEF\_13>

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

<ESMA\_QUESTION\_ESEF\_14>

At this stage we do not have a preference however we note that ultimately for ease of use and ease of providing assurance the output from applying the technology should be human readable.

<ESMA\_QUESTION\_ESEF\_14>

**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?**

<ESMA\_QUESTION\_ESEF\_15>

We do not believe at this stage that a structured reporting format should be extended to individual financial statements in Europe. The focus should be on consolidated financial statements of listed companies and only if, following a positive effects assessment, should individual financial statements be then considered.

<ESMA\_QUESTION\_ESEF\_15>

**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?**

<ESMA\_QUESTION\_ESEF\_16a>

Yes. Given that taxonomies across national GAAPs are not consistent we do not believe it necessary to introduce requirements for filing in a structured format for financial statements prepared under national GAAP. Should member states choose to introduce the structured electronic reporting for national GAAPs then each member state should consider the cost/benefit of doing so.

<ESMA\_QUESTION\_ESEF\_16a>

**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?**

<ESMA\_QUESTION\_ESEF\_16b>

We do not believe that the development of EU core taxonomy to be used in the application of national GAAP is a priority. We note that the introduction of an EU core taxonomy would not only be costly for issuers but would require a due process for the creation and maintenance of it at an EU level. We agree that if such a route were to be considered a technical study including the technical feasibility and associated benefits would need to be undertaken.

<ESMA\_QUESTION\_ESEF\_16b>

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

<ESMA\_QUESTION\_ESEF\_17>

Yes. Consistent with our response to Q16b the points we made regarding costs and limited benefits of an EU core taxonomy for national GAAPs are also applicable for the creation and maintenance of taxonomies for third country GAAPs. Additionally, the EU would not be best placed in the development of such a taxonomy given the expertise of that GAAP will be largely outside of the EU.

<ESMA\_QUESTION\_ESEF\_17>

**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?**

<ESMA\_QUESTION\_ESEF\_18>

We presumed the reference to SMEs was for unlisted entities and not for listed entities. Listed entities that are SMEs would be included in the scope of the requirements.

We believe the priority in the development of an ESEF is for the filing of consolidated financial statements of listed entities. The move to electronic filing for unlisted SMEs should not be made until it is clear that the benefits of the introduction of the ESEF for consolidated financial statements of listed entities have materialised and the costs have been fully understood. We would not support at this stage a requirement for filing of unlisted SME financial statements in a structured format.

<ESMA\_QUESTION\_ESEF\_18>

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

<ESMA\_QUESTION\_ESEF\_19>

No further views.

<ESMA\_QUESTION\_ESEF\_19>