

TUTORIAL ON THE EUROPEAN SINGLE ELECTRONIC FORMAT

Overview of the preparation of an Inline XBRL report

Welcome to this second tutorial on the European Single Electronic Format or ESEF. This tutorial aims to give issuers a broad overview of the process of preparation of an inline XBRL report prepared following the ESEF requirements.

This tutorial builds on the input of members of the XBRL Europe community and follows the first tutorial on the RTS on ESEF which ESMA published in November 2018.

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The first step in the preparation of an inline XBRL report is getting familiar with the requirements set out in the RTS on ESEF and in the ESEF Reporting Manual.

We recommend for this purpose to refer to the published material on ESMA's website and to the first video tutorial on the ESEF. You will find the relevant links below this video.

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Preparers also need to familiarise themselves with the ESEF taxonomy.

The ESEF Taxonomy is made up of two components: the schema of the core taxonomy, which is the list of all human readable labels contained in Annex VI of the RTS, and the ESEF XBRL taxonomy files, which are published on ESMA's website.

The ESEF taxonomy builds very closely on the IFRS Taxonomy. The IFRS Taxonomy lists and defines the specific elements that preparers can use to identify (or tag) the information disclosed within IFRS financial statements. The IFRS Taxonomy elements stem from two sources: IFRS Standards and common reporting practice elements. The IFRS taxonomy reflects the presentation and disclosure requirements of the IFRS Standards as issued by the International Accounting Standards Board, including the accompanying guidance and examples materials and a small number of elements reflecting IFRS Practice Statement Management Commentary. The Common practice elements are concepts not specifically mentioned in IFRS Standards but nonetheless consistent with them. These elements have been found to be frequently disclosed across a range of companies and accounting jurisdictions by conducting empirical reviews of IFRS financial statements.

Furthermore, the ESEF Taxonomy includes a limited number of ESMA technical additions to the IFRS taxonomy.

Please note that the taxonomy elements are presented in alphabetical order in the RTS on ESEF, but they can be visualised as organised by IFRS standard in xIFRS, an online tool developed by the IFRS Foundation, and in the IFRS Taxonomy Illustrated publications (see links below the video), or when viewed with any standard taxonomy viewer.

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The second step in the production process of an inline XBRL report is to prepare a correlation table. That means mapping IFRS financial statements to the ESEF taxonomy and extending the taxonomy if necessary. Let's see concretely what that means.

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Preparing a correlation table means mapping IFRS financial statements to the ESEF Taxonomy.

Preparers are expected to choose for each number in a declared currency disclosed in their Primary Financial Statements the ESEF taxonomy element having the closest accounting meaning to it.

As already discussed in the first video tutorial on ESEF, this requirement, called detailed tagging, will come into force in 2020.

On top of this, a small number of mandatory mark-ups are listed in Table 1 of Annex II of the RTS on ESEF.

Furthermore, starting in 2022, the text disclosures that correspond to the tags listed in table 2 of Annex II will also need to be mandatorily marked up. This is the so-called block tagging requirement.

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We see in this example on the left side of the screen an extract from the financial statements of an issuer, and on the right a presentation of the list of elements contained in the ESEF taxonomy structured by standard, as it appears in any standard taxonomy viewer or preparation software.

In the financial statements there is a line item for «Goodwill ». The issuer is expected to choose the taxonomy element having the closest accounting meaning to its own disclosure.

The element that best matches its accounting meaning is precisely « Goodwill ».

Mapping financial statements to the taxonomy however does not mean finding a correspondence in the labels. What matters is the accounting meaning. For example

for the line item “investments in equity associates” there is no identical label in the taxonomy, but the element “Investments In Associates Accounted For Using Equity Method” matches the accounting concept.

The issuer is therefore expected to choose this taxonomy element directly from the taxonomy to tag “Investments in equity associates”, without creating an extension.

However, there might be lines that do not have a corresponding element in the taxonomy because they are specific to a preparer or to an industry.

For example in this case, « flight equipment », which is specific to the airline industry and is not an element contained in the IFRS Taxonomy.

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This gets us to the third step of the production process of an inline XBRL report : extending the taxonomy, by creating a so-called « entity-specific taxonomy element » or « extension », and anchoring such extensions. We already mentioned these concepts in the first video tutorial on the RTS on ESEF.

Extensions allow issuers to tag information which is unique about a company, for which there is therefore no available appropriate tag with an equivalent accounting meaning in the ESEF base Taxonomy. The requirement to extend entity-specific disclosures stems from the flexibility of IFRS financial statements compared for example to other regulatory reporting.

Let's see how this works

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If an issuer discloses in its financial statements an element which has no close match in terms of accounting meaning in the base taxonomy, then an extension needs to be created. In this case, the element “flight equipment” is our extension taxonomy element.

The RTS on ESEF further requires that extension taxonomy elements are anchored to the closest *wider* base taxonomy element existing in the taxonomy.

In this case, that is Property Plant and Equipment. By linking the extension to the base taxonomy element, the preparer will provide end-users with a better understanding of the meaning of extensions and facilitate its usability in large-scale automated data analysis.

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This principle can further be illustrated with this example, coming from the ESEF Reporting Manual.

A preparer issued equity and it received one part of the capital increase in kind and another part in cash. It disclosed in its statement of changes of equity the two components separately.

The ESEF taxonomy includes an element ‘issue of equity’ but it does not include separate elements for capital increases in kind and capital increases in cash. Therefore, the issuer creates extension taxonomy elements ‘capital increases in kind’ and ‘capital increases in cash’. Capital increases in kind and in cash are narrower in scope than the element ‘issue of equity’ and represent disaggregations of it.

Therefore, the two extension elements are anchored to the *wider* base taxonomy element ‘issue of equity’. It is not necessary to anchor the two extension taxonomy elements to narrower elements in the ESEF taxonomy.

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The RTS on ESEF further require that where an extension taxonomy element combines a number of elements of the ESEF taxonomy, issuers also anchor that extension taxonomy element to each of the elements in the ESEF taxonomy it combines, except where these elements are reasonably deemed insignificant.

In the example, the extension taxonomy element share capital and premium is a combination of two elements existing in the core taxonomy, issued capital and share premium respectively. Therefore the issuer needs, other than creating the anchoring to the wider base taxonomy element, which in this case is “equity”, also to anchor the extension to the two “narrower” core taxonomy elements “issued capital” and “share premium”, unless one of these elements is deemed to be insignificant.

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One final example of anchoring. In this income statement, the elements of “cloud subscription and support revenue” and of “software licenses and support revenue” are both extensions to be anchored to a wider taxonomy element.

That might be for example “revenue from rendering of information technology services”.

There is however no need to anchor the extension element that is used to mark up the subtotal “Cloud subscription and support revenue” because the detailed elements are present in the report and therefore enough information regarding these elements is already provided in the mathematical relationships contained in the XBRL elements, called in the technical language “calculation linkbase”

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The requirements to detail tag the Primary Financial Statements, and therefore to create extensions if necessary and anchor them, will come into force in 2020, for annual financial reports containing financial statements for financial years beginning on or after 1 January 2020. In addition, a small number of mandatory mark-ups applicable from 2020 are listed in Annex II of the RTS on ESEF, which need to be applied to all corresponding disclosures made in IFRS

consolidated financial statements or made by cross-reference to other parts of the annual financial report.

As mentioned earlier, the requirement to block tag the Notes will come into force starting in 2022. Annex II lists the mandatory tags which need to be applied to all corresponding disclosures made in IFRS consolidated financial statements or made by cross-reference to other parts of the annual financial report.

It should also be highlighted that on top of these requirements, the RTS on ESEF allows, on a voluntary basis, tagging of much more, on a more granular basis: for example, numeric data contained in text, or in images, data in graphics, or disclosures in footnotes and so forth. Providing more detailed information than the minimum required, might provide end-users with additional meaningful information for their analyses.

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We therefore come to the last step of the production process. This is the review and validation of the report, and its submission.

Various checks and rules are applied during the preparation process, to ensure that the file is correct, complete, accurate and consistent. Some will be included directly in the taxonomy, some may be implemented by software developers as part of their quality assurance process.

Please note that the RTS on ESEF does not change the way issuers publish or disclose regulated information: the obligation to submit Annual Financial Reports to the relevant National Competent Authority and/ or Officially Appointed Mechanism will not change.

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Thank you for your attention. We hope this video tutorial on the production process of reports compliant with the ESEF regulation will be helpful, especially for first-time iXBRL preparers.

Please continue to check ESMA's website for the latest updates, and stay tuned for more video tutorials on the ESEF.