

The New European Single Electronic Format: The Story Behind ESEF

By Kim B. Eriksen



Kim B. Eriksen is founding partner and CEO of the company ParsePort, that specializes in XBRL solutions. Today they have more than 10 local offices across the EU in order to supply the market with ESEF solutions. Since 2010 Kim has been involved in the XBRL consortium, the latest as a board member of XBRL Denmark. Kim has specialized in helping listed companies in the EU, getting XBRL ready for ESEF.

In 2013, the European Securities and Markets Authority (ESMA) amended its transparency directive to have issuers provide a more transparent view of financial reporting. A further goal was to make it easier for issuers to produce, compare, facilitate and distribute financial reports.

Quite early on in the process, it became obvious that the best suitable format for the transparency directive was XBRL (eXtensive Business Reporting Language). But the question about whether it should be XBRL or iXBRL (inline XBRL) was yet to be answered. In 2016, after consulting the market and making various analyses and field tests, ESMA finally announced that the format chosen was iXBRL.¹

The European Single Electronic Format (ESEF)² came into force January 1, 2020. This means that companies delivering annual reports with balance sheet dates after this will have to deliver their annual report in the iXBRL format. So, the real effect will be from 2021 on, when all the annual reports following the calendar year will be delivered.

And just to get some facts straight right away, behind the transparency directive:

1. The definition of the technical standards is called European Single Electronic Format = ESEF. Notice that ESEF is the name of the "directive" in daily speech across the industry.
2. When the annual report is prepared for a listed company, it needs to be delivered to the local receiving authority. This can differ in each country depending on which authority is at the receiving end, as it is the local authority – not ESMA – where the report needs to be delivered.
3. The files that need to be delivered to local authorities are xHTML files, also known as iXBRL files, not XHTML. It is more or less the same – do not get confused by the acronyms.
4. The file definitions used in this article are:
XBRL = eXtensive Business Reporting Language
iXBRL = inline XBRL
HTML = Hyper Text Markup Language

xHTML = eXtensible Hyper Text Markup Language

5. To keep everything clear, notice that I will write iXBRL in this article, with iXBRL being "HTML+ XBRL = iXBRL." HTML is the "visual" part and XBRL is the "technical" part.



Why Choose iXBRL As The Standard?

The advantage of using iXBRL is that it gives you the best of both worlds: the "human" visual design part and the "machine" readable digital part of the annual report.

The "visual part" is for the human eye reading the report, maintaining the touch and feel, by showing the pictures, graphs, tables, formatted texts, references etc. The purpose is the same as today: to make it easy and digestible for the reader to understand the annual report and how the company has presented it. This is how we know the annual reports of today, we are accustomed to having them served in the PDF format. All the properties you have today in PDF will also be available in the iXBRL format from 2020 on.

The "machine readable" part is where the beauty of XBRL comes into play. You can compare it to the movie "the Matrix." The human eye sees and reads a regular table of numbers in the consolidated financial statement in the iXBRL file, but a machine will see and read a lot of the metadata that is hidden and embedded within the numbers. The machine can extract specific values and the details behind the numbers (Is it a value in millions? Which period is it for? Which currency is it? How much percentage increase or decrease is it compared to last year? etc.). This can be done instantly and, by doing this, the data extracted can also be exported to other systems, analyzed automatically, translated into other languages, etc.

A practical example:

In Denmark today, XBRL is a common standard reporting language. When a company delivers its annual report to the Danish Chamber of Commerce, it also sends along an XBRL file. The minute

the Danish authorities receive the reports online from the company, the XBRL file is published publicly online at the Chamber of Commerce website and in a publicly accessible Datawarehouse. This enables analytic agencies, banks, system-builders and other companies to import the files, thereby having the opportunity to analyze the company's latest financial data. There are also language dimensions to the Danish XBRL files (as is the case for ESEF), meaning that a Danish bakery can deliver its XBRL file on a Monday evening and, on Tuesday morning, a Chinese investor can read the financial statement in Chinese, while another system can analyze or calculate statistics in the data, look at performance and compare the bakery to other similar bakeries or industries in real-time, based on the data that is published.

What Does This Mean for Listed Companies Across the EU?

This means that the listed companies need to convert their annual report production processes so that they can produce them in an iXBRL file. In effect, they will have to decide on how they want to produce their annual reports moving forward by choosing systems, vendors, consultants, processes etc.



Issuers will find that the biggest impact – and workload – comes the first time they need to prepare their annual report in iXBRL. In this preparation phase, all the individual accounting entries need to be mapped against the XBRL dictionary, also known as “the taxonomy.” Once this is done, most of the mappings can be reused in the following years and, if the issuer invests in the right solution, it will most likely not need to map more than a couple of entries every year.

There are two important decisions that need to be taken when an issuer is ready to produce the iXBRL files:

1. The solution – which system do they wish to use to produce the iXBRL file?
2. Mapping of the elements – the largest task in the production of iXBRL files is to line up the elements in the annual report with their names in the XBRL dictionary. This task really demands an XBRL competence, and we are seeing a lot of companies that wish to do the mapping in-house but end up outsourcing the job to a consultant, auditor or XBRL specialist.

It is a common misunderstanding that issuers have to invest in new accounting and reporting applications. Many of the large applications already have support for iXBRL, however, and there are also plenty of add-on solutions that can support current applications.

Large applications vendors, such as Workiva, SAP etc., have already stated that they will implement and support iXBRL for ESEF as a part or an add-on to their systems, although we still haven't seen any fully tagged ESEF iXBRL files from them.

There are also other vendors who have a long history in producing XBRL solutions, such as ParsePort, Invoke, etc., who are building other kind of iXBRL supportive solutions, and companies can either integrate them into their current workflow or use them as bolt-on solutions.

My point is that there is a solution no matter where publicly listed companies want to go when they report in ESEF.

Important Lessons Learned

In the US, most of the Securities and Exchange Commission (SEC) filers chose to outsource the mapping of their XBRL files for the first several years. After they had gained the necessary competence from their outsourcing partners, we saw filers taking the mapping in-house again.

Denmark is the only country in the EU where it has been mandatory for listed companies to file their financial statements and reports in XBRL since 2014. The experiences also show that there is a need for an XBRL specialist in the mapping phase during the first years. In Denmark, most companies have outsourced that task to their auditors, meaning that the auditors hook the "XBRL specialist role," which is contrary to the US SEC experiences.

The conclusion from the SEC and DKIFRS filings is that the mapping needs to be done by professionals who are experienced in working with XBRL, mapping and taxonomies. This is a complex task for inexperienced users, and having an expert to review and map the annual report in Year 1 and Year 2 is a good investment. This, in turn, will make the users working on these issuers feel safer and more confident.

How Does a Listed Company Prepare in the Best Possible Way?

We always recommend that our customers, partners and clients do the following when they are getting ready to switch to ESEF:

- **Eat the elephant in small bites.** Start early, but do not rush anything. We are seeing a lot of solutions in the market and often see filers start planning to build an airplane when they could have bought an airline ticket.
- **Take advantage of the resources you have nearby,** such as your consortium of XBRL specialists, auditors, etc. In Europe, we have a very active XBRL consortium that is presenting a lot of events, workshops and conferences about ESEF, where various vendors showcase different solutions and other filers share their knowledge.
- **Develop a strategy that covers a couple of years,** but exploit the fact that you are dealing with innovation. Do not plan five or 10 years ahead. Our experience is that solutions are evolving quickly and we often see that minor changes need to be made once the new rules have been

enforced. So, try to plan within 24 months and don't over plan or rush long-term solutions, unless you are really sure they are right for the company.

- **Look closely at your 2019 annual report and start preparing what you need to do going forward.** The 2019 report will be based on the latest IFRS standards and, in most cases, will look a lot like the new 2020 report. Therefore, you can start preparing now. Invite some different vendors in and see what the market has to offer in terms of solutions. You can find solutions at five thousand euros that might be more than enough and are the right ones for your company.
- **Human resources are involved in the transition.** They need time to observe, absorb and adopt. Be aware of the fact that you cannot change your course by 180 degrees without having your team and colleagues aboard. Inform, educate and include the human resources involved in the ESEF project. And listen to them! Do not force anything unless your arguments are really convincing. If this means you will have to have an interim solution for a year or two so that your employees are properly prepared – do it! A harmonized team spirit is priceless, no matter which system you are using.

The Auditor's Role

This is still a bit undefined, but we do know for sure that the auditors will have to sign the xHTML(iXBRL) file that the issuer delivers. The latest we know is that the Committee of European Auditing Oversight Bodies (CEAOB) guidelines on the auditors' involvement in the financial statements recommend that the auditors should report specifically on the work performed on ESEF. In other words, the auditors need to have some kind of statement



and conclusion on the mapping, as this is a part of the ESEF.³ So, clearly, the auditors will have a quite significant responsibility for the iXBRL/xHTML file.

The customary PDF file will be replaced by the published xHTML file. The glossy, beautiful PDF file that is usually published will be replaced by an identical xHTML file. There is no need to worry about the quality of the new reporting format; the xHTML file actually has more to offer, and any browser can open it whereas a PDF file demands a software application that can read the file.

ESEF in Short

It is true that ESEF will result in extra work and expense for listed companies in the beginning. But, in my experience, listed companies are agile and very good at adopting new technologies and

processes. ESEF will make companies more attractive, because reports will be digitalized and distributed instantly, optimizing the market reactions and giving companies a greater appetite for foreign and local investors. It is also my opinion that we will see some companies align their account entries with the XBRL taxonomy, streamlining, rectifying and unifying the annual reports, which will make them easier to compare and analyze. All in all, ESEF is a great solution and definitely is in the best interest of both investors and the markets.

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Endnotes

¹ <https://www.esma.europa.eu/press-news/esma-news/esma-proposes-new-digital-format-issuers'-financial-reporting>

² <https://www.esma.europa.eu/press-news/esma-news/esma-proposes-new-digital-format-issuers'-financial-reporting>

³ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/191128-ceaob-guidelines-auditors-involvement-financial-statements_en.pdf