INVOKE SPECIAL REPORT • OCTOBER 2018

ESEF REPORTING

What you need to know about the European Single Electronic Format explained in 10 key questions

INVOKE FINANCIAL REPORTING

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The Transparency Directive (2013/50/EU), published in 2004 and revised in 2013, aims to ensure the transparency of information intended for investors via regular reporting of regulated information to the public. Its main objective is to facilitate access to companies' financial statements and their comparability for investors and regulators.

1. What is the ESEF?

A new European single reporting format

In the framework of the Transparency Directive, the European Securities and Markets Authority (ESMA) introduced the requirement for a **European Single Electronic Format** (ESEF) obliging the market issuers it regulates to use a single digital standard for their financial statements.

Mandated to draw up the standards that specify the digital reporting format, ESMA launched a large-scale consultation with the various stakeholders in September 2015. In its report, ESMA concluded that the *inline XBRL* format (or **iXBRL**) was the technology best suited to ESEF's requirements.

On 18 December 2017, the ESMA published the official version of the *Regulatory Technical Standards (RTS)*[1] for the ESEF. This format will have to be used by all issuers to prepare their annual financial statements as of their 2020 financial year.

2. What are its specific features?

Scope of the requirement

All listed companies in the European Economic Area that publish their consolidated accounts under IFRS accounting rules are subject to this new requirement; this concerns around 5,300 companies in Europe. In order to comply with the Transparency Directive's requirements, as of 2021, these companies will have to publish an annual report in the *iXBRL* format based on their accounts for financial years beginning on or after 1 January 2020.

The Regulatory Technical Standards **(RTS)**, published by the ESMA, explain this principle.
What to note in a few key points:

Specifics of the Regulatory Technical Standards

- **All annual financial reports** will have to be published in the form of a web page i.e. in *xHTML* format, the standard digital royalty-free format that can be read by any internet browser, and which enables the issuer to present the document in the layout and graphical design it chooses.

[1] Currently being validated by the European Commission, the final Draft RTS should be ratified by the end of H1 2019.

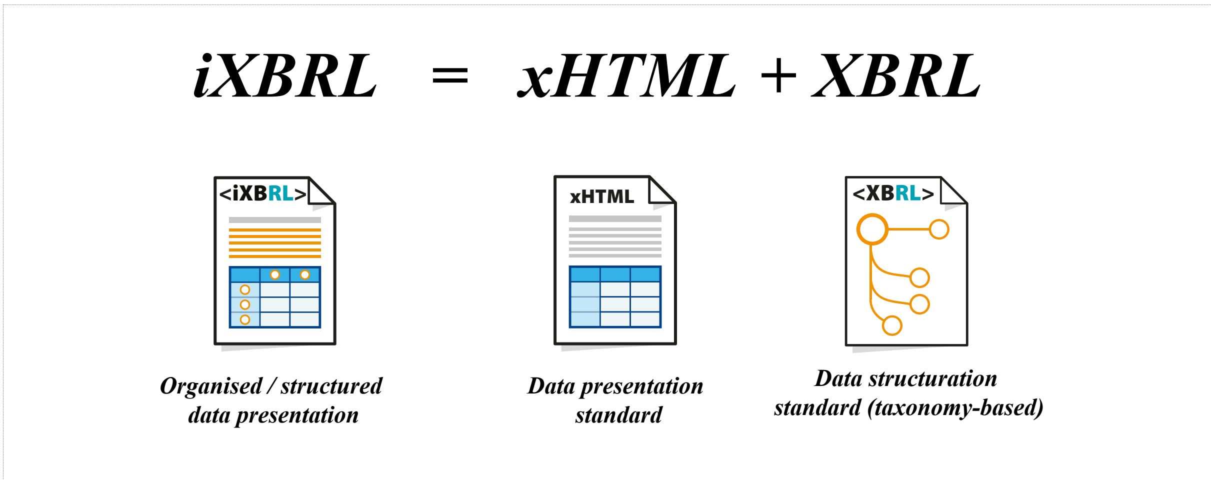
- Within this *xHTML* document, the **consolidated financial statements in IFRS** must be *tagged* in *XBRL*[2] format so that the data in question is available in a structured, machine-readable digital format.

- Data *tagged in XBRL* is directly embedded in the *xHTML* report in accordance with the **iXBRL** technical standard (the abbreviation for *inline XBRL*).

- All data structured in XBRL requires a tree-structured reference data dictionary for classifying the financial information, which is referred to as a *taxonomy*. The **ESEF taxonomy** published by the ESMA is an extension of the IFRS taxonomy, developed and maintained by the IFRS Foundation since 2005.

- Only the information in the **primary financial statements** consolidated using IFRS rules will have to be *tagged* in XBRL in the xHTML annual report in detail. This is known as *detailed tagging*. The corresponding **explanatory notes** must be marked-up in a more macro way i.e. in accordance with the *block tagging* method (an XBRL tag for a full note – texts, tables and quantitative data included) with the exception of around 10 identification elements that must be *tagged* more specifically.

[2] XBRL: eXtensible Business Reporting Language



inline XBRL: a straight-forward equation

For further reading

Press release from the ESMA, 18 December 2017

" New rules make EU issuers' annual financial reports machine-readable "

https://www.esma.europa.eu/press-news/esma-news/new-rules-make-eu-issuers'-annual-financial-reports-machine-readable

Implementation schedule

In terms of the schedule for these obligations, this implementation will take place in two stages:

1. *detailed tagging* of consolidated primary financial statements using IFRS rules as of 2021 for accounts of financial years beginning on or after 1 January 2020,
2. *block tagging* of explanatory notes in 2023 for accounts of financial year 2022.

	Consolidated IFRS financial statements	Individual financial statements	Management report & half-yearly financial statements
Detailed tagging Primary financial statements	MANDATORY as of 2020	NOT REQUIRED	NOT REQUIRED
Block tagging Explanatory notes	MANDATORY as of 2022	NOT REQUIRED	NOT REQUIRED
Detailed tagging Explanatory notes	NOT REQUIRED	NOT REQUIRED	NOT REQUIRED

Level of tagging of financial statements required under the Regulatory Technical Standards (RTS)

3. Is the adoption of the XBRL standard new in Europe? What are the differences with SEC corporate reporting requirements in the USA?

XBRL: a standard well known in the banking and insurance sectors in Europe

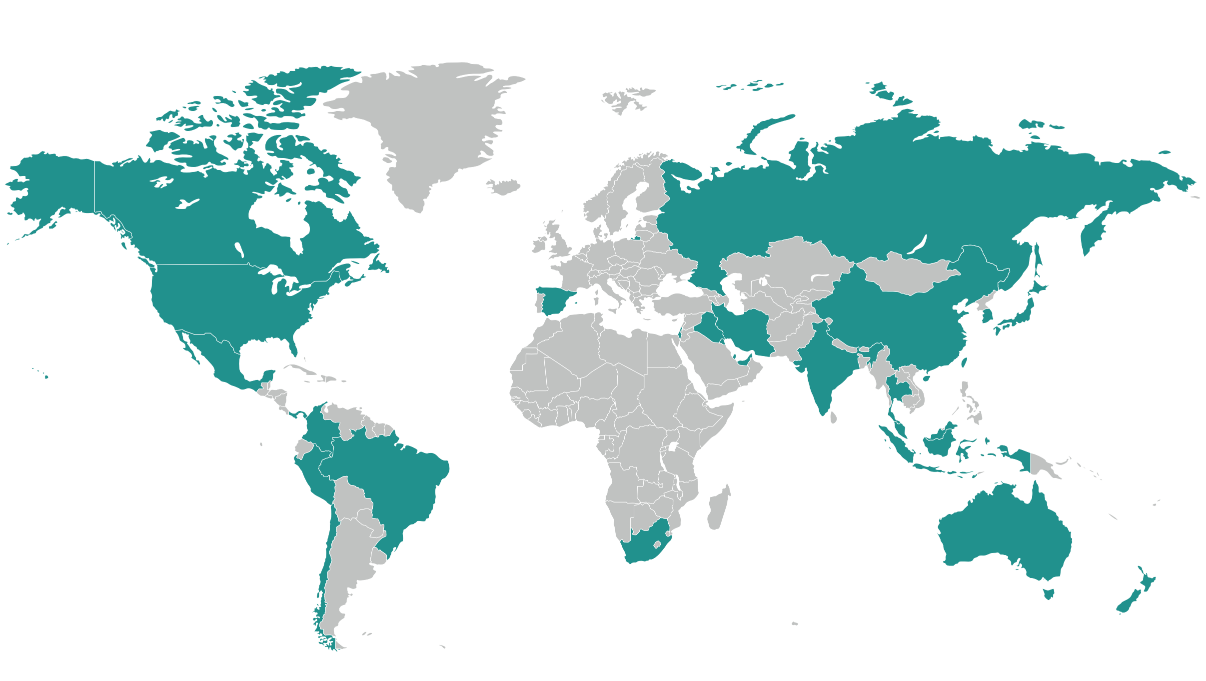
In Europe, the XBRL standard has already been widely adopted, especially in the field of prudential and statistical reporting in the banking and insurance sectors, as well as for tax reporting in a number of EU countries.

At the pan-European level, CRD IV (*Capital Requirement Directive*) for banks and Solvency II for the insurance sector, have already introduced harmonised regulations and a unique reporting system in XBRL format that the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) have been using for several years.

The Single Resolution Board (SRB), whose aim is to ensure financial stability within the Banking Union, has also opted to use this data format.

A challenge to 'catch up' with international best practice

In terms of market authorities, in Europe only Spain has implemented XBRL to date; the ESEF is catching up with the rest of the world where this standard is already widely used for regulating listed companies.



Overview of the adoption of the XBRL standard by market authorities throughout the world

Huge difference compared to prudential and statistical reporting in Europe

The fundamental difference in the implementation of the XBRL standard, between the prudential and statistical regulation of the banking and insurance sectors and ESEF reporting, lies in the fact that the EBA and EIOPA publish so-called *closed* taxonomies i.e. that can not be customised for a reporting requirement whereby the reports to be produced are dictated by the regulators (via compulsory *templates*) in terms of their content and format.

In contrast, and given the IFRS principles that mention the issuers' right to communicate all the information so they can provide a *true and fair view* of their company, in the framework of the ESEF, companies will be able to make adjustments to the *base taxonomy* published by the ESMA under certain conditions in order to add *alternative performance indicators* specific to their sector or company for financial communication purposes.

Similarities with SEC reporting requirements in the USA

Therefore, ESEF reporting is more similar to the Securities Exchange Commission's (SEC) reporting practices in the USA where listed company accounts have been published in XBRL since 2006; US issuers are now gradually shifting to iXBRL following the amendment of June 2018. As such, the SEC is currently making available to the public, free of charge in *Open Data*, quarterly financial statements dating back to 2009 for more than 9,000 companies.

Building on the experience in the USA, it should nevertheless be noted that the ESMA decided to supervise the *extension modalities* of its taxonomy by the issuers, as well as the *granularity of the expected tagging* in order to guarantee a minimum level of comparability between the companies and to minimise their preparation costs, albeit without risking a too restrictive standardisation of their financial communications, which would lead to a loss of information.

For further reading

USA SEC publication • Amendments to the Interactive Data programme (XBRL)

" Inline XBRL Filing of Tagged Data "

https://www.esma.europa.eu/press-news/esma-news/new-rules-make-eu-issuers'-annual-financial-reports-machine-readabl

4. What are the main concepts needed to understand ESEF reporting?

To fully understand ESEF reporting and the associated implementation challenges, three main concepts need to be mastered: the concept of **base taxonomy**, the concept of **extension taxonomy**, and the expected level of **tagging**.

The set of XBRL concept definitions known as *taxonomy* is the data dictionary used for a specific reporting model. This taxonomy organises information in a tree-structured hierarchy and is especially well suited to the structure of financial statements. The ESEF taxonomy published by ESMA is based on the *IFRS taxonomy*[3], published by the IFRS Foundation since 2005, to which a number of items specific to ESEF reporting have been added. European companies are allowed to *extend* this *base taxonomy* (depending on their needs) to then *tag* their primary financial statements consolidated under IFRS accounting rules and their associated explanatory notes. It should be noted that the base taxonomy will include the translations of item labels in the languages of countries regulated by ESMA.

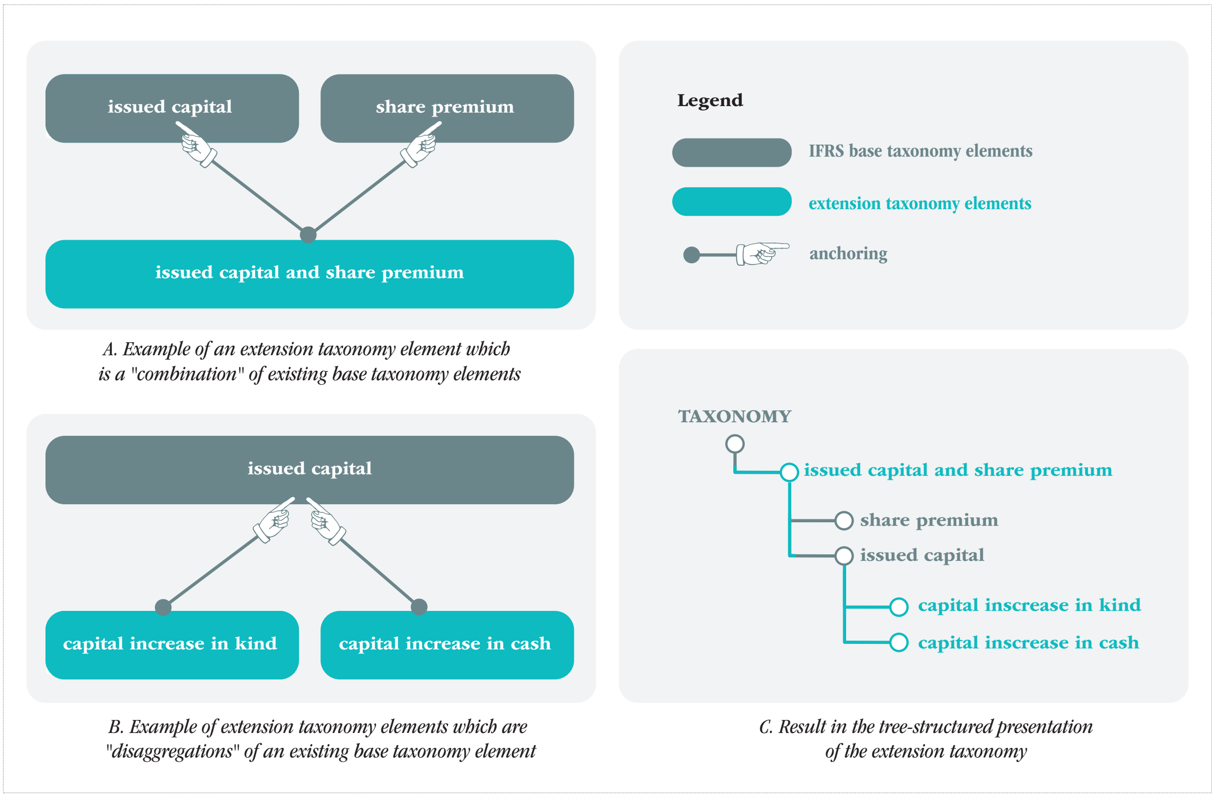
Issuers will need to match each piece of information in their annual financial statements with the item in the base taxonomy that has the closest accounting meaning. For this reason, one prerequisite of ESEF reporting is to examine the taxonomy and its content thoroughly.

[3] IFRS taxonomy: https://www.ifrs.org/issued-standards/ifrs-taxonomy/

If the item in the base taxonomy with the closest accounting definition to the information to publish does not correctly reflect this information (i.e. if it is broader or narrower in terms of its meaning or its application scope and could therefore be misleading), the issuer will be able to create an *entity-specific extension element*.

The creation of this extension element must respect the *anchoring* rule imposed by the ESMA, and meet the following three main criteria:

- The extension element must in no way duplicate the meaning and the application scope of an existing element in the base taxonomy.
- The extension element must identify the creator of the element.
- The extension element must be attached, i.e. *anchored* to an existing element in the base taxonomy (*anchoring*).



A. Example of an extension taxonomy element which is a "combination" of existing base taxonomy elements

B. Example of extension taxonomy elements which are "disaggregations" of an existing base taxonomy element

C. Result in the tree-structured presentation of the extension taxonomy

Illustration taken from examples in the "ESEF Reporting Manual" — ¶ 1.4 Anchoring

For further reading

ESEF Reporting Manual • Preparation of Annual Financial Reports in Inline XBRL
Document published by the ESMA to help issuers and software vendors produce inline XBRL instance documents that comply with the ESEF's Regulatory Technical Standards (RTS).
https://www.esma.europa.eu/sites/default/files/library/esma32-60-254_esef_reporting_manual.pdf

5. What is the preparation process for an annual report complying with the ESEF's inline XBRL requirements?

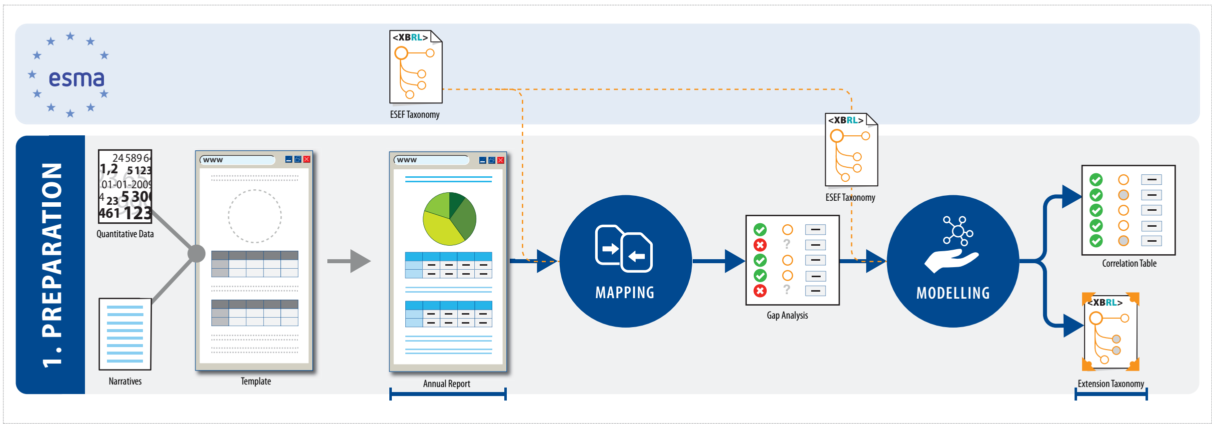
The preparation process for an iXBRL annual report comprises two main phases: the **preparatory phase** and the **production phase**.

Initial preparatory phase

a) The preparatory work phase has two key stages:

The **MAPPING** stage which consists of an in-depth analysis of the company's consolidated financial statements in IFRS and the base taxonomy in order to match each item of information in the primary financial statements with an IFRS item in the ESEF taxonomy. This crucial stage helps establish a *correlation table* and a *gap analysis* of the financial statements versus the base taxonomy. The resulting analysis enables *preparation of the work to tag the accounts* and to specify the information in the statements for which it is possible and necessary to create *extension elements* from the base taxonomy.

Only then can the so-called **MODELLING** stage begin, namely the modelling stage of the *entity-specific XBRL extension taxonomy*.



Preparing an annual report in iXBRL format • 1. Preparatory phase

Second production phase

b) The production phase enables, via the company's previously established *correlation table* and *extension taxonomy*, assembly of the financial data on the closing date of the accounts, the texts and the layout chosen for the annual report, with the *technical XBRL tags* required for the publication of an *inline XBRL* document — i.e. complying with the ESEF reporting requirements (*machine readable*) and which can be consulted by the public via a simple internet browser (*human readable*).

To complete this process, an initial stage of **TAGGING** the primary financial statements (and the explanatory notes) needs to be done, through the *mark up* of the information using elements from the newly created *extension taxonomy* as specified in the *correlation table*.

Once this stage is complete, the **VALIDATION** stage helps guarantee the technical and business compliance of the *tagged* report and the associated *taxonomy* (concepts, labels, formulae, data type, etc.).

Finally, the **PUBLICATION** stage ensures the production of the annual report in iXBRL format (i.e. xHTML including primary financial statements consolidated in IFRS and explanatory notes marked up in XBRL), and the associated XBRL extension taxonomy.

Preparing an annual report in iXBRL format • 2. Production phase

The company's annual report and taxonomy may then be filed with the *OAM* (Officially Appointed Mechanism), such as the *DILA* (*Direction de l'Information Légale et Administrative*) in France for example.

6. When will it start and what measures should be put in place?

Setting up the project team

First and foremost, implementation of the preparation process for the annual report in inline XBRL format requires anticipating the availability of resources.

Since the ultimate constraint of ESEF reporting is technical, many observers wrongly consider that IT profiles will be those most concerned. As shown in the procedure set out in question 5 of this document, the preparatory phase, and more specifically the **MAPPING** stage, requires **genuine business know-how** which includes a good knowledge both of the Group's accounts and of the IFRS accounting principles. As such, availabilities in terms of these profiles should be planned for internally in order to involve them rapidly in the project, especially as the MAPPING stage is difficult, if not impossible, to outsource.

Moreover, the **MODELLING** stage will require extra and **more technical resources**. In terms of these profiles, the aim is to accurately assess the need for skills development internally to understand the main principles of how the XBRL standard works.

Anticipating team training requirements

As such, a **dual challenge exists in terms of understanding and training** for both business and technical resources. For the moment, it is difficult to find profiles with in-depth know-how in the XBRL field, and not planning to train teams internally in this respect is to risk becoming highly dependent on XBRL experts on the market; a risk that could result in a loss of control over the company's financial communications.

Starting the analysis

This is especially true since the preparatory phase also represents an **opportunity for companies to analyse their financial communications** in terms of the best practices proposed by the standard, and to enhance their financial statements where necessary. Indeed, companies should bear in mind that 2020 is only the first stage.

"To tackle ESEF calmly and get the necessary perspective on the subject, companies need to ramp-up their expertise now in order to start the analysis specific to each company as soon as possible. For this reason, we are already planning the preparatory phase with our clients".

Antoine Bourdais, Director of Invoke and XBRL Administrator France

Starting to think about tools

Companies should also start thinking about which software tools to put in place, at least for the preparatory phase, and especially for the more technical taxonomy extension phase (*MODELLING*). Ideally, this software should also help with the *MAPPING* stage.

7. Are market software solutions ready for ESEF?

Various software tools are available on the market to manage the *tagging* phase, primarily in the USA where so-called end-of-chain, *tactical* tools can be found to meet the requirements of SEC reporting in *XBRL*. Such software tools are also available in the UK as companies must send their tax returns in *iXBRL* format. Nevertheless, it should be noted that these tools do not necessarily take into account elaborate layout and "glossy design" specifics of companies (XBRL only for the SEC so far, and imposed formatting for tax reporting in the UK). For the *modelling* stage of extension taxonomies, few tools exist on the market and can only generally be used by experts i.e. experienced in the complexity of XBRL.

No tools meet the ESEF specifications at present

In all cases, no currently available software tool fully meets the ESEF reporting requirements as the ESMA states in its *Final Report on RTS* (*in Appendix IV – ESMA Field Test Report*), which reviews the difficulties encountered with software tools used in the frame of *field tests*[4] undertaken on a European scale (SEC reporting specifics not adapted to ESEF reporting, non-compliance of the publication file format of the extension taxonomy, invalid taxonomy extension elements, etc.).

The right questions to ask

To have all the prerequisites for assessing the relevance of a software tool for ESEF reporting, it is crucial to be able to answer the following questions:

1. Can the tool **cover the five main stages** of the process (*Mapping, Modelling, Tagging, Validation and Publication*)?
2. Can the tool be **easily employed by business users** or is it intended for XBRL experts?
3. Does the tool integrate the **ESEF reporting characteristics** as specified by the ESMA (especially the *anchoring* specifics) and which are different to those used in SEC reporting?
4. How will the tool **fit into the company's existing IT system?**
5. Does the tool enable the production of a **single version of the annual report** including iXBRL mark-ups for the ESEF?
6. How does the tool manage iterations and what impact would a **last-minute change** to the annual report have on the final report in iXBRL format?

It is important to remember that the only document with any legal value will be the *iXBRL* document i.e. the complete xHTML document including the *XBRL* mark-ups for mandatory elements.

[4] Please see the following page for more information on the ***field test***

The need to be able to produce a single set of accounts in ESEF format

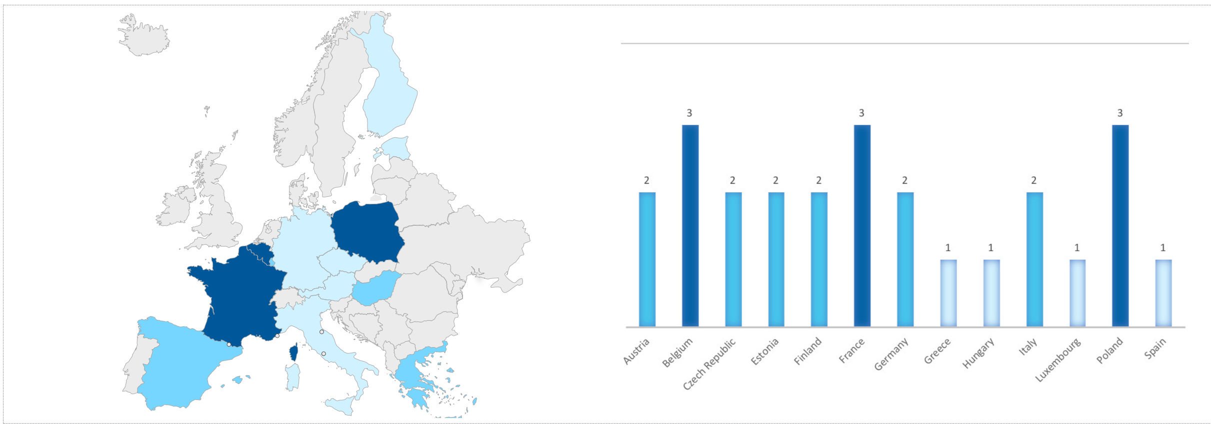
Therefore, the authorities expect companies to create a **single set of accounts**, in this digital format that is both *human readable* and *machine readable*. This same document will be approved by the Board of Directors, and it is therefore **very likely that this iXBRL document will be audited in the near future**. The European Commission is due to make a ruling on this last point before the end of H1 2019 at the same time the Regulatory Technical Standards (RTS) will be definitely ratified.

Taking a parallel path to meet the technical constraints of ESEF in the limited scope of primary financial statements is therefore not an option. The aim is to add a data mark-up and data publication format within a generally and already well-controlled process.

Therefore, the major challenge consists of integrating the new requirement into existing processes **without interrupting the production chain** and by taking into account any necessary iterations and last-minute changes.

8. How prepared are companies today?

In accordance with Article 4(7) of the *Transparency Directive*, prior to the adoption of the RTS, the ESMA was due to conduct a *field test* for the ESEF specifications. This *field test* was conducted between June and September 2017 on a voluntary basis with 25 companies from 19 different business sectors in 13 European countries. The *field test* took the form of practical workshops supervised by XBRL experts mandated by the ESMA. These workshops consisted of assisting companies in producing their annual financial reports in the inline XBRL format.



Number of companies taking part in the ESEF field tests by country

For further reading

Final report on the Regulatory Technical Standards (RTS)

"Final Report on the RTS on the European Single Electronic Format" 18 December 2017 | ESMA32-60-204

https://www.esma.europa.eu/sites/default/files/library/esma32-60-204_final_report_on_rts_on_esef.pdf

The need to 'evangelise' companies

In France, apart from the three companies that took part in the ESMA *field test* and which have begun to measure the challenges of ESEF in their specific context, the majority of listed companies currently estimate that producing their accounts in the inline XBRL format will naturally be covered by their existing *Disclosure Management* tool. However, they are not yet aware of what the preparatory phase involves or the need to start the analysis work as soon as possible.

Work to gain supporters in this area has been started by the ESMA and the local market authorities, with the assistance XBRL Europe, of which Invoke is an active member, and XBRL local jurisdictions, via market conferences and, soon, teaching materials to help raise companies' awareness of the upcoming challenges.

9. What are the initial lessons learned from the field tests?

Feedback from the ESMA field tests

Firstly, based on feedback from the companies that took part in the ESEF field test, a consensus seems to have formed on the complexity of the *MAPPING* stage and the need to have an IFRS expert working on this who has already analysed the ESEF taxonomy in depth. In France for example, all agree that an expert is needed for this stage and that outsourcing is not an option. Two of these companies also stated that they were intending to use this requirement to start work on simplifying their financial statements and converging them with the IFRS taxonomy in order to align themselves with the future IASB guidelines towards “better communication”.

Furthermore, feedback from the companies that trialled producing their accounts in inline XBRL revealed significant differences between the testimonies of European companies that took part in the ESEF reporting field test and the testimonies of Foreign Private Issuers (FPIs, listed companies in the USA) that experienced SEC reporting.

Outsourcing or insourcing?

The latter revealed a shared aim to be able to use outsourcing, due to the workload considered as too high caused by the *detailed tagging* of all the accounts, in addition to the creation of extensions (a huge amount in their case), while companies that tested the ESEF reporting seemed convinced of the interest of insourcing iXBRL production of ESEF reporting.

10. What does Invoke offer in terms of ESEF reporting?

A benchmark vendor in Europe in the reporting field, Invoke has been one of the **pioneers in XBRL technology** since the teething stages of the standard. Thanks to its active technological and regulatory watch activities, Invoke now ranks among the few global companies capable of offering cutting-edge reporting solutions that natively integrate the XBRL financial information exchange standard, thereby enabling its clients to calmly face the challenges of new European regulatory challenges such as Basel III, Solvency 2 and ESEF.

Bespoke, light and comprehensive solution

In terms of ESEF, Invoke has chosen to develop, with and for its clients, **a bespoke software solution** that covers the entire annual report production chain in iXBRL format i.e. from the preparatory to the production phase. This solution helps with the *MAPPING* stage between the accounts and the base taxonomy, as well as *MODELLING* the extension taxonomy by taking into account all the specific features of the ESMA RTS (e.g. *anchoring*). It also covers the entire production phase (*TAGGING*, *VALIDATION* and *PUBLICATION*).

While Invoke's generic XBRL software solutions are already operational in terms of producing primary financial statements in the inline XBRL format, Invoke has chosen to package **a light offer that is 100% web**, which specifically addresses the main challenges of ESEF reporting.

The user experience is up to the challenges

To achieve this, Invoke is working closely with its clients to design the best possible user experience, and to finalise its ESEF offer by focusing on:

- hiding the technical complexity of XBRL and offering a reliable solution **accessible to business users**,
- offering logical and intuitive user journeys, which **comply with the constraints of regulatory technical standards**,
- designing a solution that seamlessly integrates into existing IT systems **with no need to overhaul production processes** for the annual report,
- finalising **an agile and sustainable solution** to manage iterations and last-minute changes, and to capitalise on the first year for the following years.

"We're well aware that companies are not going to overhaul their entire IT systems due to the ESEF obligation. For this reason, we are offering a light solution capable of communicating with existing tools and publication processes.

Antoine Bourdais, Division Director, Invoke

Author

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With a Master's in Multimedia and Multilingual Documentation Design, Technical Writing and Terminology from the University of Paris VII, Yasmine Tebaa started her career as project manager for technical documentation and documentary engineering at Intoan Technology, a software vendor specialising in desktop management automation solutions. In 2006, she co-founded a 360° marketing and advertising agency specialised in the software industry. Yasmine joined Invoke in 2009 as Head of Marketing and Communication and is a member of the management committee. Active within the XBRL community at a national and international level, Yasmine was notably responsible for the Marcom working group of the XBRL France jurisdiction.

Contributors

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Within the management team at Invoke, Antoine supervises all the Group's software solutions dedicated to reporting in XBRL format. With skills in mathematics and management/finance, Antoine Bourdais has gained a global vision of the businesses which publish reporting software thanks to his experience as a Reporting Project Manager and Product Line Manager. Also a member of the Board for the XBRL France jurisdiction, he represents Invoke in several European and international working groups, and, more specifically, in working groups associated with developing the XBRL standard and regulations.

Marc HOULLIER
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After graduating from the Ecole Polytechnique where he specialised in Operational Research as part of Complex Systems Engineering and Management of IT Projects, Marc Houllier started his career in the public sector as a weapons engineer notably in the framework of integrating the Armed Forces' IT System. He joined Invoke in 2016 as an R&D engineer to work on developing a new generation of software solutions. A member of Invoke Lab and passionate about artificial intelligence, he actively participates in the company's technological watch and innovation division. He is particularly interested in Deep Learning research and, in his free time, contributes to open source projects in this field.

About Invoke

Invoke publishes specialised software solutions for processing financial, tax and regulatory information. A benchmark European player, Invoke stands out due to its innovation and technological advances thanks to a unique software range integrating the latest technologies for reading, publishing, collaborative production, validating and analysing financial information in XBRL and inline XBRL (iXBRL) format.

Its cross-framework CPM and Disclosure Management platform - Invoke FAS - supports financial, accounting and tax departments in major groups (in all sectors) in harmonising their reporting processes for a global, centralised and unified reporting (consolidation, reporting, budgeting and forcasting, tax consolidation, etc.).

Invoke also provides cutting-edge solutions for international regulatory bodies (the European Banking Authority, the ACPR-Banque de France, the Deutsche Bundesbank, etc.), as well as helping the banking and insurance sectors to meet local and European regulatory requirements.

In the past two years, Invoke's reporting solutions were voted Best Data Solution and Best Regulatory Reporting Software by the InsuranceERM's Awards.

To learn more, please visit:*www.invoke-software.com*

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