



The importance of ESMA?

Together aiming at better transparency of financial information through one electronic format

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Transforming Business Reporting

Who is ESMA?



Who is ESMA and how does it interfere with us?

ESMA – European Market Securities Authority

- Mission: “enhance protection of investors and reinforce stable and well functioning financial markets in Europe”.
- How?
 - independent
 - building single rule book for EU financial markets
 - ensuring consistent application and supervision across the EU.
- What? supervision of financial services firms on European and national level
- Why a Single Rulebook?
 - consistent treatment of investors + adequate level of protection.
 - equal conditions of competition for financial service providers + effective supervision
 - ESMA is a “standard setter” and reduces “scope of regulatory arbitrage”.

How does ESMA operate ?



ESMA – Operational Model

2011 : ESMA as EU Authority with a 4 level legislative procedure

- Level 1 Directives & regulations : high level political objectives + develop legislative proposals.
- Level 2 Legislative drafting of delegated acts and implementing acts :
- Level 3 Development of guidelines and recommendations on supervision
- Level 4 Consulting : launch enquiries & issue recommendations quickly

ESMA's consultation practices

- open and transparent way of working
- consult extensively at an early stage, with market participants, consumers and end-users.
- a Securities and Markets Stakeholders Group has been established

ESMA Corporate Reporting SC

CRSC : Why and How?

- Committee & CWG : all ESMA's work on accounting, audit, reporting and storage.
- Pro-active monitoring and influencing of regulatory developments
- Active EU endorsement monitoring of international standards
- Coordination of European National Enforcers for enforcement of IFRS, including :
 - Analysis & discussion of individual IFRS enforcement decisions
 - Identify issues not covered by financial reporting standards
 - View exchange on methods for supervising company financial information for publicly/listed securities
- Pro-active monitoring & influencing developments in periodic financial reporting (Transparency Directive).

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What do we want from ESMA?

XBRL and her relation to ESMA

- ESMA = a standard setter for financial information.
- XBRL makes information more transparent, and so does ESMA.
- Transparency Directive improves European Financial Markets for Listed Companies
- Contact with ESMA: “transparency of information is enhanced by using a single electronic format (ESEF)”
- 2013 : approaching ESMA renewed in 2013 with white paper on our positioning + in order to set up of a joined discussion platform
- 2014 : ESMA raised a number of questions through Steven Majoor
- We responded to these questions in an effective and efficient way, showing the value added of XBRL for both users and regulators.
- We must collaborate with ESMA closely on this in the future

I. ESMA approaches XBRL?

March 2014 : ESMA – Questions are asked directly to XBRL

- Different contacts between ESMA, XBRL International and XBRL Europe
- Topic : “ESMA works on Transparency Directive implementation + is asked to develop a standard for electronic reporting.
- ESMA Consultation Paper : “various options for electronic standard” but “XBRL is one of the strong candidates”.
- XBRL must provide ESMA with data on:
 - How does the global “map” of the XBRL world look like?
 - Is and will XBRL remain the most reliable standard (error rate, updates)
 - How does the investor community look at XBRL? Does the standard create enough value for the investor community (transparency)
 - The impact assessment of various scenario’s.

II. XBRL responds to ESMA

XBRL – Answers provided to ESMA

1. Function and Goal of XBRL

- Open standard, improving reporting in the ***public interest***
- Allowing preparation, validation, publication and analysis of business information that is interchangeable between different information systems in different organizations
- Allowing ease exchange of information throughout the reporting chain
- Allowing to manage numeric, textual and binary data (including graphics)
- Allowing rigorous checking of data against pre defined business rules
- Allowing reporters to better control quality of data reported to the investor community
- Reducing data sourcing and data preparation costs, removing the need for manual data processing

2. XBRL is used around the world?

- > 40 countries use this standard for regulatory reporting
- The “de facto” standard for regulatory reporting, to become as well for financial reporting
- Provides sophisticated capabilities to support information exchange
- Regulatory data collection for : prudential & security regulators, tax authorities, business registrars, multi agency reporting
- IASB and FASB have adopted XBRL as the electronic standard for financial reporting and for GRI and CDP

The investor and a single electronic format?

[XBRL – Answers provided to ESMA](#)

- Investors and analysts that are now using third party data or manually extract information, may switch to using the digital report as their main data source to facilitate their analysis and reduce their data information costs.
- XBRL survey done by CFA institute: “digitally tagged financial information is important to primary users. 44% of all respondents obtain all (8%) or most (36%) of the financial data using electronic tagged data from 3rd parties, so a large number of users still extract all data (18%) or most (34%) of the data manually from the source documents at a high cost

3. How does the investor benefit from XBRL?

- Investors and analysts that are now using third party data or manually extract information
- Analysts want for efficient stock screening:
 - *Reliable, comparable and consistent available data*
 - *Long histories for quantitative analysts*
 - *Population: large number of companies to screen on or involve in regression analysis*
 - *Transparency to review quickly ‘outliers’, data aggregators offer click thru capabilities from standardized to the exact location in the document from which the information was sourced*

Why do some analysts still use manual extraction of data?

Sell side analysts

- *Sell side analysts quote lack of detailed information and narrative context, timeliness, trust and data quality as main reasons why manual extraction from source documents is currently preferred.*
- *But extraction of numbers can be customized and largely automated for subsequent years.*

Buy Side

- *Current lack of intelligent as reported data requires investors and credit lenders to use standardized data. Buy side analysts may start using the “as reported publicly available data” and “all IFRS mandated disclosures” rather than third party standardized data.*
- *They look at a larger number of companies, so reliable automation is a must.*
- *This will be a gradual process with a few large companies taking the lead.*

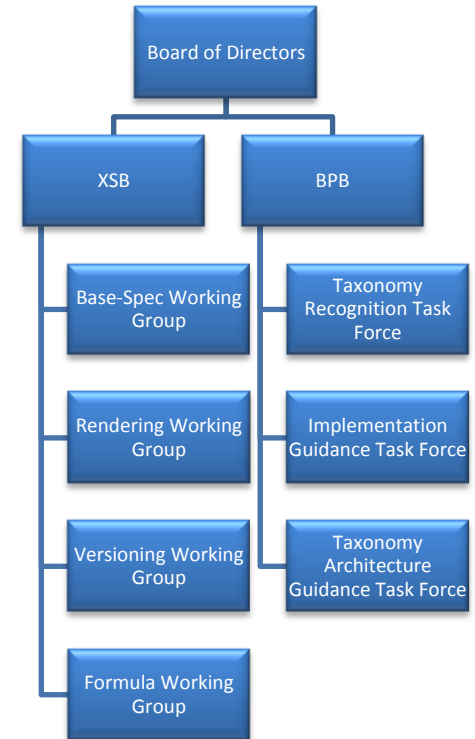
XBRL governance?

4. XBRL Governance - Answers provided to ESMA

- XBRL standard owned by XII as a global organization
- With a Board of Directors of 9 members
- Technical input : XBRL standard board + Best Practice Board
- Members :
 - 24 jurisdictions, non for profit organizations per country
 - Direct members or organizations wanting to improve reporting

Two tier governance

- IFRS definitions are developed internationally
- But XBRL also intervenes locally
- Regional collaborations have been set up (Asia, XBRL Europe)
- XBRL Europe created active working groups and is in direct contact with ESMA



What is the user position?

Did the investor, financial analysis, user put enough effort into this?

- *Primary users have not provided detailed feedback on the taxonomies during the public comment periods.*
- *This process provided good quality assurance when the taxonomy scope was narrowly defined as reflecting the IFRSs only, but quality endorsement of a taxonomy aiming to reflect how IFRS is implemented in practice, meets the need of its users, is adopted globally, needs signoff off from all its primary users.*

Users want good tools

- *The development of better XBRL rendering tools seems to have resulted in an increased number of CFA's using XBRL as a tool to access and view financial reports. Other reasons why investors and credit lenders use electronic data are: pre-population of in house data models, quantitative financial data modelling and stock screening.*
- *Data aggregators such as Thomson Reuters, Bloomberg and Morningstar have started to consume XBRL filings.*

III. XBRL whitepaper to ESMA

[July 2014 : XBRL sent a whitepaper on our positioning to ESMA](#)

- Topic : “ESMA works on Transparency Directive implementation + is asked to develop a standard for electronic reporting in connection with the filing of financial statements”. Implementation by 2020.
- ESMA Consultation Paper describes various options for the European Single Electronic Format (ESEF)
- Main points :

- Strategy : XBRL as the optimum technological choice
- The need for harmonization and data comparability. How to assist?
- The best way to develop Data Point Modelling
- Initiatives to ensure high quality of information on a sustainable basis.
- Impact on filing rules on the nature of filing
- Limit the use of extensions while still allowing them (“the normalized way”)
- XBRL core EU taxonomy and national GAAP extensions. Benefits?
- XBRL Europe and development of national GAAP XBRL taxonomies
- Cost benefit analysis for SME’s?

XBRL whitepaper

Background

- ESMA concern on costs and benefits when switching from PDF or HTML towards XBRL
- Transparency of information : security regulators and market participants
- The Paper paradigm :
 - Accounting standards provide businesses and market participants with an agreed way to measure economic transfers. A rule book for measuring economic activity and value creation. Allowing investment decisions to be made and supported.
 - Financial statements play a crucial role here. But different issuers are different economic actors and they therefore organize themselves in different ways, have very different operations and offer different products and services.
 - So flexibility is needed : this exists on paper but quid electronic reporting?
- Therefore users are :
 - not very interested in documents, but more interested in the data contained in those documents
 - How do they obtain the data needed?

XBRL whitepaper

Users and their sources of information

- Historically, users draw their data from many different sources, including (multiple) commercial data providers, who:
 - Obtain financial statements from official sources
 - Parse, or key in the data contained in those financial statements (sometimes in multiples rounds, starting very quickly with the “headline” numbers, and adding additional detail over the next hours or days)
 - Error check
 - Translate, where necessary, data that is in the form of text
 - Normalize the data in order to maximize the comparability of their data set
 - Add value to the data by calculating and incorporating a range of ratios.
 - Publishing the data, generally in proprietary ways, in two different series – “As Is” and “Normalized”.
- Users need documents and data or unstructured and structured info, but prefer structured
 - XBRL reliably transmits performance data and definitions based on W3C XML.
 - XBRL is a framework, or language for reporting, not a fixed set of reporting concepts.

How does XBRL improve financial reporting taking into account the Transparency Directive?

Current situation relating to the Transparency Directive:

- The directive addresses Officially Appointed Mechanisms for data storage
 - The present situation shows disparities in the names of documents and search functions.
 - Problem: names, searches and processes are not harmonized and not interoperable
 - Options: XBRL helps structuring names to help searches
- The directive addresses annual reports:
 - Problem 1 : disparities in contents and various regulations.
 - Problem 2 : data search is very difficult and comparability is not reached
 - Options: the options relate to the extent of comparability that has to be defined
- The directive addresses “Single electronic format”:
 - The present situation shows that XBRL has already been widely adopted in Europe and in the World by Securities Markets
 - So what are we waiting for?

ESMA approach on Transparency Directive?

The Requirements of the Directive

- Single electronic formats
 - Facts: there are several possible formats
 - Problem: they are not fit for standard searches of structure data
 - Options: XBRL or iXBRL
- Alignment with EBA, IOPA and Business Registers

| | PDF | HTML | XML | IXBRL (1) | XBRL |
|------------------------|-----|------|-----|--------------|------|
| STRUCTURED INFORMATION | | | | | |
| MULTI-LANGUAGE | | | | | |
| STANDARD EXTENSIBILITY | | | | | |
| PREPARERS' ORIENTED | | | | | |
| EMBED OTHER FORMATS | | | | | |
| CONSUMERS' ORIENTED | | | | | |

Transparency and comparability

- The aim of the directive is to bring easy access to data. The expectations from all stakeholders must be taken into account and a clear answer must be given before implementation:
 - ESMA and National Supervisory Authorities: provide help on financial data review
 - Investment professionals: help them in their analysis processes
 - ...

Implementation of a EU_IFRS taxonomy

- XBRL is the language (including the reliability of the XBRL standard)
- IFRS is the base taxonomy
- Options for a EU_IFRS taxonomy
- Technical considerations for extensions

The way forward

Structure set up for ESMA working together with the Standard “experts” and open to all stakeholders to implement the right XBRL solution.

ESMA approaches on XBRL?

[ESMA – Activity program for 2014-2015 – corporate reporting](#)

- ESMA will continue to monitor developments in the International Financial Reporting Standards (IFRS) and wants to improve enforcement activities for stronger co-ordination and harmonisation of their application in the EU.
- ESMA will continue to strengthen its dialogue with representatives of the IFRS Interpretations Committee and will contribute pro-actively to the International Accounting Standards Board (IASB) by providing it with insights on experiences of the implementation of these standards in practice and how they could potentially be improved to enhance their enforceability.
- ESMA will ensure more co-operation with authorities from third countries in which IFRS or declared equivalents to IFRS apply to listed issuers on regulated markets.
- ESMA will work on further development of the network of Officially Appointed Mechanisms (OAMs) and consider the potential role of XBRL within that context.

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