Q&A on the RTS on European Single Electronic Format (ESEF)

1) What is the ESEF?

ESEF (European Single Electronic Format) is the new single electronic reporting format for the preparation of annual financial reports to be published by listed companies in the European Union from 2021 onwards.
This format provides for one single file[1] that will include the financial statements, the management report and the responsibility statements of the persons responsible within the company. This file is human-readable, just like a normal webpage. As an additional obligation, companies who prepare consolidated financial statements, on the basis of International Financial Reporting Standards (IFRS), will also have to tag certain information in their financial statements in accordance with the IFRS Taxonomy using inline specifications (iXBRL). Ultimately, this will make the financial statements machine-readable.

2) Why is the European Commission introducing ESEF and what are the benefits?

ESEF is being introduced pursuant to Article 4(7) of the Transparency Directive to reflect the will of the European Parliament and the Council to establish a single structured electronic format for EU annual financial reports.
ESEF will enhance the comparability and usability of financial information. In particular, better and more comprehensive use of company data by investors and analysts is expected when using the inline specifications (iXBRL). This will, in turn, enhance the transparency of EU capital markets.

3) Which companies will have to prepare their annual financial reports in ESEF?

a) All natural and legal persons – regardless of whether their registered office is in the EU or in a third country – with securities (including both shares and bonds) listed on an EU regulated market will have to prepare their annual financial reports in XHTML;
b) EU issuers who prepare IFRS consolidated financial statements will have to tag them using the elements of the IFRS Taxonomy that correspond to the EU-endorsed IFRS. The tagging of individual financial statements by EU issuers is allowed provided that they use iXBRL and that a taxonomy is provided by the Member State in which they are incorporated;
c) Third-country issuers will tag in accordance with the elements that correspond to the IFRS as issued by the International Accounting Standard Board (IASB). Third-country issuers using third-country GAAPs are not yet allowed to tag their financial statements.

4) When will the preparation of annual financial reports in compliance with ESEF become mandatory?

[1] The file is formatted using eXtensible Hyper-Text Markup Language (XHTML).

The use of ESEF for the preparation of annual financial reports will become mandatory for financial years starting on or after 1 January 2020. Depending on the length of the financial year, most companies' reports in ESEF will be published for the first time in 2021 in relation to annual financial reports of fiscal year 2020.

5) Will preparation costs increase for companies?

The implementation of this new structured reporting format – especially as regards the iXBRL marking up of IFRS consolidated financial statements - might involve limited costs for companies in the initial stage. Costs will significantly depend on whether a company decides to prepare its annual financial reports using iXBRL internally or by outsourcing it to a third party, as follows:

- In the case of preparation in-house, it is estimated [2] that the implementation costs for each company would amount on average to around EUR 8,200 for the first filing, and around EUR 2,400 for each subsequent filing;
- In the case of outsourcing, the costs for each company would be on average around EUR 13,000 for the first filing, and around EUR 4,600 for each subsequent filing.

In any case, initial costs will decrease significantly after the first year of filing[3]. The development of dedicated software is expected to assist companies in standardising and automatizing the preparation of ESEF-compliant annual financial reports.

6) Does ESEF bring any other benefits?

A number of academic studies have documented positive impacts of the introduction of iXBRL-based tagging of financial reports in a range of jurisdictions, including some EU Member States, on the cost of equity capital and stock liquidity,[4] access to bank funding,[5] the timeliness of audit reports,[6] and reduced audit fees.[7]

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[2] ESMA - Feedback Statement on the Consultation Paper on the Regulatory Technical Standard on the European Single Electronic Format (ESEF), 21 December 2016.

[3] As stated by ESMA, but also as shown by a study by an AICPA study on XBRL filing costs

[4] Li, Oliver Zhen and Ni, Chenkai and Lin, Yupeng, Does XBRL Adoption Reduce the Cost of Equity Capital? (August 17, 2012). Available at SSRN: https://ssrn.com/abstract=2131001 or http://dx.doi.org/10.2139/ssrn.2131001

[5] Kaya, Devrimi and Pronobis, Paul, The Benefits of Structured Data across the Information Supply Chain: Initial Evidence on XBRL Adoption and Loan Contracting of Private Firms (April 29, 2016). Journal of Accounting and Public Policy, Vol. 35, No. 4, 2016. Available at SSRN: https://ssrn.com/abstract=2450858 or http://dx.doi.org/10.2139/ssrn.2450858. Syou-Ching Lai, Yuh-Shin Lin, Yi-Hung Lin, Hua-Wei Huang, (2015) "XBRL adoption and cost of debt", International Journal of Accounting & Information Management, Vol. 23 Issue: 2, pp.199-216, https://doi.org/10.1108/IJAIM-04-2014-0031

[6] Keval Amin, John Daniel Eshleman, and Cecilia (Qian) Feng (*2018*) The Effect of the SEC's XBRL Mandate on Audit Report Lags. Accounting Horizons: March 2018, Vol. 32, No. 1, pp. 1-27. https://doi.org/10.2308/acch-51823

[7] Yuan George Shan & Indrit Troshani (2014) Does Xbrl Benefit Financial Statement Auditing?, Journal of Computer Information Systems, 54:4, 11-21, DOI: 10.1080/08874417.2014.11645718

7) What kind of assurance will be provided for financial statements prepared in compliance with ESEF? Will auditors check ESEF-compliant reports?

Considering that the ESEF Regulation is a binding legal instrument, the Commission services are of the view that the provisions included therein shall be considered as "statutory requirements" within the meaning of Article 28(2)(c)(ii) of the Audit Directive.

8) What is the Commission doing to facilitate the audit of ESEF and to clarify the practical implications?

The Commission asked the Committee of European Auditing Oversight Bodies (CEAOB) to explore how the audit of ESEF could be carried out in practice, with a view to possibly provide guidance to the market. In the context of the ongoing Fitness Check on public reporting by companies, the Commission is exploring whether the audit of ESEF could warrant possible modifications in the existing transparency rules.

9) Do the human-readable and the machine-readable rendering of ESEF constitute two different versions of the ESEF file?

No. Thanks to ESEF, the XHTML file that contains the annual financial reports will always be human-readable and, when marked-up with iXBRL, machine-readable as well.

10) Is there a reporting manual to help companies preparing their ESEF-compliant annual financial reports?

Yes, ESMA makes available on its website the ESEF Reporting Manual. It provides guidance to companies for the preparation of annual financial reports in compliance with the ESEF Regulation. This Reporting Manual will be updated if need be for clarification purposes and in the case of technical amendments to the ESEF Regulation.

11) Are there taxonomy files available in all EU languages to facilitate the preparation of ESEF-compliant annual financial reports?

Yes, the ESEF taxonomy files are available on ESMA's website in all EU languages and can be downloaded for free. These taxonomy files will be updated at least annually so that preparers always get the latest up-to-date version.

12) Will Business Registers accept ESEF filing for listed companies that are limited liability companies?

Limited liability companies have to disclose their annual accounts to their national Business Register, in compliance with both the Accounting Directive and the Company Law Directive.

Listed companies have to disclose their annual financial reports to the national competent authorities and the national storage appointed mechanisms. In order to avoid that listed limited liability companies have to file the same documents in different formats, the Commission encourages Business Registers to accept ESEF filing as well (i.e. XHTML files with iXBRL tagging embedded).

13) Will the delegated act on ESEF have to be periodically updated?

Yes, this delegated act will have to be amended on a yearly basis to reflect possible updates made by the International Accounting Standards Board (IASB) in the IFRS Taxonomy.

14) Is XBRL tagging already mandatory at national level in Member States or Third-countries?

There are a number of stock exchanges requiring XBRL-based reporting or well advanced on XBRL programmes. The U.S. is the most well-known with the EDGAR system of the Securities and Exchange Commission. Other jurisdictions include Japan, Canada, South Korea or China.
XBRL mark-ups usually reflect local taxonomies and, depending on the circumstances, the IFRS taxonomy to a varying extent.

15) What else is the Commission doing to further support the digitalisation of corporate reporting?

ESEF is only the first step in the digitalisation of public corporate financial information. Other initiatives – such as the activation of a European Electronic Access Point (EEAP) – are meant to complement ESEF in the digitalisation of public corporate reporting. In the context of both the Fitness Check on public reporting by companies and a Pilot project called the European Financial Transparency Gateway, the Commission is exploring the role of digitalisation in making information more accessible and more usable for users/investors.