



European Securities and  
Markets Authority

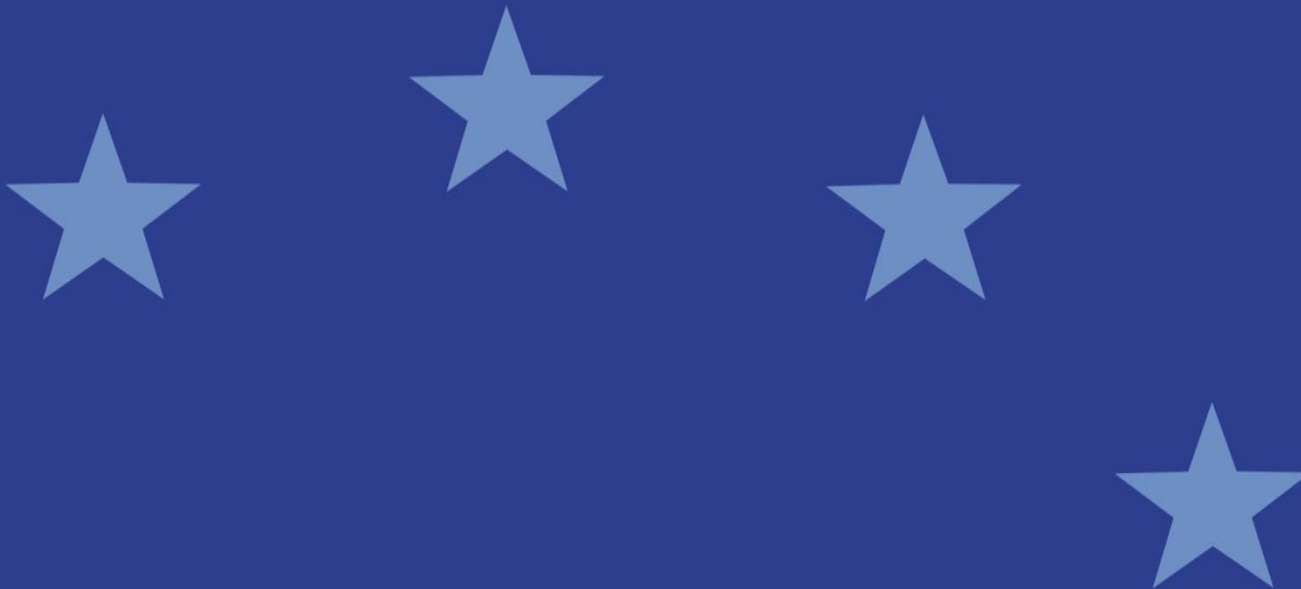
**PUBLIC**

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# European Single Electronic Format (ESEF)

CFSS & EFRAG TEG meeting – 20 September 2017

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# Background

- **Requirements:**

- 2013 the Transparency Directive was amended to require issuers on regulated markets to prepare their annual financial reports (AFR) in a single electronic reporting format with effect from 1 January 2020.

- **Number of affected companies:**

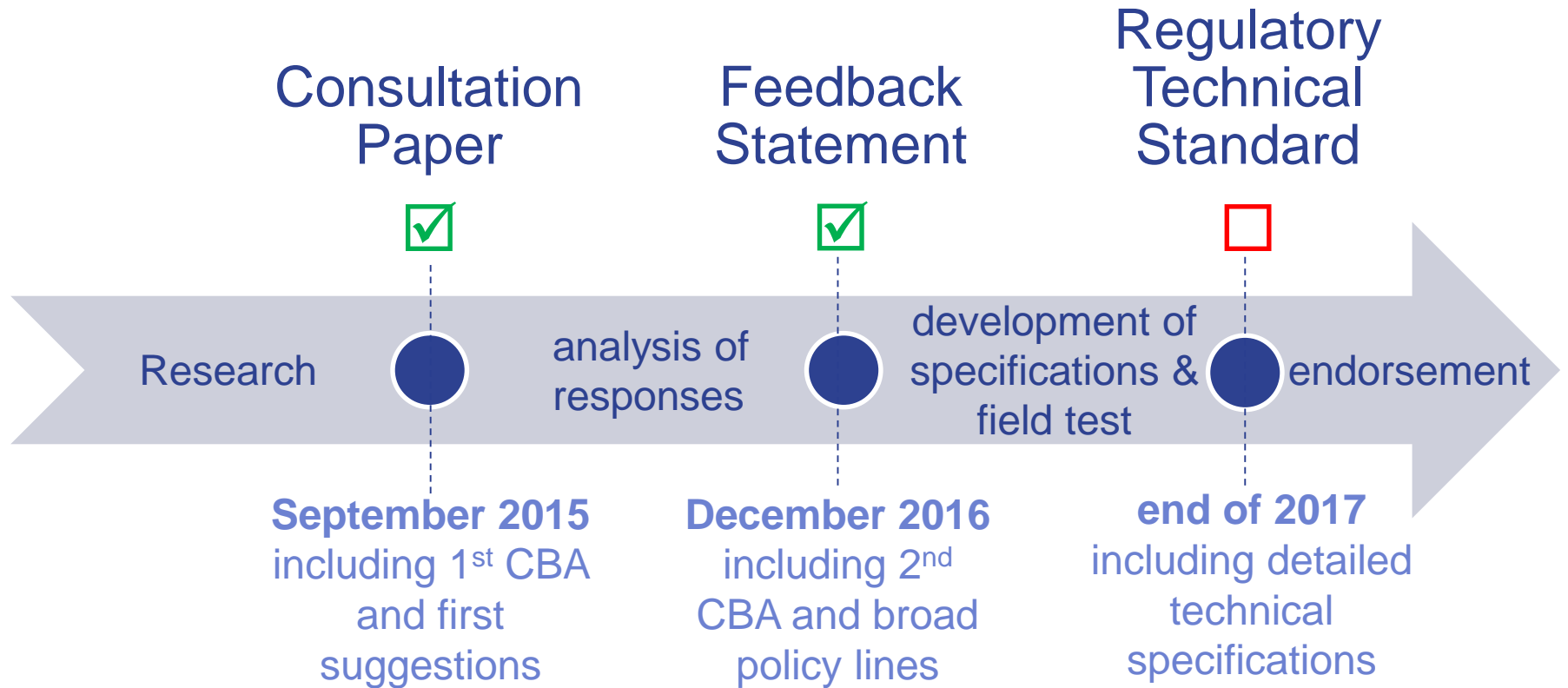
- About 7,500 issuers on regulated markets
  - of which around 5,300 prepare IFRS consolidated financial statements



## What is not addressed by ESMA

- **Storage and dissemination of regulated information:**
  - No change to requirements regarding storage and dissemination of regulated information
  - Transparency Directive requires the existence of one Officially Appointed Mechanisms (OAM) in each Member State → responsible for the storage of regulated information
- **Assurance of annual financial reports in ESEF**

# ESMA Consultation





# Summary of broad lines set out in Feedback Statement

- All annual financial reports have to be prepared in xHTML
  - xHTML is human readable and no rendering mechanism is necessary
- Where the annual financial report contains consolidated IFRS financial statements, they have to be labelled with XBRL tags
  - XBRL allows software supported analysis
- The XBRL tags have to be embedded in the xHTML document using Inline XBRL
- The IFRS Taxonomy has to be used
- In the first 2 years mandatory tagging is limited to the primary financial statements



# Illustration of Inline XBRL

## CONSOLIDATED BALANCE SHEETS

November 30, 2016 and 2015

2016 (1)

2015 (1)

(Dollars in thousands, except shares and per share amounts)

### Lennar Homebuilding:

		2016 (1)	2015 (1)
Cash and cash equivalents	\$	<u>1,050,138</u>	<u>893,408</u>
Restricted cash		<u>5,977</u>	<u>13,505</u>
Receivables		<u>106,976</u>	<u>74,538</u>
Inventory		<u>3,951,716</u>	<u>3,957,167</u>
Finished land		<u>5,106,191</u>	<u>4,724,578</u>
Construction in progress		<u>121,019</u>	<u>58,851</u>
Investments		<u>9,178,926</u>	<u>8,740,596</u>
Other assets		<u>811,723</u>	<u>741,551</u>
		<u>651,028</u>	<u>609,222</u>
		<u>11,804,768</u>	<u>11,072,820</u>
Rialto		<u>1,276,210</u>	<u>1,505,500</u>
Lennar Financial Services		<u>1,754,672</u>	<u>1,425,837</u>
Lennar Multifamily		<u>526,131</u>	<u>415,352</u>
<b>Total assets</b>	<b>\$</b>	<u><b>15,361,781</b></u>	<u><b>14,419,509</b></u>

**Attributes**

**Cash and Cash Equivalents, at Carrying Value**

Tag	us-gaap:CashAndCashEquivalentsAtCarryingValue
Fact	1,050,138,000
Axis	Segments [Axis] - us-gaap:StatementBusinessSegmentsAxis
Member	Lennar Homebuilding East, Central, West, Houston, and Other [Member] - len:LennarHomebuildingEastCentralWestHoustonand OtherMember
Period	As of 11/30/2016



## Reasons to select Inline XBRL

- Feedback from consultation: need for human readable AFR that can be accessed without specialised tool → xHTML
- Content is presented as intended by preparer
- Contains XBRL tags that can be processed by software
- Connection between the machine readable XBRL tags and the human readable xHTML presentation layer → easy to check XBRL tagging
- Supports phasing of reporting requirements and easy introduction of XBRL

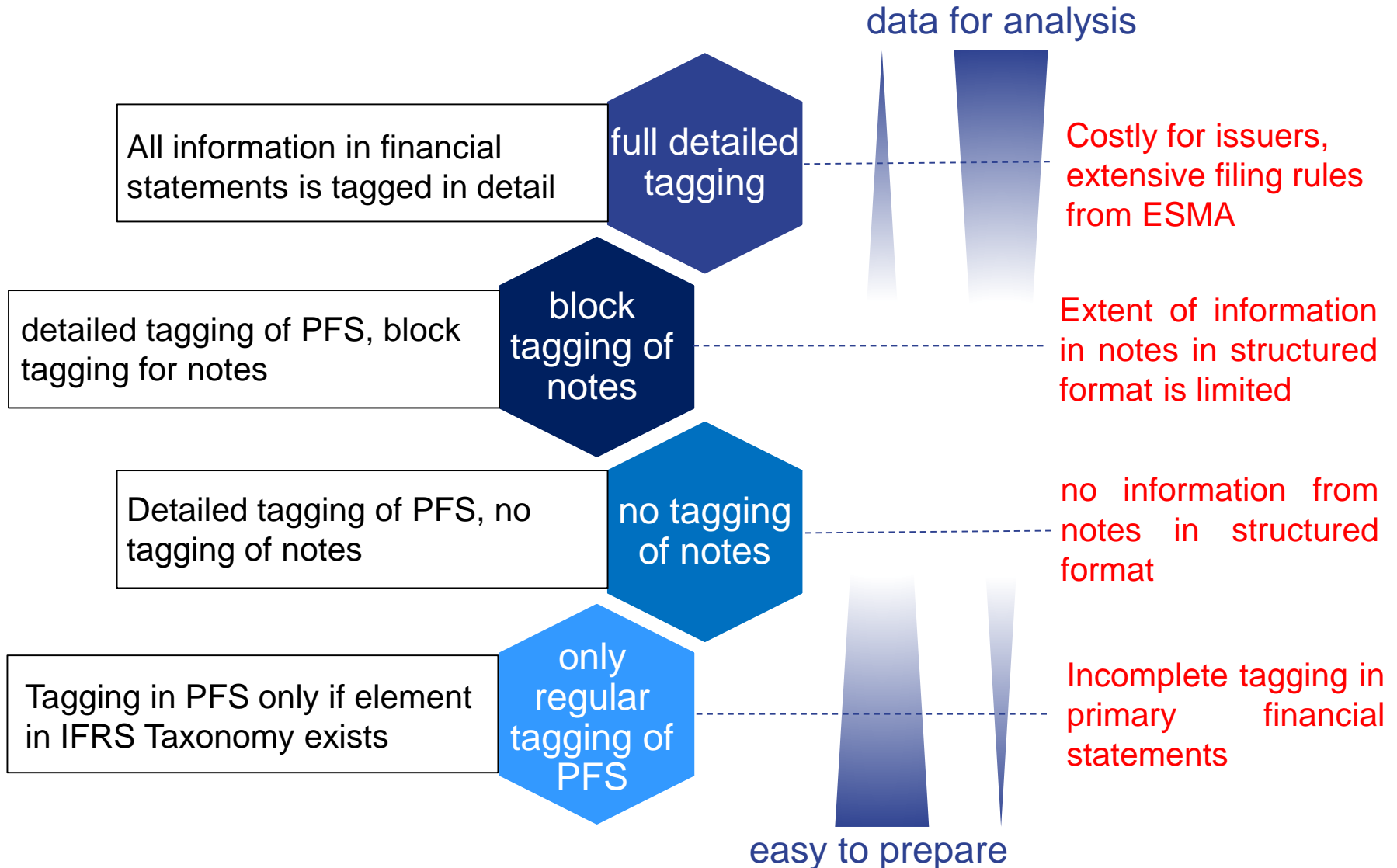


## Implementation options

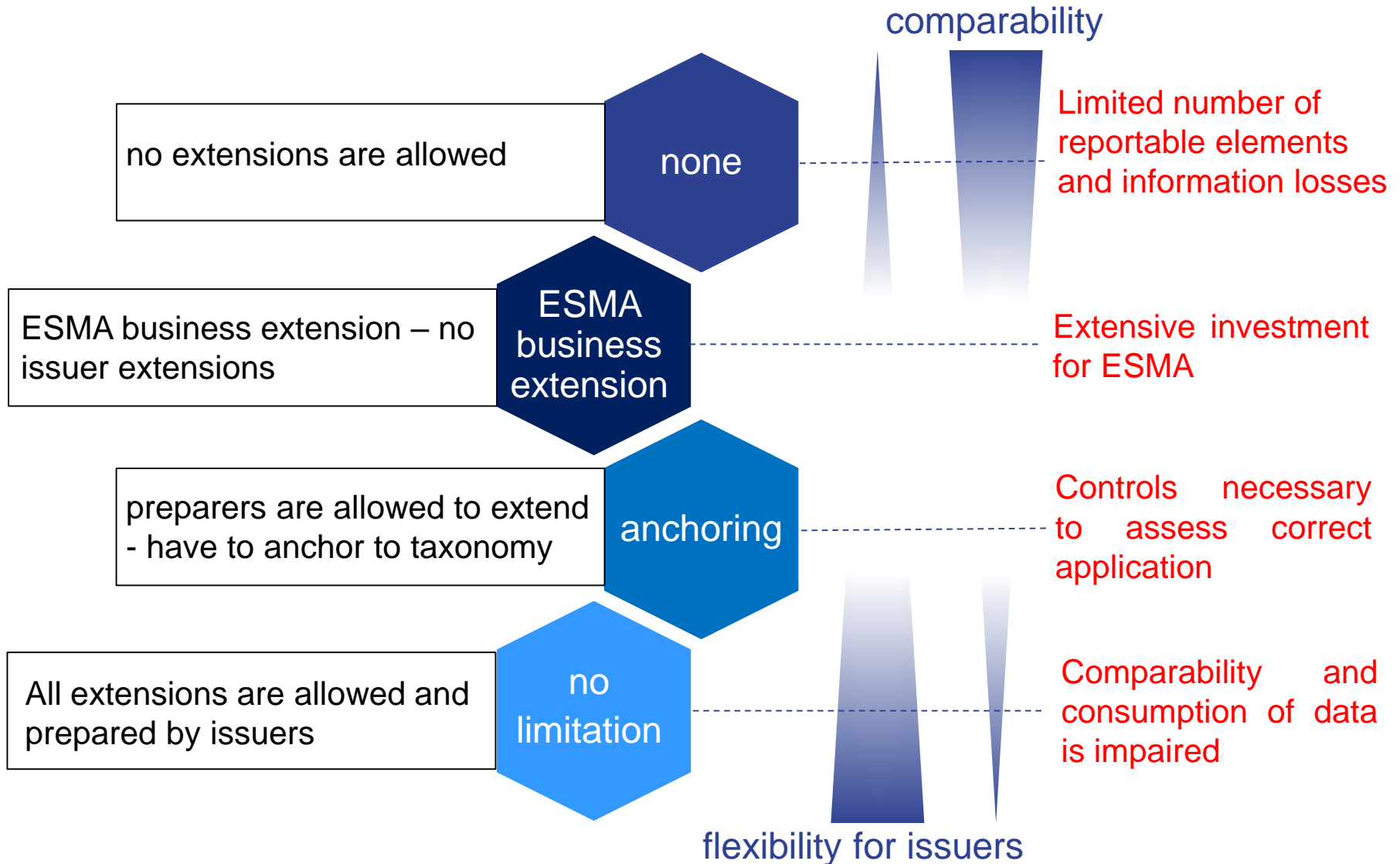
- **A study was undertaken to assess implementation options regarding:**
  - » Scope of tagging (primary financial statements only or also the notes)
  - » Level of tagging (detailed tagging or block tagging)
  - » Use of extensions (no extensions or controlled use of extensions on the basis of a framework or free use of extensions)
  - » Development of a regulatory extension taxonomy (and if yes technical extension only or business extension)



# Contradicting objectives – level of tagging



# Contradicting objectives - extensions





# Implementation options

## Methodology used for the assessment of implementation options:

Scoring of each option (e.g. detailed tagging of notes vs. block tagging of notes) against the following set of criteria:

Criterion	Weight
Availability of data for automated processing	1.00
Data comparability and analytical possibilities	1.00
Effort on filers side	1.00
ESMA effort	0.75
Effort required to validate for correctness and completeness	0.25
Definition and execution of data quality checks	0.25
Risk of incomplete or wrong tagging	0.25
Compatibility with other projects	0.25



## Current considerations: level of tagging

- Detailed tagging vs. block tagging
- Consider requiring all elements in primary financial statements to be tagged in detail
- Notes: only block tagging might be required – with the following few exceptions, mostly relating to the identity and nature of the entity, e.g.:
  - name
  - domicile of the entity
  - country of incorporation
  - name of parent entity
  - Disclosure of uncertainties of entity's ability to continue as going concern
  - Explanation of sources of estimation uncertainty with significant risk of causing material misstatements
  - etc...

# Illustration of block tagging

Block tags can be applied with different levels of granularity – e.g.:

The Company has entered into agreements to lease certain office facilities and equipment under operating leases. Future minimum payments under the noncancellable leases in effect at November 30, 2016 were as follows:

(In thousands)		Lease Payments
2017	\$	35,443
2018		33,877
2019		24,816
2020		18,767
2021		14,999
Thereafter		16,120

**Attributes** 🔍 ✕

**Commitments and Contingencies Disclosure [Text Block]**

Tag	us-gaap:CommitmentsAndContingenciesDisclosureTextBlock
Fact	Commitments and Contingent LiabilitiesThe Company is party to various claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, the disposition of these matters will not have a material adverse effect on...
Period	12 months ending 11/30/2016
Type	textBlockItemType

**Attributes** 🔍 ✕

**Schedule of Future Minimum Rental Payments for Operating Leases [Table Text Block]**

Tag	us-gaap:ScheduleOfFutureMinimumRentalPaymentsForOperatingLeasesTableTextBlock
Fact	The Company has entered into agreements to lease certain office facilities and equipment under operating leases. Future minimum payments under the noncancellable leases in effect at November 30, 2016 were as follows:(In thousands)LeasePayments2017\$35,44320...
Period	12 months ending 11/30/2016
Type	textBlockItemType

# Current considerations: level of tagging

- Text blocks required might be on a high level – examples for disclosure text blocks:

Disclosure of accounting judgements and estimates [text block]	text block	IAS 1 10 e
Disclosure of accrued expenses and other liabilities [text block]	text block	IAS 1 10 e
Disclosure of allowance for credit losses [text block]	text block	IAS 1 10 e
Disclosure of associates [text block]	text block	IAS 27 17, IFRS 12 B4 d
Disclosure of auditors' remuneration [text block]	text block	IAS 1 10 e
Disclosure of authorisation of financial statements [text block]	text block	IAS 1 10 e
Disclosure of available-for-sale financial assets [text block]	text block	IAS 1 10 e
Disclosure of basis of consolidation [text block]	text block	IAS 1 10 e
Disclosure of basis of preparation of financial statements [text block]	text block	IAS 1 10 e
Disclosure of business combinations [text block]	text block	IFRS 3 Disclosures

- Examples for accounting policies text blocks:

Description of accounting policy for available-for-sale financial assets [text block]	text block	IAS 1 117 b
Description of accounting policy for biological assets [text block]	text block	IAS 1 117 b
Description of accounting policy for borrowing costs [text block]	text block	IAS 1 117 b
Description of accounting policy for borrowings [text block]	text block	IAS 1 117 b
Description of accounting policy for business combinations [text block]	text block	IAS 1 117 b
Description of accounting policy for business combinations and goodwill [text block]	text block	IAS 1 117 b
Description of accounting policy for cash flows [text block]	text block	IAS 1 117 b
Description of accounting policy for collateral [text block]	text block	IAS 1 117 b
Description of accounting policy for construction in progress [text block]	text block	IAS 1 117 b
Description of accounting policy for contingent liabilities and contingent assets [text block]	text block	IAS 1 117 b





## Current considerations: use of extensions

- In the Consultation Paper ESMA suggested to not allow the use of extensions to the IFRS Taxonomy
- Respondents to the consultation pointed out that the IFRS Taxonomy as it is cannot be reasonably used without the use of extensions
- An appropriate way forward would be to allow entity specific extensions but to develop rules guiding their application
- XBRL International set up an Entity Specific Disclosure Task Force
- This task force recommends to anchor entity specific extensions to the elements in the base taxonomy
- ESMA developed draft rules to implement a anchoring mechanism for ESEF

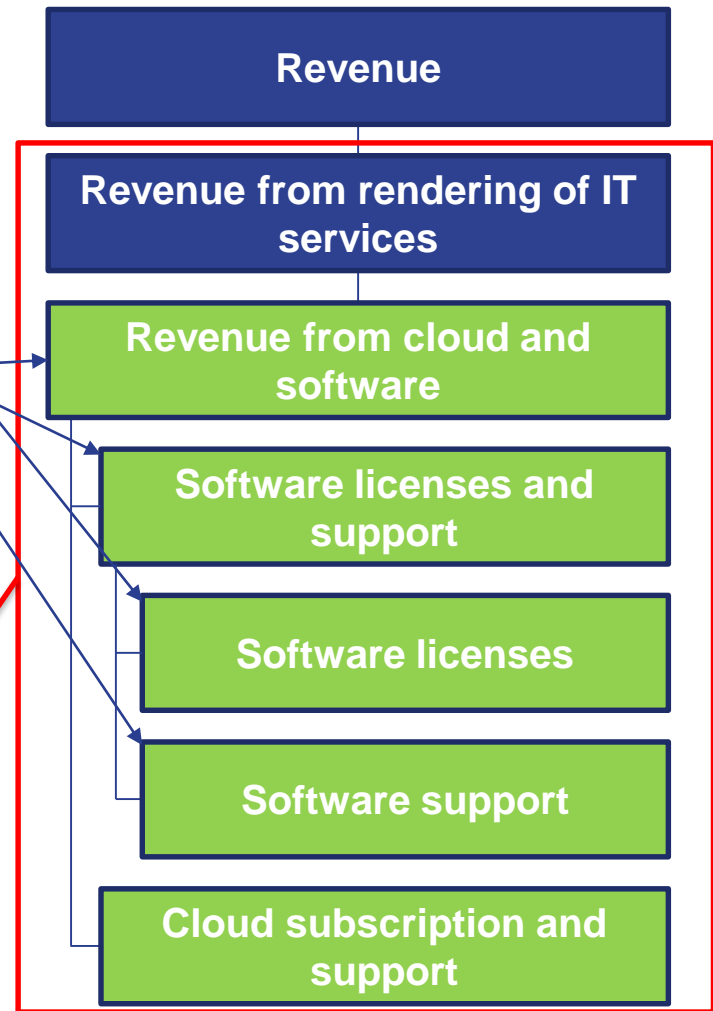
# Example for anchoring (1): disaggregations

Example 1: income statement

millions, unless otherwise stated	2016 €
Cloud subscriptions and support	2,993
Software licenses	4,860
Software support	10,571
Software licenses and support	15,431
<b>Cloud and software</b>	<b>18,424</b>
<b>Services</b>	<b>3,638</b>
<b>Total revenue</b>	<b>22,062</b>

-  Elements contained in IFRS Taxonomy
-  Extension elements

to be anchored in IFRS Taxonomy indicating that the extensions are narrower than base taxonomy element





# Example for anchoring (2): combinations

Example 2 : balance sheet European issuer

Equity attributable to owners of the company

Share capital and Premium

Cumulative translation differences

Treasury shares

Retained earnings and other reserves



**Total equity**

to be anchored in IFRS Taxonomy indicating that the extension is wider than the base taxonomy elements

Share capital and Premium

Issued capital

Share premium

-  Elements contained in IFRS Taxonomy
-  Extension element

## Does ESMA propose a fixed template for reporting?



- The content and presentation of the IFRS consolidated financial statements is determined by the IFRSs and the Accounting Directive
- The IFRS Taxonomy is only a tool to transform financial reports to a structured format
- XBRL is flexible and the taxonomy can be extended to reflect the entity's presentation



# Current considerations: ESMA extension taxonomy

- **Only small scope regulatory technical extension taxonomy**
  - Simplification of structure by limiting the number of files
  - Inclusion of guidance concepts to help in navigation of taxonomy content and to identify concepts of a specific meaning or use
  - add label linkbases for all official EU languages

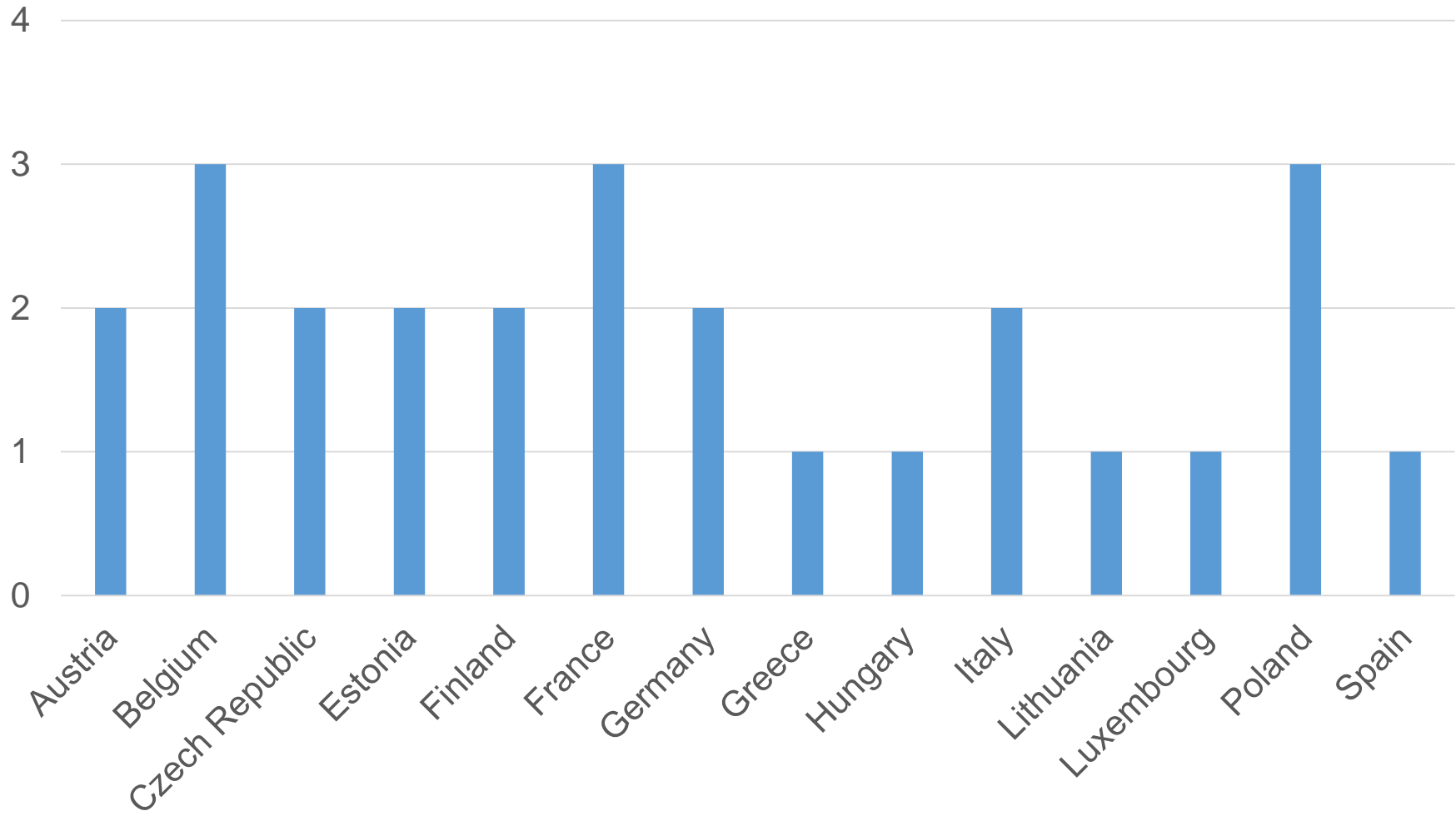


## Field test

- **Purpose: to apply the draft rules on real life examples to determine whether the rules have to be amended**
- **Design of field test:**
  - ESMA called for volunteer issuers and software companies to participate in the field test
  - the annual financial reports of issuers were transformed to Inline XBRL applying the draft rules
    - Issuers received basic instructions in webinar
    - Issuers mapped their IFRS consolidated financial statements to IFRS Taxonomy
    - Issuers were assisted in 1.5 days on-site workshops in Paris with tagging
  - We intend to publish the final tagged reports
  - The lessons learned from the field test were incorporated in the final rules



# Issuers per country participating in the field test





## Next steps

- **ESMA Work in 2017**

- Draft rules are finalised by ESMA staff

- Approval by Corporate Reporting Standing Committee and subsequently ESMA's Board of Supervisors

- **Procedure for RTS**

- After RTS is submitted to the EC, the EC has to decide on endorsement and the European Council and European Parliament can object to the adoption.

- Afterwards publication as a Commission Delegated Regulation → directly applicable in Member States without transposition



## Disclaimer

**Please note that the content of this presentation are merely based on current staff considerations and not formally approved by ESMA's Chairman and/or ESMA's Board of Supervisors**