

February 16, 2016

Steven Maijoor
Chair
European Securities and Markets Authority
103 rue de Grenelle
75345 Paris Cedex 07
France

Re: *Comment Letter: Consultation Paper on the Regulatory Technical Standards on the European Single Electronic Format (ESEF)*

Dear Mr. Maijoor,

CFA Institute,¹ in consultation with its Corporate Disclosure Policy Council (“CDPC”)², appreciates the opportunity to comment on the European Securities and Markets Authority’s (“ESMA”) *Consultation Paper (“Consultation Paper”) on the Regulatory Technical Standards on the European Single Electronic Format (ESEF)*.

CFA Institute is comprised of more than 130,000 investment professional members, including portfolio managers, investment analysts, and advisors, worldwide. CFA Institute seeks to promote fair and transparent global capital markets and to advocate for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures provided to investors and other end users is of high quality.

¹ With offices in Charlottesville, New York, Hong Kong, London, Mumbai and Beijing CFA Institute is a global, not-for-profit professional association of more than 133,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 151 countries, of whom more than 125,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 145 member societies in 70 countries and territories.

² The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

TECHNOLOGY TO IMPROVE DEMOCRATIZATION OF INFORMATION

Our Historical Efforts

CFA Institute has long-supported technology to improve the democratization of information to investors. Prior to the implementation of EDGAR in the mid-1990s, financial reports of U.S. public companies were not available without a written request to the issuer to mail a copy. CFA Institute supported the EDGAR initiative because we believed it would – as it has – help democratize the availability of financial information. In our 1993 publication, *Financial Reporting in the 1990s and Beyond*, we noted:

We look forward to the imminent availability of the SEC's new method of making company filings available.....it promises to be a vast improvement over the present system.It will also dispense information faster than currently by placing a document in the data base when it is received.....Eventually, it may make even the most recalcitrant analyst into a data base user.

Over the last decade we have provided similar support to the development of XBRL (eXtensible Business Reporting Language) – including development of publications such as, [*eXtensible Business Reporting Language: A Guide for Investors*](#). Implementation of data tagging using XBRL was seen as an extension of the financial reporting process by allowing data capture at the end of the process, which makes data more flexible and interactive. XBRL provides a standardized, interactive, computer-based framework for financial reporting and financial statement generation. In the past decade, this reporting framework has proven to be a promising technological advance for not just companies, but it also provides key benefits in the form of increased efficiency, transparency, and comparability in the delivery of financial information to all parties in the information supply chain, such as investors and regulators, regardless of their varying needs. In other words it allows for the democratization of information.

In the same vein, we support ESMA's efforts to establish the ESEF as we believe it will improve democratization of information. We believe technology should be effectively leveraged to provide the information investors need for their investment decision.

Our Views on Technology in the Future

Beginning on page 25 of our 2013 report, [*Financial Reporting Disclosures: Investor Perspectives on Transparency, Trust & Volume*](#), (the Disclosure Report) we highlight that technology must be an integral element of the discussion on disclosure reform. As we note in the excerpt from that report below, we see the future as needing a discussion of how technology can be utilized not only at the end of the financial reporting process but at the commencement of data capture to ensure greater structuring and timeliness.

*Investors believe the conversation about disclosures specifically and financial reporting more broadly needs to consider the vast changes in technology that have occurred in the past 10–20 years. The conversation needs to consider how technology can be effectively leveraged to provide the information investors need for investment decision making in a globally connected, data-driven economy. Investors do not seek a reduction in data or volume of disclosures as they have the ability to utilize technology to evaluate the data. Identifying ways to effectively capture, manage, analyze, present, and deliver financial data is the reform investors see as necessary. **How technology can be harnessed to reform the financial reporting process end to end—not simply in the filing of documents with regulators as in the case of EDGAR and XBRL—is where investors believe the dialogue on disclosure reform should be focused.***

CHOICE OF TECHNOLOGY: SUPPORT iXBRL

CFA Institute believes that a single XBRL filing should be the mandatory format for reporting. Dual filing in both PDF (portable document format) and structured formats does not fully bring about the efficiencies afforded by XBRL and could lead to added cost and complexity for the preparer community. When filers follow a two tier process whereby they prepare their interactive data as an additional step after their financial statements have been prepared to fulfill their regulatory filing needs, XBRL doesn't produce its intended results (i.e. increasing the speed and frequency with which financial information is prepared, reported, analyzed and used). Nor does it result in cost reductions.

Dual filing is also not helpful to investors. It may lead to errors and inconsistencies between the PDF report and XBRL filing and cause confusion over which is the official version. Furthermore, if the full Annual Financial Report (AFR) is only available in PDF then that is the version investors are likely to use in their financial analysis – because of their comfort with it – instead of using both sources of information rendering the XBRL filing of only the financial statements less useful. This has been the case in the United States where the Securities and Exchange Commission (SEC) currently follows a dual format approach.

We believe the solution to this issue is the implementation of iXBRL (in-line eXtensible Business Reporting Language) as it provides a means of viewing the XBRL filing itself in a human-readable, understandable and familiar format. iXBRL allows for the inclusion of XBRL tags within ordinary, human-readable XHTML documents. This avoids the need for a separate means of converting XBRL data into human-readable form.

A human-readable version of an XBRL report is useful to both filers and users in ensuring the filing is accurate, consistent and complete. It also renders a separate PDF filing unnecessary. Issuers in the European Union (EU) currently use iXBRL for reporting to tax authorities and other official bodies. iXBRL is also in use in other countries such as the UK and Japan. We maintain that for regulatory purposes iXBRL is the most suitable format for mandatory use. Of course, this does not prevent companies from providing supplementary PDF versions of AFRs, for example, on their websites.

APPLICATION OF TECHNOLOGY: OUR VIEWS ON THE INFORMATION WHICH SHOULD BE STRUCTURED

Having Only Basic Financial Statements in Structured Format Is Insufficient

We do not believe that the ESMA consultation goes far enough in its proposal that the full AFR be required in PDF with only the basic financial statements in structured format. Simply tagging the values on the face of the financial statements values is insufficient. Therefore, we suggest there be a requirement to separately tag the values in the notes to the financial statements as this information is extremely valuable to investors.

Further, we suggest text block tagging be required for the management commentary, each note to the financial statements, and each significant accounting policy. The XBRL user can then perform text analysis using the text block tagged information rather than having to resort to the PDF, thereby increasing ways to use unstructured data.

Apply to All Aspects of Reporting

Structured reporting is most effective when it is applied to all aspects of reporting. Not only do we believe that structured reporting should apply to all parts of the annual report but also to interim reports as investors make investment decisions at more than just year-end. Not applying the technology to interim reports brings much less added benefits to investors. Investors need a repeatable process whereby they can compare the interim and annual information in the same format (i.e. structured data).

In the same vein, we believe that companies that report under IFRS for their individual financial statements should incorporate structured data at the same time as they introduce the electronic format for their consolidated financial statements.

Over time we believe taxonomies could be developed for the audit report, management commentary, integrated reporting etc. Indeed such developments have been taking place around the world:

- [Enhanced Business Reporting Consortium \(EBRC\) Management Discussion & Analysis \(MD&A\) Taxonomy](#)
- [XBRL US Auditor Taxonomy \(see US Financial Reporting – Accountants Report \(USFR-AR\)\)](#)
- [Deloitte Netherlands Annual Report in XBRL including the auditor report](#)

Do Not Support Phased Approach

Comparability of information from firm-to-firm is essential to the investment decision-making process. For that reason, CFA Institute opposes different reporting and formats of reporting based on size, ownership (public, private, not-for-profit), or industry.

We, therefore, do not agree with the proposed phased approach in terms of timing in the application of XBRL filings. Extending transition periods is not useful for investors. Listed small and medium sized entities (SMEs) reporting under IFRS should provide their consolidated or individual financial statements at the same time as other listed entities. Not having SMEs filing in XBRL prevents automated analysis of these companies by investors who invest across companies big and small. The availability of financial information in a standardized format also benefits SMEs looking for greater investment in their companies.

Further, it is already known that listed SMEs are capable of deploying XBRL effectively. In the UK, for instance, all companies were included in mandatory filing in iXBRL since its inception. SMEs should balance the cost of tagging versus the cost of capital. XBRL filings make the financial information of SMEs more accessible to investors and lead to a reduction in the cost of capital

TAXONOMY

CFA Institute agrees with ESMA's proposal to use the IFRS taxonomy as issued by the IFRS Foundation for reporting under International Financial Reporting Standards (IFRS). We believe, however, that there are four considerations to be mindful of:

- 1) *European Extension of IFRS Taxonomy* – We are supportive of the IFRS taxonomy being extended for use in the European Union. We believe further development of a European Union taxonomy is necessary as IFRS taxonomy provides only basic content and needs to be adapted for use through an extension taxonomy. A European Union extension taxonomy is essential because without it preparers would be unable to report a large range of data in XBRL.
- 2) *Company Extension of European Extension Taxonomy* – We also believe that company specific extensions should be allowed for information for which there is no applicable tag in the taxonomy. Individual company extensions should, however, be limited to those rare situations in which an item unique to that firm exists and the information about it does not fit into any of the concepts within the standard IFRS taxonomy or the European extension. We believe reporting companies should look first for the appropriate tag within the existing taxonomy before turning to a custom extension. If such a tag does not exist, we believe an extension should be allowed but within a well-defined framework so that no extension corrupts other financial statement relationships. Simply put, the automated relationships required by the computer remain. When a custom tag is inserted, the relationships remain intact and the numbers continue to sum up correctly.
- 3) *European Core Taxonomy* – Further, we believe ESMA should conduct a study on the costs and benefits of the development of an EU core taxonomy that conforms to the Accounting Directive and is based on the IFRS taxonomy.

The development of a European core taxonomy may help countries to develop their own taxonomy but the study would need to assess the impact on countries that already have their own taxonomy for national generally accepted accounting standards (GAAP) in terms of added cost or complexity. Another issue that will need to be assessed is whether or not the development of such a core taxonomy would provide sufficiently comparable information from countries that follow disparate GAAP given that the Accounting Directive only sets out general principles and high-level reporting requirements. We recommend ESMA undertake a detailed study to assess such matters.

- 4) *Investing is Global* – An overriding consideration to the above, from an investor perspective, is that investing is global and that global investing requires globally comparable information. With that in mind, we must consider that the taxonomy cannot

be so uniquely European that it does not facilitate comparability of investment decisions globally.

OTHER CONSIDERATIONS

Audit

As users place greater emphasis on electronic information and the use of electronic structured data grows, we believe the requirements with respect to the reliability of such information will also increase. Discussions surrounding the audit of electronic information have taken place in several jurisdictions where electronic structured data such as XBRL is being used for financial reporting including: India, Japan, Netherlands, South Africa, United Kingdom and the United States.

Accordingly, such discussions should also take place in Europe and we encourage ESMA to engage market participants on the topic. As the use of electronic data grows, we expect that the audit of electronic financial information will become the norm and be expected by users.

Further, we believe audit processes themselves may be transformed through the use of data and technology for the benefit of investors. Electronic structured data could significantly help audit processes that currently require significant manual efforts to acquire, validate and analyze information. Greater use of audit data analytics could have a large impact on the audit process by using analytics to, for example, identify patterns and anomalies, identify risks of material misstatements, analyze in some cases 100% of the population versus the current sampling techniques used etc. An evolution of the audit in this direction moving perhaps towards continuous auditing, we believe, could provide users with better quality and greater granularity of financial information with greater reporting frequency and perhaps a higher level of assurance. We also believe that this evolution could make a compelling case for the fact that data structuring can, and should occur, at the capture phase – not simply the reporting phase – of the accounting process.

Need to Discuss Security & Authenticity

We believe that the ESMA should add language that:

- 1) *Clarifies a Misconception Regarding Security of Data* – We understand some may have a misconception with respect to the source of the information being a security issue for submitting companies and their database(s) of financial reporting information. Language which clarifies the lack of connection of the XBRL information to company databases should be added to correct these misperceptions.
- 2) *Articulates How the Authenticity of Information is Confirmed* – We understand some have concerns with respect to the authenticity of XBRL information. Language which clarifies that individual company filings are available through the ESEF and that they would be authenticated through the requirement of a mandatory electronic signature would be helpful in mitigating this concern. Electronic signatures are mandatory in countries such as Sweden, the Netherlands, and France and we believe would be a useful consideration for 2020.

ESEF Will Lead to Repository of Individual Filings Not a Database

We understand that the ESEF will lead to a repository of individual company filings and not a database of information such as those provided by data aggregators that can be extensively queried. Again, we believe that some clarifying language in the Consultation Paper would be useful to inform constituents that while company filings would reside with the different Member States, the ESEF would provide a single access portal to company filings of all Member States.

Thank you again for the opportunity to comment on the Consultation Paper. If you or your staff have questions or seek further elaboration of our views, please contact either Mohini Singh, ACA, by phone at +1.434.951.4882, or by e-mail at mohini.singh@cfainstitute.org or Sandra J. Peters, CPA, CFA by phone at +1.212.754.8350 or by email at sandra.peters@cfainstitute.org.

Sincerely,

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