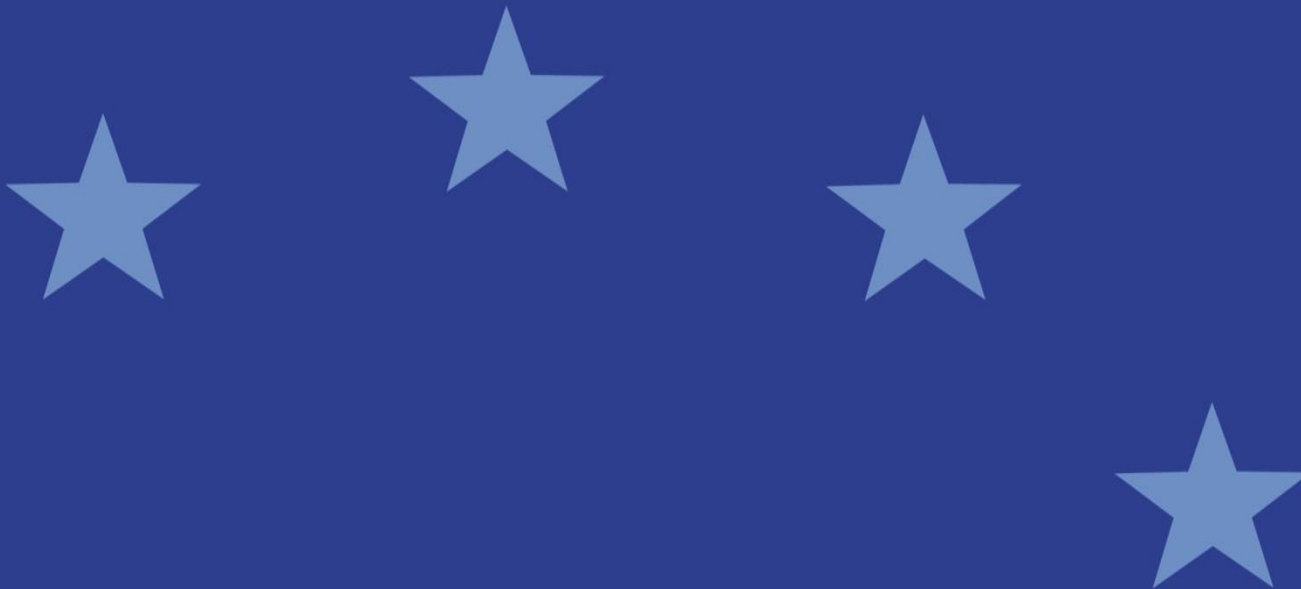# European Single Electronic Format (ESEF)
ESMA Meet-the-Market Workshop – 6 June 2017

Michael Komarek

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.

- **Recital 26 of the amended Transparency Directive sets out the policy objectives:**

> *"A harmonised electronic format for reporting would be very beneficial for issuers, investors and competent authorities, since it would **make reporting easier** and **facilitate accessibility, analysis and comparability of annual financial reports**…*

> *ESMA should develop draft technical regulatory standards, for adoption by the Commission, to specify the electronic reporting format, with due reference to current and future technological options, **such as eXtensible Business Reporting Language (XBRL)"***
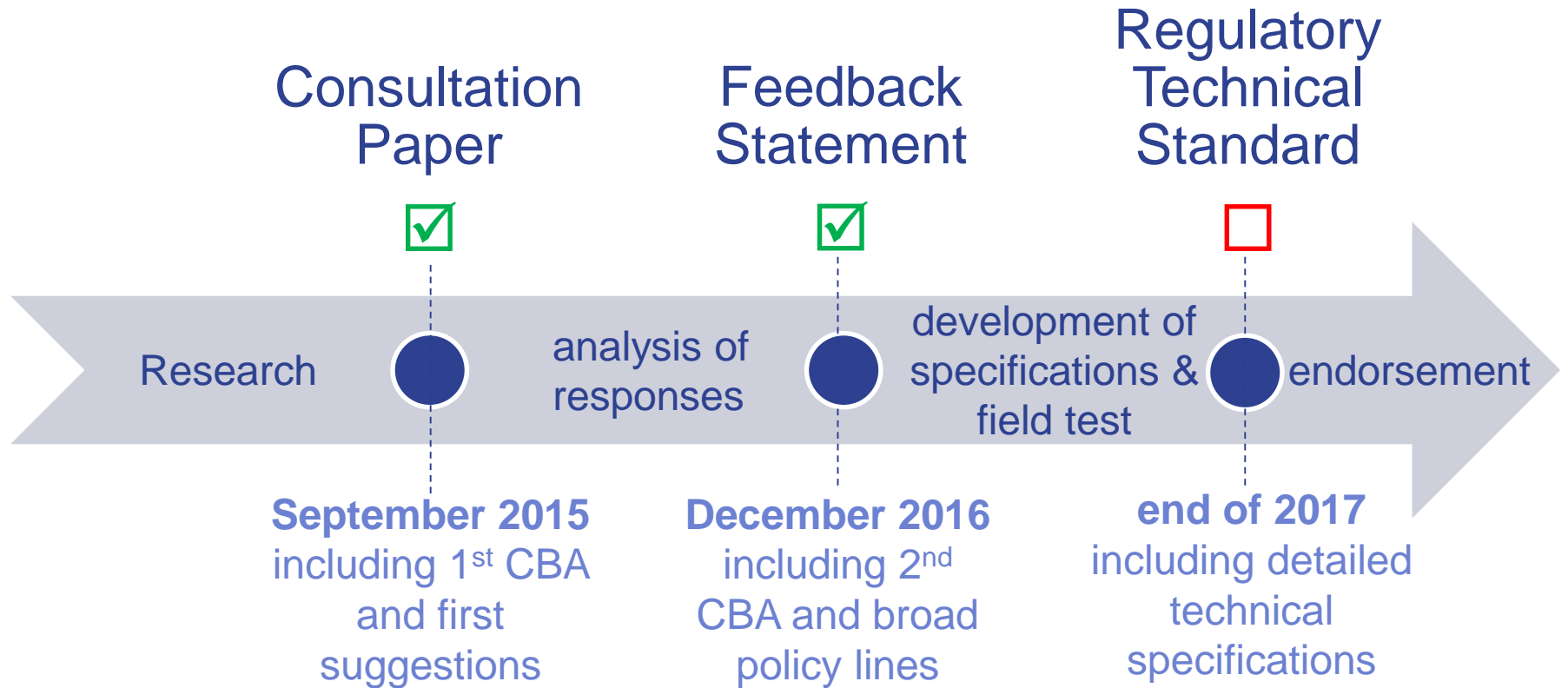
Background

- **Content of 'annual financial report':**

  – Individual financial statements of the issuer (according to either IFRS or National GAAP)

  – Consolidated financial statements according to IFRS (if the issuer has to prepare group financial statements)

  – management report (which may include corporate governance and other reports)

  – other statements made by the issuer

- **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

ESMA Consultation

Consultation Paper ✅

Feedback Statement ✅

Regulatory Technical Standard ☐

Research

analysis of responses

development of specifications & field test

endorsement

September 2015 including 1st CBA and first suggestions

December 2016 including 2nd CBA and broad policy lines

end of 2017 including detailed technical specifications

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

CONSOLIDATED BALANCE SHEETS
November 30, 2016 and 2015

	2016 (1)	2015 (1)
	(Dollars in thousands, except shares and per share amounts)	

Lennar Homebuilding:

Cash and cash equivalents	$	1,050,138	893,408
Restricte		5,977	13,505
Receival		106,976	74,538
Inventor			
Fini		3,951,716	3,957,167
Lan		5,106,191	4,724,578
Con		121,019	58,851
		9,178,926	8,740,596
Investm		811,723	741,551
Other as		651,028	609,222
		11,804,768	11,072,820
Rialto		1,276,210	1,505,500
Lennar Financial Services		1,754,672	1,425,837
Lennar Multifamily		526,131	415,352
Total assets	$	15,361,781	14,419,509

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:LennarHomebuildingEastCentralWestHoustonandOtherMember
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)

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:

Name of reporting entity or other means of identification	string	IAS 1 51 a
Explanation of change in name of reporting entity or other means of identification from end of preceding reporting period	string	IAS 1 51 a
Domicile of entity	string	IAS 1 138 a
Legal form of entity	string	IAS 1 138 a
Country of incorporation	string	IAS 1 138 a
Address of entity's registered office	string	IAS 1 138 a
Principal place of business	string	IAS 1 138 a
Description of nature of entity's operations and principal activities	string	IAS 1 138 b
Name of parent entity	string	IAS 1 138 c, IAS 24 13
Name of ultimate parent of group	string	IAS 24 13, IAS 1 138 c
Length of life of limited life entity	string	IAS 1 138 d
Statement of IFRS compliance [text block]	text block	IAS 1 16
Explanation of departure from IFRS	string	IAS 1 20 c, IAS 1 20 b
Explanation of financial effect of departure from IFRS	string	IAS 1 20 d
Disclosure of uncertainties of entity's ability to continue as going concern [text block]	text block	IAS 1 25
Explanation of fact and basis for preparation of financial statements when not going concern basis	string	IAS 1 25
Explanation of why entity not regarded as going concern	string	IAS 1 25
Description of reason for using longer or shorter reporting period	string	IAS 1 36 a
Description of fact that amounts presented in financial statements are not entirely comparable	string	IAS 1 36 b
Disclosure of reclassifications or changes in presentation [text block]	text block	IAS 1 41
Explanation of sources of estimation uncertainty with significant risk of causing material adjustment	string	IFRIC 14 10, IAS 1 125
Disclosure of assets and liabilities with significant risk of material adjustment [text block]	text block	IAS 1 125
Dividends recognised as distributions to owners per share	X, duration	IAS 1 107

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	IAS 1 117 b

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 Liabilities The 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: 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 implementing this anchoring mechanism for ESEF
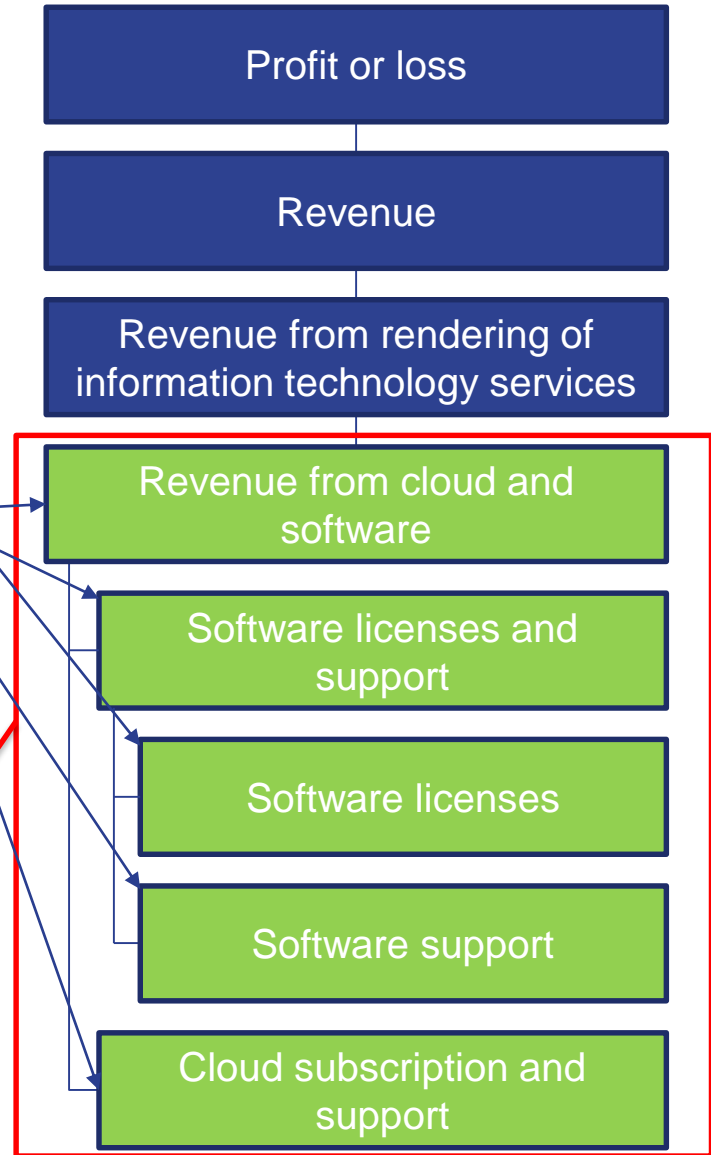
Current considerations: use of extensions

Example: European software company

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
Cloud and software	**18,424**
Services	**3,638**
Total revenue	**22,062**

Elements contained in IFRS Taxonomy

Extension elements

to be anchored in base taxonomy using 'essence-alias' and 'general-special' relationships

Profit or loss

Revenue

Revenue from rendering of information technology services

Revenue from cloud and software

Software licenses and support

Software licenses

Software support

Cloud subscription and support

Current considerations: ESMA taxonomy

- **Only small scope regulatory technical extension taxonomy to IFRS 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

Next steps

- **ESMA Work in 2017**

  – Finalisation of:

    - detailed filing rules (including rules regarding extensions and tagging) and

    - regulatory extension taxonomy

- **Field testing**

  – Before submission of the RTS to the European Commission (EC), ESMA has to field test the ESEF

- **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 and the public working drafts made available before the workshop are merely based on current staff considerations and not formally approved by ESMA's Chairman and/or ESMA's Board of Supervisors