

superunion

ESEF ON A PAGE...

WHAT DOES IT STAND FOR?

European Single Electronic Reporting Format

WHAT IS IT?

EU regulation that requires electronic 'tagging' of financial statements, and changes the regulatory filing format of annual reports to xHTML from 2020

EFFECTIVE FROM

Financial years beginning on or after 1 January 2020

JARGON BUSTER

Tagging – labelling numbers within financial statements with additional information (such as year, definition)

XBRL – machine readable language

Block tagging – tagging an entire note of the financial statements to identify it as, for example, the accounting policies note

xHTML – a web page with embedded machine readable tags

Taxonomy – it's an accounting thing! But basically the taxonomy is the bible of accounting terms and defines certain numbers in financial statements, e.g. cost of sales

DTR - Disclosure and Transparency Rules

What do the regulations mean?

In 2013 the EU called for the European securities regulator, ESMA, to come up with suggestions as to a future 'harmonised electronic format for (annual) reporting'.

Following on from a consultation and some field testing, ESMA issued a final Regulatory Technical Standard (RTS) setting out the new European Single Electronic Format (ESEF). This RTS is mandatory from 1 January 2020, and has been brought into UK regulation by the FCA through DTR 4.1.14.

The requirement applies to all 'issuers on EU regulated markets', so in the UK all FTSE listed companies, but not companies on AIM.

There are two parts to the requirements:

1. Tagging of financial information within a company's annual report using XBRL – initially this is limited to the primary financial statements for the first two years and then extended as 'block tagging' for the notes.
2. Preparation of the regulatory version of the full annual report in xHTML.

What does this mean practically for reporting?

These requirements mean that companies will need to engage a specialist software provider to assist with the tagging and production of the xHTML filing document.

The requirement for a print document hasn't gone away, and the current expectation is that a PDF Annual Report will remain as investors' preferred report format – so this means three reporting outputs: print, PDF and xHTML.

The xHTML document will have to be filed with the FCA's new National Storage Mechanism, which replaced Morningstar from early April 2020.

What do we think about the changes?

Superunion has extensive knowledge of the ESEF requirements, as well as in-depth XBRL experience as a result of helping our US listed clients implement tagging requirements in previous years.

There are still many things to be worked through. Some organisations have taken steps to move more of their narrative and storytelling online. Whilst we agree that this can be a good thing for audiences, we strongly believe that the full annual report should not lose its focus on being an easily understandable and communicative document of record.

Structure, content, and design presentation, play very important roles in helping to deliver those principles of communication. We will work with our clients to meet both the regulatory framework as well as the needs of audiences – with the least amount of disruption and cost to existing processes.

Next steps

Superunion is currently engaging with regulators and software providers to find manageable solutions for our clients. Our aim is to ensure that the regulation is implemented with reporting audiences in mind, and does not cause an unnecessary burden to clients.

We have a comprehensive understanding of the various options available to companies, and close relationships with many of the software providers. We understand the complexities that tagging can bring - formed from detailed research and tagging experience with our US-listed clients.

We will be producing an easy to understand ESEF navigation document, that sets out the various options for compliance for UK-listed companies, and those dual listed in the UK and US, as well as providing guidance on the most efficient approach.

Keeping in touch

We will be providing an update on our views as and when the situation becomes clearer. If you'd like to be kept informed then please contact:

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