



Brussels, 17.12.2018
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COMMISSION DELEGATED REGULATION (EU) No .../..

of 17.12.2018

**supplementing Directive 2004/109/EC of the European Parliament and of the Council
with regard to regulatory technical standards on the specification of a single electronic
reporting format**

(Text with EEA relevance)

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE DELEGATED ACT

Directive 2013/50/EU amending the Transparency Directive (2004/109/EC) calls all annual financial reports to be prepared in a single electronic reporting format from 1 January 2020.

The European Securities and Markets Authority (ESMA) is mandated by the Transparency Directive to develop draft Regulatory Technical Standards (RTS) to specify this electronic reporting format. The accompanying text sets out ESMA's draft RTS on the specification of a European Single Electronic Format (ESEF).

The format proposed by ESMA makes use of the eXtensible HyperText Markup Language (XHTML) for the human readable representation of annual financial reports. XHTML is non-proprietary and freely usable, and can be opened without specialised software. In order to facilitate the accessibility, analysis and comparability of the consolidated financial statements prepared under the International Financial Reporting Standards (IFRS), ESMA proposes to introduce eXtensible Business Reporting Language (XBRL) markups, which will make items disclosed therein machine-readable. This allows for instance the analysis of large amounts of financial information without extensive and burdensome manual processing, and can enable users to compare numeric information in the financial statements across issuers. This will facilitate the automation process of data collection for producing financial reports. Hurdles due to the language in which financial statements are prepared are significantly mitigated. In addition to that, the machine-readable XBRL information can be easily transformed to other formats such as SQL or Excel thus avoiding onerous manual re-keying.

XBRL is well-established and in use in a number of jurisdictions and is currently the only appropriate markup language to mark up financial statements. The XBRL markups should be embedded in XHTML using the Inline XBRL specifications.

Power is delegated to the Commission to adopt the regulatory technical standards in accordance with Article 10 to 14 of Regulation (EU) no 1095/2010 (the Regulation establishing ESMA).

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

A public consultation was carried out by ESMA on the draft Regulatory Technical Standards (RTS)¹. ESMA's Consultation Paper on 'Draft Regulatory Technical Standards on the European Single Electronic Format (ESEF)' was published on 25 September 2015 and the consultation period closed on 18 January 2016. ESMA received 161 responses, from accounting bodies and auditors, preparers, regulators, Officially Appointed Mechanisms (OAMs), statistical offices, service providers, users and representative bodies of these groups. Slightly more than half of the responses (88) were based on a common template, contained the same exact wording and did not specifically answer the questions in the Consultation Paper.

The consultation paper included 19 questions on the draft RTS. The Feedback Statement published by ESMA on 21 December 2016 includes, for each question, a summary of the main comments received as well as ESMA's answers.

In addition, ESMA requested the opinion of the Securities and Markets Stakeholder Group (MSG) established in accordance with Article 37 of the Regulation (EU) No 1095/2010

¹ Details available on ESMA's web site – www.esma.europa.eu

establishing ESMA. ESMA staff made an oral presentation to the SMSG during the meeting held on 22 September 2015. The Feedback Statement includes advice from the SMSG and ESMA's response to it.

ESMA carried out two cost-benefit analyses (CBA). The first CBA (2015 CBA) was published together with the Consultation Paper. The 2015 CBA was based on a survey directed to European issuers. However, this survey received a low response rate and its results seemed at odds with the available information from other sources. As a result, ESMA decided to carry out an additional CBA (2016 CBA) aiming for more realistic estimates of the actual costs issuers would incur when implementing the RTS on ESEF. The 2016 CBA included a survey specifically targeting companies which had already prepared financial statements using XBRL or Inline XBRL, as these were better placed to provide cost estimates than issuers not familiar with such technology. In parallel, a survey was undertaken on intermediaries providing services or software products and a reference model was developed to estimate the effort necessary for an issuer to prepare its consolidated financial statements using Inline XBRL. According to the 2016 CBA, the costs implied by this RTS on Officially Appointed Mechanisms and ESMA altogether would amount to around EUR 41.7 million at the start-up stage, whereas recurring costs would be in the region of EUR 3.4 million per year. Costs implied for the issuers as a whole are estimated to be between EUR 43.5 million and EUR 68.9 million for the first year of filing. Subsequent recurring costs would be in the region of EUR 12.7 million to EUR 24.4 million annually.

3. LEGAL ELEMENTS OF THE DELEGATED ACT

This delegated act is based on Article 4(7) of the Transparency Directive.

This delegated act contains the following provisions:

- the obligation for issuers to prepare annual financial reports in XHTML format;
- the obligation for issuers filing IFRS consolidated financial statements to mark them up, using the XBRL markup language, in accordance with the taxonomy and specifications developed in the Annexes;
- the extent to which the content of annual financial reports shall be marked up with XBRL, which is proportionate to the expected costs and benefits to the relevant stakeholders and gradual over time (2020 for detailed tagging of the Primary Financial Statements, and 2022 for block tagging of the Notes);
- provisions related to the marking up of parts of an issuer's annual financial reports other than consolidated financial statements, which is allowed if the Member State of incorporation of such issuer provides a taxonomy for such purpose;
- provisions forbidding the marking up of annual financial reports by issuers incorporated in third countries using third country GAAP;
- the taxonomy to be used is specified in the Annexes. It builds on the IFRS Taxonomy developed by the IFRS Foundation.

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THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC², and in particular Article 4(7) thereof,

Whereas:

- (1) Directive 2004/109/EC requires issuers whose securities are admitted to trading on a regulated market to make public their annual financial reports.
- (2) Issuers should prepare their entire annual financial reports in the Extensible Hypertext Markup Language (XHTML) format. XHTML does not require specific mechanisms to be rendered in a human-readable format. As a non-proprietary electronic reporting format, XHTML is freely usable.
- (3) Regulation (EC) No 1606/2002 of the European Parliament and of the Council³ requires companies governed by the law of a Member State whose securities are admitted to trading on a regulated market in any Member State to prepare their consolidated financial statements in accordance with International Accounting Standards, which are commonly referred to as International Financial Reporting Standards ('IFRS'), adopted pursuant to Regulation (EC) No 1606/2002. Commission Decision 2008/961/EC⁴ provides that a third country issuer listed in the Union may also prepare its consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board ('IASB').
- (4) The adoption and use of IFRS aims to ensure a high level of transparency and comparability of financial statements. In order to further facilitate their accessibility, analysis and comparability, consolidated financial statements in annual financial

² OJ L 390, 31.12.2004, p. 38.

³ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.9.2002, p. 1).

⁴ Commission Decision of 12 December 2008 on the use by third countries' issuers of securities of certain third country's national accounting standards and International Financial Reporting Standards to prepare their consolidated financial statements (OJ L 340, 19.12.2008, p. 112).

reports prepared either in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 or with IFRS as issued by the IASB (both are in the following referred to as IFRS consolidated financial statements) should be marked up using eXtensible Business Reporting Language (XBRL). XBRL is machine-readable and allows for the automated consumption of large amount of information. XBRL is well-established and in use in a number of jurisdictions and is currently the only appropriate markup language to mark up financial statements.

- (5) A cost-benefit analysis performed by the European Securities and Markets Authority (ESMA) supported the use of Inline XBRL for embedding XBRL markups in XHTML documents. Accordingly, Inline XBRL technology should be used.
- (6) The use of XBRL markup language involves the application of a taxonomy to convert human-readable text to machine-readable information. The IFRS Taxonomy made available by the IFRS Foundation is a well-established taxonomy developed to mark up IFRS disclosures. The use of the IFRS Taxonomy facilitates comparability of markups of financial statements drawn up in accordance with IFRS on a global level. Accordingly, the core taxonomy to be used for the single electronic reporting format should be based on the IFRS Taxonomy and be an extension of it.
- (7) In order to take into account any future adoption of IFRS pursuant to Regulation (EC) No 1606/2002, changes to the XBRL specifications or other technical developments, or to extend the statutory requirements to mark up information in the annual financial report, the provisions of this Regulation should be updated periodically on the basis of draft regulatory technical standards prepared by ESMA.
- (8) The taxonomy for the use of XBRL markup language is accessed in the form of a set of electronic XBRL files ('XBRL taxonomy files'), which provide a structured representation of the elements that substantively constitute the core taxonomy. The hierarchy of elements and their appropriate data type should be made available to issuers in a simple human-readable form in this Regulation. In order to facilitate the accessibility, analysis and comparability of annual financial reports in practice, it is of high importance that issuers use XBRL taxonomy files that are compliant with all relevant technical and legal requirements. To facilitate the achievement of this objective, ESMA should publish the XBRL taxonomy files on its website in a machine-readable and freely downloadable format.
- (9) For reasons of transparency, accessibility, analysis and comparability, where the laws of Member States permit or require the marking up of any parts of annual financial reports other than the IFRS consolidated financial statements therein, issuers should, when marking up those parts, use the XBRL markup language and the suitable taxonomy provided for such purpose by the Member State in which they are incorporated.
- (10) For reasons of transparency, accessibility, analysis and comparability, issuers should be free to mark up disclosures in their IFRS consolidated financial statements in as much detail as may be technically possible. For the same reasons, compulsory standards for the minimum granularity of markups should also be laid down. With regard to the primary financial statements in IFRS consolidated financial statements, a standard of detailed tagging should apply whereby those primary financial statements are fully marked up. With regard to the notes to IFRS consolidated financial statements, a standard of block tagging should apply where whole sections of those notes are each to be marked up using single taxonomy elements. The requirement for

block tagging, however, should not limit the discretion of issuers to mark up notes to IFRS consolidated financial statements with a higher level of granularity.

- (11) In order to facilitate the effective implementation of a single electronic reporting format, detailed provisions on the use of Inline XBRL technology should be set out. To assist issuers and software firms in developing software for the preparation of annual financial reports in compliance with the statutory requirements under this Regulation, ESMA should provide guidance on common issues encountered when generating Inline XBRL instance documents.
- (12) As provided for in Article 4(7) of Directive 2004/109/EC, this Regulation should apply to annual financial reports containing financial statements for financial years beginning on or after 1 January 2020. In order to facilitate the smooth implementation of financial reporting in a machine-readable format, and in particular to allow issuers reasonable time to adapt to the use of XBRL technology, the mandatory marking up of notes to financial statements should apply only in respect of annual financial statements for financial years beginning on or after 1 January 2022.
- (13) This Regulation is based on the draft regulatory technical standards submitted by ESMA to the Commission.
- (14) In developing the draft regulatory technical standards on which this Regulation is based, ESMA cooperated regularly and closely with the European Banking Authority and the European Insurance and Occupational Pensions Authority, in order to take into account the specific characteristics of the banking, financial intermediary and insurance sectors, so as to ensure cross-sectoral consistency of work and the reaching of joint positions.
- (15) ESMA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits, requested the opinion of the Securities and Markets Stakeholder Group established by Article 37 of Regulation (EU) No 1095/2010 of the European Parliament and of the Council⁵ and carried out field tests,

HAS ADOPTED THIS REGULATION:

Article 1
Subject matter

This Regulation specifies the single electronic reporting format, as referred to in Article 4(7) of Directive 2004/109/EC, to be used for the preparation of annual financial reports by issuers.

Article 2
Definitions

For the purposes of this Regulation, the following definitions shall apply:

⁵ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC (OJ L 331, 15.12.2010, p. 84).

- (1) ‘core taxonomy’ means the combined set of the taxonomy elements set out in Annex VI and the following collection of links:
 - (a) presentation linkbase, which groups the taxonomy elements;
 - (b) calculation linkbase, which expresses arithmetic relationships between taxonomy elements;
 - (c) label linkbase, which describes the meaning of each taxonomy element;
 - (d) definition linkbase, which reflects dimensional relationships of the core taxonomy elements;
- (2) ‘extension taxonomy’ means the combined set of taxonomy elements and the following collection of links, both created by the issuer:
 - (a) presentation linkbase, which groups the taxonomy elements;
 - (b) calculation linkbase, which expresses arithmetic relationships between taxonomy elements;
 - (c) label linkbase, which describes the meaning of each taxonomy element;
 - (d) definition linkbase, which ensures dimensional validity of the resulting XBRL instance document against the extension taxonomy;
- (3) ‘IFRS consolidated financial statements’ means consolidated financial statements prepared in accordance with either IFRS adopted pursuant to Regulation (EC) No 1606/2002 or with IFRS as referred to in point (a) of the first subparagraph of Article 1 of Decision 2008/961/EC.

Article 3

Single electronic reporting format

Issuers shall prepare their entire annual financial reports in XHTML format.

Article 4

Marking up IFRS consolidated financial statements

1. Where annual financial reports include IFRS consolidated financial statements, issuers shall mark up those consolidated financial statements.
2. Issuers shall, as a minimum, mark up the disclosures specified in Annex II where those disclosures are present in those IFRS consolidated financial statements.
3. Issuers may mark up disclosures presented in IFRS consolidated financial statements other than those set out in paragraph 2.
4. For markups set out in paragraphs 1, 2 and 3, issuers shall use the XBRL markup language and shall use a taxonomy in which the elements shall be those set out in the core taxonomy. Where, in accordance with point 4 of Annex IV, it is not appropriate to use elements in the core taxonomy, issuers shall create extension taxonomy elements as provided for in Annex IV.

Article 5

Marking up other parts of the annual financial reports

1. Issuers incorporated in Member States may mark up all parts of their annual financial reports other than those set out in Article 4 if they use the XBRL markup language

and a taxonomy specific to those parts and that taxonomy is provided by the Member State in which they are incorporated.

2. Issuers incorporated in third countries shall not mark up any parts of their annual financial reports other than IFRS consolidated financial statements.

Article 6

Common rules on markups

For markups made in accordance with Articles 4 and 5, issuers shall comply with the following:

- (a) embedding of markups in the issuers' annual financial reports in XHTML format using the Inline XBRL specifications set out in Annex III;
- (b) requirements on marking up and filing rules set out in Annex IV.

Article 7

XBRL taxonomy files

ESMA may publish machine-readable and downloadable XBRL taxonomy files based on the core taxonomy. Those files shall comply with the criteria set out in Annex V.

Article 8

Entry into force and application

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

It shall apply to annual financial reports containing financial statements for financial years beginning on or after 1 January 2020.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 17.12.2018

For the Commission
The President
Jean-Claude JUNCKER