

Preparing for the European Single Electronic Format

FSMA

AUTORITEIT
VOOR FINANCIËLE
DIENSTEN
EN MARKTEN

AUTORITÉ
DES SERVICES
ET MARCHÉS
FINANCIERS



Annemie Rombouts – Deputy Chairman FSMA

Welcome

Agenda

- Why a European Single Electronic Format?
- Importance of good preparation
- Enforcement

Why a European Single Electronic Format?

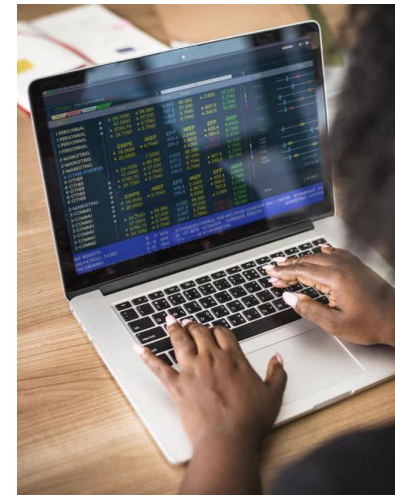
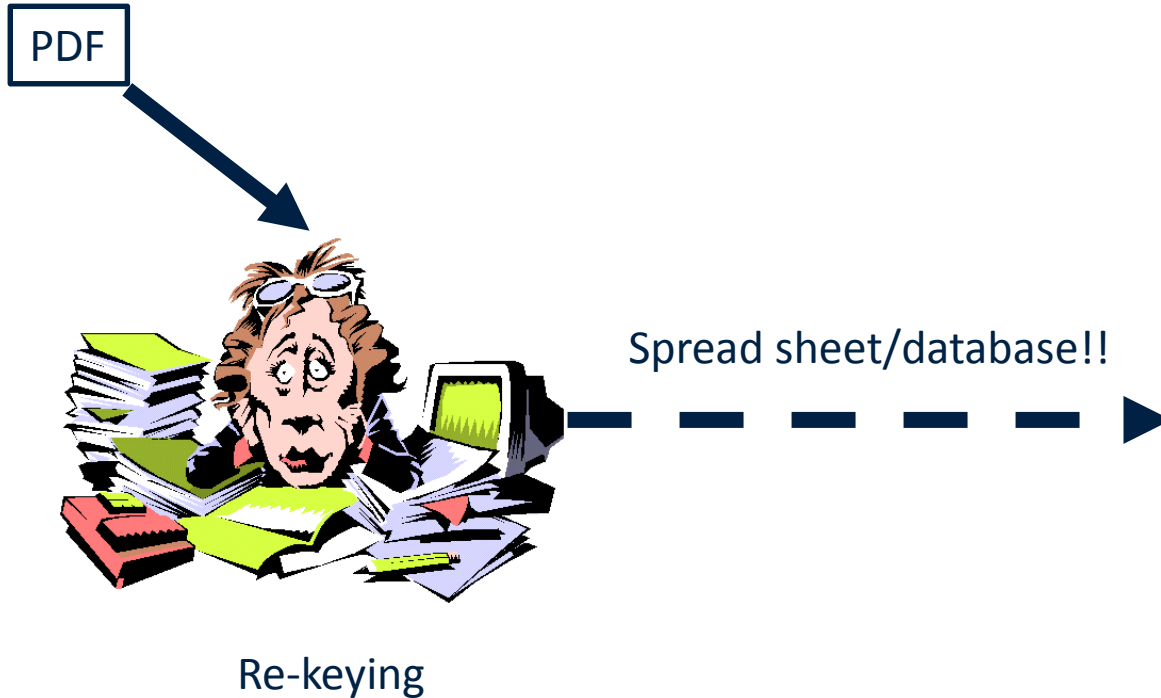
Why ESEF?

Preparation of the annual financial report



Why ESEF?

PDF Annual Financial Report published



Financial Analyst

Why ESEF ?

- Successful communication
 - Not just about what is communicated
 - Ensuring that information is
 - easily accessible
 - timely and
 - available in user friendly manner

Why ESEF?

- XBRL was developed to help **overcome** the **difficulties** of **exchanging** and distributing **financial information** between different systems
- Increased **efficiency** in business information reporting
 - Processors (data aggregators) and users of information
- Manual processing (re-keying of information) is **prone to errors**
- **Faster** distribution of information
 - smaller companies may benefit from this, as they are last on the list of most large data aggregators
 - Prior to the introduction of XBRL in the US, only 70% of companies received coverage of major data vendors.

Why ESEF?

- **Faster** analysis of information
 - Analyst will be able to follow more companies
 - Smaller companies may benefit from this evolution
- **Use of primary sources** by analyst instead of secondary sources
- Increased **comparability**
- **Easier comparison** of financial statements
- Increased **transparency** of capital market
- Academic studies concluded that integration of XBRL **promotes market efficiency**

Why ESEF ?

- Allows use of **advanced tools** and artificial intelligence
 - Current model totally based on human consumption of financial information
 - In US, 85% of EDGAR downloads is done by robots, not by humans
- Evolution from a **document-centric** reporting model to a **data-centric** business reporting model

Why ESEF ?

- Why should it be **imposed by government**?
 - Structured reporting is most effective when it is applied broadly, consistently
 - Not only change for preparers but also important change in systems of users

Importance of good preparation

Importance of good preparation

- Preventing XBRL mistakes is not just a compliance exercise
- With the introduction of ESEF, the **iXBRL annual financial report** becomes the **principal document** under the transparency directive (rather than the PDF)
 - ➔ Consumption of financial information will change
 - ➔ Telling your financial story correctly to analysts, shareholders, potential investors through iXBRL !
 - ➔ Errors may put company's reputation at risk

Importance of good preparation

- **Examples of errors** experienced in US
 - Negative values (billions of negative sale were reported!)
 - Scaling errors (thousands instead of units)
 - Incorrect values
 - Figures of previous filing not updated
 - Company-specific extensions when there was no need for extension (e.g. for cash like instruments)

Importance of good preparation

- A document of the US House Committee on Oversight and Government reform from 2013 refers to more than **1.4 million identified errors**
 - Not detailed tagging of notes expected in EU → less errors should be made!
- Academic study from 2009 concluded that $\frac{1}{4}$ of the SEC filings **contained calculation errors**

Importance of good preparation

- Combine **check by software** with **specialist check**
- Correct application is **critical to the success** of ESEF.
 - Market will not use it if there are doubts about the quality
 - 98% error free is not enough,
 - if amount Earnings per Share is wrong;
 - if profit is reported as a loss or vice versa

Enforcement

Enforcement

- ESEF annual financial report is the official document. It will be **subject to enforcement**
- **Management awareness** and **responsibility** are important
- One can expect that in the future, the application of ESEF will become a European common **enforcement priority**

➔ We should all work together to make ESEF a success!