DIMENSIONS
EMEA SPOTLIGHT

How to prepare for Inline XBRL filings under the European Single Electronic Format

By Dimensions staff

XBRL is the international standard for digital financial reporting by companies. Essentially bar codes for financial reporting, XBRL tags translate human reporting language into machine-readable language that can be quickly processed and analyzed by software. This enhances the speed and accuracy with which a company's financial story is delivered to investors, analysts, regulators, and other companies.

Worldwide, Inline XBRL (iXBRL) is becoming the norm for financial-reporting disclosure. It directly embeds XBRL tags into a human-language filing, providing a single format that is readable by both machines and humans. This is roughly comparable to a website page, in which the underlying HTML code processed by the browser appears as human-readable language to the viewer. By combining human- and machine-readable formats in one presentation, iXBRL merges the strength of HTML text and tabular electronic reporting with the efficiency and comparability of XBRL financial reporting.

The ESEF iXBRL mandate

Effective in January 2020, the European Single Electronic Format (ESEF) is the modernization initiative from the European Securities and Markets Authority (ESMA) that includes the iXBRL mandate for disclosures. Issuers on regulated markets within the European Union and the European Economic Area, starting with financial reports for 2020, must submit their annual financial reports in ESEF, along with iXBRL-tagged IFRS consolidated financial statements. Filers need to prepare their financial reports in xHTML (a type of digital formatting) and, for IFRS consolidated financial statements, must include iXBRL tags for the primary financial statements.

These disclosures are due four months after the year-end, so companies will not submit their first ESEF filings until early 2021. However, filers in the EU must prepare now to hit the ground running, since there is no phase-in period.

Benefits of the ESEF mandate

A Toppan Merrill webinar provides valuable insights into the ESEF requirement: *Navigating the ESEF Inline XBRL Mandate.* It features compliance information and advice from regulators and XBRL practitioners, along with a case study of one company's path to compliance.

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Andrea Sparke, the managing director at Toppan Merrill's European headquarters, starts the webinar by briefly recapping the ESEF mandate. While the initial ESEF requirement applies only to the face of a financial statement, ESMA intends to expand the ESEF requirement to text-block tagging of accounting policies and notes, starting with filings due in early 2023. It seems likely to extend the requirement eventually, she explains, to detailed tagging of the notes (where numeric values within notes would also be tagged individually).

Ms. Sparke reminds filers that their first filing under the ESEF mandate will occur in 2021. "You'll be creating 2020 AFRs in xHTML, and you'll add iXBRL tags where necessary." The benefits of the ESEF mandate are wide-ranging:

+ ESEF will make it easier for both people and machines to access, analyze, understand, and use the information contained in AFRs and consolidated financial statements.
+ AFRs formatted in xHTML can be opened with any web browser, expanding digital access for users around the world.
+ Analytics tools will have easier access to XBRL-tagged financial data, making it easier for analysts to explore the data.

Inline XBRL is good for companies, investors, and regulators

Mike Schlanger, Toppan Merrill's VP of Solution Sales, gives a brief history of XBRL use in the United States, where the Securities and Exchange Commission began mandating XBRL tagging in 2009. Disclosures in paper filings transitioned to interactive structured data in XBRL filings, then leapt into Inline XBRL, which combines the benefits of both human-readable and machine-readable formats. "Ultimately what we're doing is taking human thought, information that the human brain processes, and we're literally translating it into a machine-readable language," Mr. Schlanger observes.

Examples of structured data in the SEC's XBRL interface reveal its potential for swift, deep analyses. "It's interactive and malleable in a profound way," he summarizes. "And then, with Inline XBRL, with that same software, we open the door for robust, interactive data queries." It is "the next level of digital information." The ESEF program seeks to achieve the same accessibility, interactivity, and analytical depth.

John Turner is the CEO of XBRL International, the organization that develops and maintains XBRL standards. He reinforces Mr. Schlanger's message by explaining the importance of "going digital" for financial disclosure. "For regulators, shifting from a paper mountain to a digital framework is just a continuation of the importance of disclosure as a key part of ensuring appropriate market conduct." Along with regulation, he adds, the digital disclosure in the ESEF mandate will "help people with investment and credit decisions."

Crucially, using the ESEF framework, the output of digital disclosures in iXBRL can be in any of the official languages accepted by ESMA. "You can instantly translate the face financial concepts that conform to the IFRS taxonomy into any of the official languages inside Europe," Mr. Turner explains. "That is of course very helpful, particularly for smaller issuers that, typically, are focused on a local market."

ESEF is a framework that allows, through a "scaffolding process," various regulatory materials to be defined in a digital way, using XBRL taxonomies that can be reported against. "The European Commission is currently consulting on whether ESEF should already be expanded to cover certain aspects of the revised nonfinancial reporting directive."

ESEF will improve regulation and compliance enforcement, Mr. Turner concludes. "That process is actually very simple with XBRL. It is pretty straightforward to do a query to discover which companies that have provided information to markets have done so in accordance with, for example, new IFRS rules that have come into effect." Machine learning and artificial intelligence are also facilitated by digital disclosure, providing benefits to regulators, companies, and investment analysts.

XBRL quality: What filers must do to tell the company's financial story accurately

Bartek Czajka, Director of XBRL Consulting at Toppan Merrill's European headquarters, previously worked for the IFRS Foundation, where he led a team that created 70% of the taxonomy used under the ESEF mandate. "With XBRL, you're

getting a chance to fully control your financials and get them to users without third-party intervention. But with that," he warns, "comes a responsibility. You need to remember that there will be little or no opportunity for a human correction of any errors you make. So what you submit, right or wrong, will stay out there probably forever. Quality is key."

Common XBRL errors cited by Mr. Czajka include: errors (wrong sign, value, unit); poor element selection (similar labels, disregard for documentation label, unnecessary extension); missing or inconsistent tagging; and incorrect calculations.

XBRL quality control in financial disclosures is critical for avoiding significant risks:

+ Legal risk, which is the same for XBRL tagging as with any other disclosure requirement
+ Reputational risk, because glaring mistakes in reported financials make the company look bad
+ Dangers arise when users of the data make what Mr. Czajka calls "incorrect investment decisions" to the detriment of the issuer
+ Risk of exposure to unwanted extra scrutiny by regulatory agencies

How can you get your XBRL right? "You need to ensure that you have access to knowledge," he asserts, adding that companies should seek external expertise, at least for the first ESEF filings. "You have to think of two things. One is the XBRL knowledge: the technical and taxonomy knowledge, which is non-accounting. But then you also need to have access to accounting and financial-reporting knowledge. Remember that the IT department will not get the tags right. You need accountants to make it right." He stresses the importance of human review rather than relying solely on software to catch errors.

AstraZeneca case of XBRL compliance

Simon Mader is the head of UK and Accounting Compliance at AstraZeneca, a multinational pharmaceutical company. He shares some of the company's experiences on its path to SEC compliance for its listing on the New York Stock Exchange, suggesting insights for companies now preparing to comply with ESEF. AstraZeneca's process began in 2017 by selecting Toppan Merrill as the XBRL service-provider. The preparation of XBRL-tagged financial statements in January 2018 culminated in the final checks of XBRL accuracy in March 2018, before filing the annual report and Form 20-F with the SEC using XBRL-tagged data.

"The first-year XBRL review was quite onerous," Mr. Mader admits. "We took around three weeks with one full-time employee looking at it in the skeleton phase. Then additional people looked at the tags and made additional tags after the financial statements had been drafted." However, he notes, this workload eases somewhat after the initial filings, as the XBRL tools save much of the tagging already done.

WITH XBRL, YOU'RE GETTING A CHANCE TO FULLY CONTROL YOUR FINANCIALS AND GET THEM TO USERS WITHOUT THIRD-PARTY INTERVENTION

An interesting set of tagging statistics may serve as a benchmark for companies now preparing their XBRL tags to meet the ESEF mandate.

AZ 2019 + 2018 20-F Tagging Statistics

	2019 Primary Statements*	2019 20-F Full Statements*	2018 Primary Statements*	2018 20-F Full Statements*
Total number of tags	516	5,135	498	4,740
Number of elements	148	754	144	750
Number of standard elements	130	437	125	447
Number of extended elements	18	319	19	303

AZ Equivalent of 1 yr ESEF Tagging requirements

**Greater than the equivalent of ESEF Tagging requirements from 2022 Year End due to differences in tagging requirements.*

Mr. Mader also compares the SEC and ESEF tagging requirements:

	SEC requirements	ESEF requirements
Tagging requirements	Tagging of: • financial statements • notes to the financial statement • financial statements schedules	Initially only tagging of the primary financial statements 2022 — tagging extended to block tagging of notes to the financial statements
Taxonomy	SEC Taxonomy with extensions where required	EU taxonomy — possibility of variations between UK and EU taxonomy following Brexit
Audit requirements	No audit or assurance	Potential audit or auditor assurance required
Date	Separate XBRL data file	Required to be inline tagging
Filing	Filed with the SEC via online gateway XBRL data file to be made available on company website	Unknown at present — Potentially Companies House
HTML requirement	20-F wrap and exhibits are edgarised to be submitted through the gateway	Document required to be in XHTML

"The [XBRL] validation tools have been really helpful," he concludes. "Last year, late in the day, they did spot an inconsistency where an update had been made in one place and not in another, and we were able to correct that just prior to the release—something that could have been embarrassing if it had been made public."

Companies have options for ESEF compliance

Danny Northey, Senior Director of Technical Solutions at Toppan Merrill's European HQ, offers practical tips for companies as they prepare to comply with the ESEF mandate. Three questions arise often:

+ Can companies keep their current report style?
+ Can they keep their current workflow?
+ Can they comply with ESEF without adopting new software?

"The answer to all of these questions is yes," Mr. Northey states. For example, "one of the Toppan Merrill solutions is to work exactly the way you do today. The process is straightforward." The filer sends the PDF of its annual report to Toppan Merrill, which tags the financials to create the Inline XBRL and converts the document into xHTML. The document is then made available online for examination by the filer, an auditor, or any other reviewer. "Once this process is complete and finalized, we create zip files ready for submission and send those files back to the company. One thing to know is that the majority of the tagging process, which we call the initial mapping, can be done in advance—and the earlier, the better."

A second option is to use the Toppan Merrill Bridge software. "This has been used in the market for over five years, primarily in the SEC market. Our Bridge software lets you use Microsoft Word and the linking process of Excel to create content and collaborate on any document required. It's very simple to install and uses the same functionality as Word and Excel." Filers interested in exploring Toppan Merrill's XBRL services are encouraged to contact the company for a full description of either process.

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