

# European Single Electronic Format will change life of entities listed on regulated markets (1) (3/24/19)

We have recently heard a lot about the regulators' and investors' growing interest in processing financial data in a faster and better way, about financial statements in PDF being lengthy and unusable, nobody reading them, etc. The European Commission is holding up the European Single Electronic Format (ESEF) as a solution to these problems. From the financial year 2020 onwards, all entities listed on a stock exchange will be required to file their consolidated statements in a specified format using defined tags.

## eXtensible Business Reporting Language (XBRL)

The ESEF will apply to all companies listed on regulated markets across the EU as well as Norway and Iceland, regardless of whether their listing involves shares or debt instruments. All those companies will have to file statements in XHTML using XBRL. This is a coding language and system maintained by the standards organisation XBRL International and readily available to the preparers and users of statements.

XBRL is based on certain defined tags referred to as IFRS taxonomy, where each item of financial statements is assigned a particular tag. The total number of tags exceeds 4,500. This tagged information is provided in XHTML and can be read by humans and computers. The tagging is uniform and the IFRS taxonomy readily available, so statements can be processed and read by anyone with appropriate software and skills.

Over 5,000 entities across the EU will be required to use XBRL and file XHTML statements (of which more than 4,500 are entities with listed shares). In Latvia, this requirement will apply to more than 30 entities.

## The need for change and the implementation schedule

The ESEF stems from the Transparency Directive, which the European Commission approved back in 2013. The European Securities and Markets Authority devised the ESEF as the last step towards making the directive fully operative. So what do we need the ESEF for? And why was the existing system not good enough?

Corporate financial data has so far been publicly available on stock exchanges in PDF. This format is not friendly to the data analyst because it does not allow data to be freely copied, and the process of comparing data for multiple companies and compiling statistics is a lengthy and manual task – you need to examine relevant statements, copy out the numbers you need, etc.

The ESEF and XHTML will help any investor obtain data in a faster and cheaper way, and the data can be processed, analysed and compared in an easier and faster way. In the not too distant future, big financial data analytics will mean to the investor just a couple of clicks and evaluating a beautifully finished set of statements.



Entities preparing their financial statements in XBRL are bound to incur extra implementation costs. And

this implementation will not be fast, as it involves making preparations and adapting the systems, and possibly also purchasing some new systems. This is why a period of transition is to be allowed for ESEF implementation. First, the tagging requirements will apply to the primary statements (balance sheet, profit and loss account, statement of other income, owner's equity statement, and cash flow statement), with the full tagging of financial statements to be required two years later.

Fully adopted by the EU on 29 May 2019, the ESEF will be applicable to financial statements for the year beginning after 1 January 2020. So the first XBRL statements will be prepared in the first months of 2021.



*(to be completed)*