

European Single Electronic Format will change life of entities listed on regulated markets (2) (3/25/19)

This article completes [what we wrote last week](#).

ESEF guidelines

Across the EU, each national regulator (the Financial and Capital Market Commission in Latvia) is to draw up their localised ESEF implementation guidelines addressing the following key issues:

- The time limit for filing XHTML statements;
- Permissible deviations from the IFRS taxonomy and the scope for taking permitted exceptions;
- The method of filing XHTML statements and the institution they should be filed with;
- The number of statements to be filed:
 - a single integrated set of XHTML statements, or
 - two sets of statements – traditional statements and XHTML statements;
- The type of statements to be filed – consolidated or separate;
- Reviewing XHTML statements as well as reviewing the use of tagging and taxonomy and relevant deadlines (there is no auditing standard or law to require a review of iXBRL tags, but the European Commission says this is necessary).

Implementing ESEF requirements

The UK experience of using a similar filing method for several years suggests that ESEF implementation can be split into several steps (also recommended by the ESMA on its website):

1. Understanding the ESEF requirements;
2. Aligning the existing items of statements with the IFRS taxonomy;
3. Adopting a strategy for ESEF implementation;
4. Selecting and implementing an IT solution.

An understanding of the ESEF requirements can be acquired by studying ESMA publications and XBRL publications or by attending training courses, workshops or round-table discussions on this subject.

Item alignment means giving each item of the existing financial statements a specified tag or a permitted extension that fits the IFRS taxonomy. Here is an example from UK experience illustrating how P&L and balance sheet items are aligned with the IFRS taxonomy and tagged.¹



Devising the ESEF implementation strategy includes appointing persons in charge, preparing a project implementation schedule, and making decisions on various implementation issues. A key strategic step is selecting an IT solution, where entities may decide to –

- implement a brand new system unrelated to any existing systems;
- implement a new IT module on the existing system if that is possible; or
- outsource the preparation of XHTML statements.

The final key step is implementing the chosen IT solution, which will enable XHTML statements to be

prepared and downloaded.

Overall impact of ESEF

Given the need to acquire an IT system and align each entity's financial statements with the IFRS taxonomy, the ESEF implementation will be a significant project comparable to the implementation of IFRS 9 *Financial Instruments* or IFRS 16 *Leases* earlier. The national regulators (including the Financial and Capital Market Commission) will need time to draw up their national guidelines and requirements.

However, after all the difficulties and extra costs likely to be incurred in implementing the project, investors, regulators and the public at large will be able to enjoy readily available information that is of high quality as well as easy and quick to analyse, thereby increasing market transparency and serving the public interest.