

ESEF/XBRL based on the single-source- of-truth approach

Challenges and solutions for reporting companies that will have to publish important financial statements in the ESEF/XBRL reporting format.



xbrl
plus

Beginning on January 1, 2020, companies whose shares are listed within the EU will have to publish their financial reports in a new mandatory reporting format. This regulation affects approx. 5300 IFRS consolidated financial statements in Europe¹. The standardised electronic reporting format, the so-called European Single Electronic Format (ESEF), then applies to important accounting systems such as the balance sheet, income statement or cash flow statement in the IFRS consolidated financial statements. In addition to the tagged elements (primary tables from 2020 and entire notes from 2022), the consolidated notes and the management report will have to be submitted in XHTML format from 2020.

Companies are expected to see significant implementation costs when the new format specifications are first applied. Accounting and IR departments should now analyse how the new reporting format impacts their financial reporting processes to take the right steps and solutions in a timely manner.

Starting point for digitisation in reporting

If you look at the presentation formats, digitisation has advanced greatly in corporate reporting. Even today, annual reports are presented consistently as PDFs and often as online reports (HTML). But the technological developments go far beyond that. They are changing the way in which annual reports are created, distributed and analysed. The focus is no longer solely on the digital representation of the content, but also on the processes and the machine reading of the data material. Automated processing of structured data for users not only saves time and money, but also enables high comparability and better data analysis. This is precisely what the European legislator is demanding, stressing the benefits of a harmonised electronic format for issuers, investors and authorities. Making this operational requires a standard, and ESEF/XBRL comes into play here. ESEF/XBRL is an open, platform-independent international standard for timely, accurate, efficient and cost-effective electronic storage, processing, communication and repurposing

of (financial) reporting². Due to the EU regulation, ESEF/XBRL is given great importance and, in addition to the well-known PDF and HTML formats, becomes another reporting format.

Key points of focus

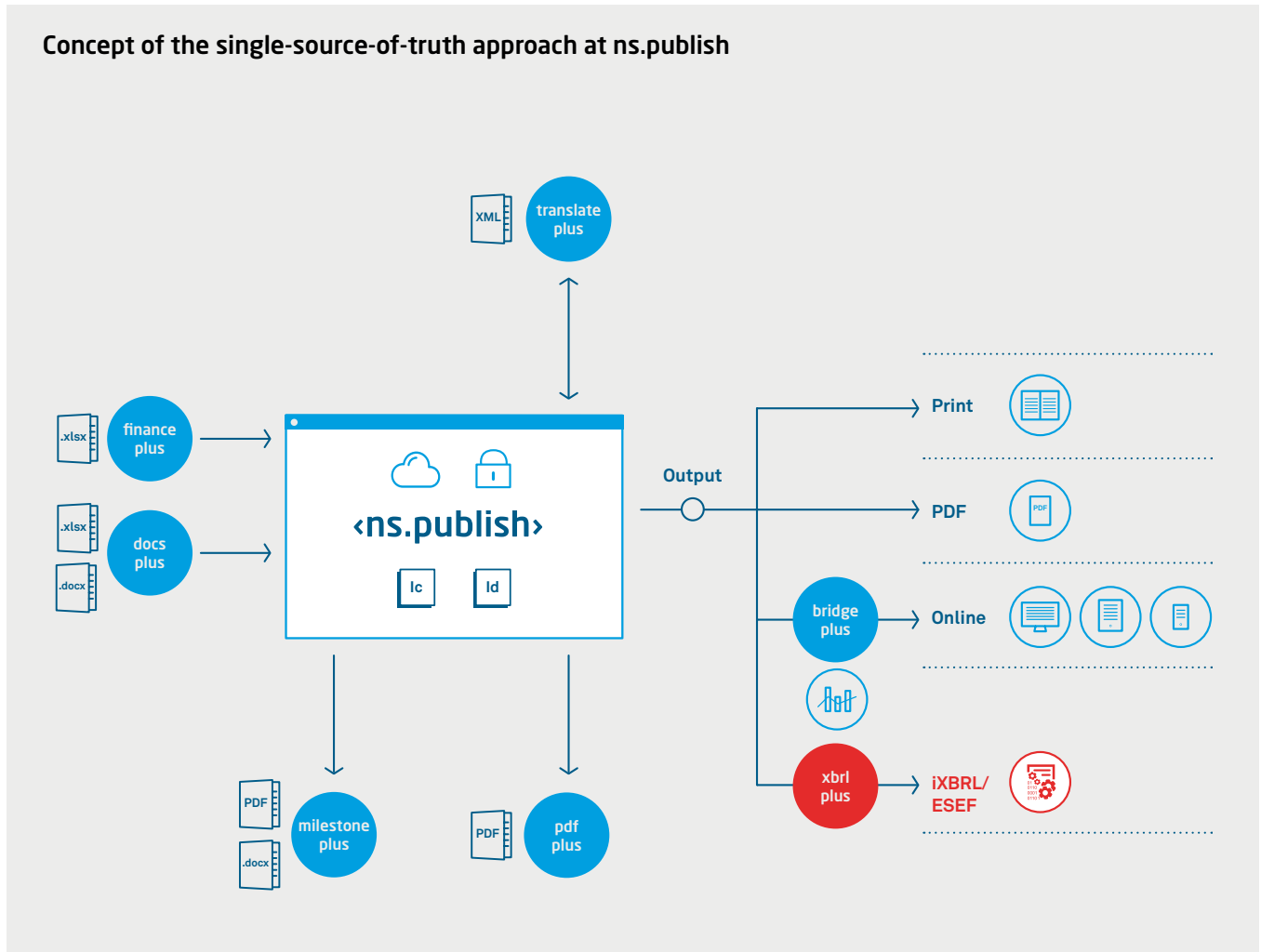
What does the regulatory requirement mean for companies publishing their reports and where should they start for a successful implementation? As is often the case, the challenge is to make fundamental decisions before the operational implementation is started. The following applies:

1. identify the main target groups of the annual report and clarify their needs;
2. then define the company-specific reporting strategy.

Annual reports are aimed at many stakeholders who have very different information needs. While customers, employees, suppliers or the general public are primarily interested in the company, its products and the management team, and thus the appealing preparation of the content counts, the group of capital market-oriented stakeholders, such as investors and analysts, is characterised by more in-depth requirements for the annual report. In addition to an easy, time and location-independent access to the annual report, they consider it important to ensure that the data is processed as easily as

¹ Source: <https://home.kpmg/de/de/home/themen/2017/09/europaeisch-einheitliches-elektronisches-berichtsformat-eseef.html> (in German)

² Source: Barrantes/Dix/Mittelbach-Hörmanseder: XBRL - Developments in the digitisation of company reporting in Rechnungswesen RWZ 6/2019 (in German)



Overview of the ns.publish platform with the new XBRL plus module.

possible, while ensuring the integrity of the content. Thusly the clarification of the most important addressees of the annual report thus has a decisive influence on how it is prepared. Once the target group prioritisation has been achieved, the reporting strategy shall be defined. What channels does the company plan to use - print and/or online? Which channel is "leading"? Is an attractive design decisive and should this be conveyed by a professionally designed PDF or an elaborate, channel-appropriate online report or both? In short: should the annual report for the European company be understood as a "business card" with a high demand for appearance, graphics and images or as a mandatory requirement for the regulator? These clarifications are fundamental and set the important guiding principles for the way ESEF/XBRL is to be implemented.

Bolt-on or built-in

Assuming that the annual report will continue to be used in Europe as a strategically relevant tool for corporate communication for a broad audience, companies publishing their financial reports face the challenge of implementing an additional reporting format (so-called “dual filing”), because ESEF clearly has technical limits in terms of presentation. This means additional complexity in a project that is already under intense time pressure. With regard to the ESEF/XBRL implementation, it is necessary to make further basic decisions:

1. Does the company rely on a minimum solution to meet the requirements defined by ESMA as of 01/01/2020 or on a comprehensive solution, flexibly designed for future requirements?
2. In order to implement ESEF/XBRL, does the company choose a solution that is downstream of the creation of the PDF/HTML report and that is usually outsourced to a service provider (bolt-on approach), or does it favour an internal, integrated solution (built-in approach)?

The bolt-on approach offers the typical advantages of outsourcing (expert assistance, time reduction), but has clear interface disadvantages. Due to the lack of an integrated approach and the downstream work processes, rapid change management is challenging and requires control work. The built-in approach has the advantage of the single source of data (single source of truth) and the simultaneous, automated processing, which requires the use of a tool capable of this. It is expected that the basic taxonomy (IFRS and ESMA) will change annually, so that the companies publishing reports will have to analyse their taxonomy extensions every year and most likely revise their content and structure. Most companies are therefore looking for a standardised, integrated approach to reporting with disclosure management tools that they can manage very effectively³.

³ Source: <https://blogs.sap.com/2011/09/18/why-built-in-vs-bolt-on-for-xbrl-and-disclosure-management/>

Overview of module “XBRL plus” use case

Preparations

Kickoff

- Kick-off workshop
- Setup and release

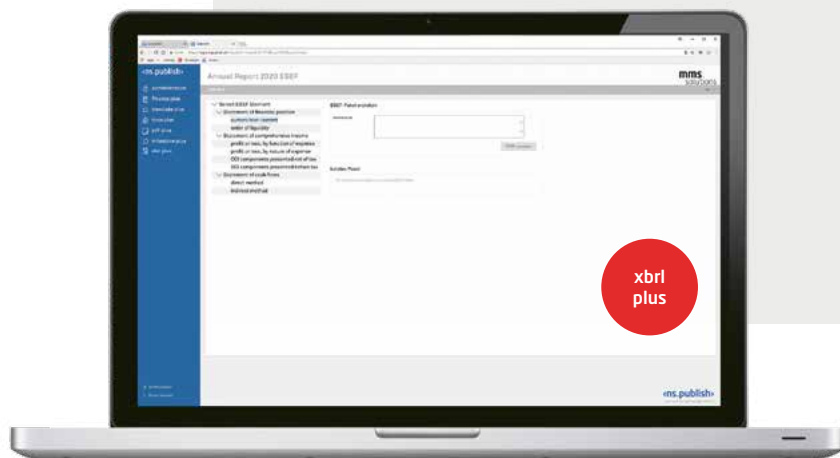
Import the base taxonomy

- Loading of the ESMA taxonomy

Realisation

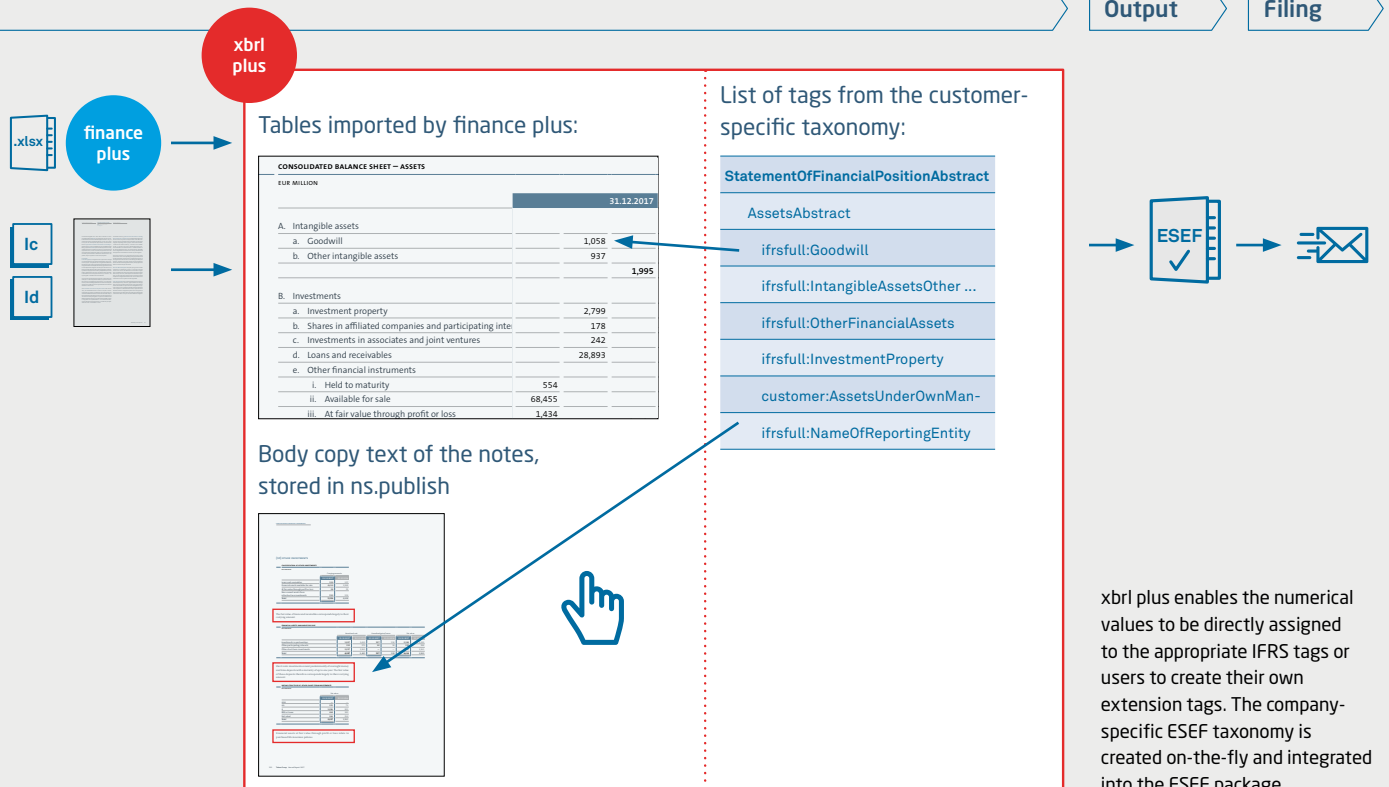
Finance & Controlling

- Accounting standards
- Consolidation
- Change management
- Tables
- KPIs



Integrated user interface for the XBRL realisation steps, with access to the other ns.publish modules.

The regulator requires that from as early as 2020, the consolidated notes and the management report must also be submitted in XHTML format - in addition to the tagged primary tables - and, from 2022, the tagged notes. It is expected that the increasing pressure of the stakeholders will lead to the preparation and publication of semi-annual reports and quarterly reports without delay. For companies publishing their financial reports, this means that system-based and automated processes become mission-critical. All of this speaks for the built-in approach.



xbrl plus enables the numerical values to be directly assigned to the appropriate IFRS tags or users to create their own extension tags. The company-specific ESEF taxonomy is created on-the-fly and integrated into the ESEF package.

A solution for the single-source-of-truth approach

The leading publishing system ns.publish offers a built-in solution based on the single-source-of-truth approach with the “xbrl plus” module. xbrl plus helps companies implement the ESMA regulation and enables the entire financial reporting to be achieved simultaneously from a single data source without platform disruption thanks to its integrated approach. No upstream or downstream manual intervention by external specialists is required. The solution includes automated and system-based change management and is already designed to achieve the mapping of the consolidated financial statements from 2022, ensuring compliance for future ESMA regulations.

Background knowledge: from XBRL to ESEF using iXBRL and XHTML

The original XBRL format - as of now known in financial reporting primarily through SEC filings in the US is designed for purely machine-based evaluation and can only be displayed in human-readable format with special viewer software. The European Securities and Markets Authority (ESMA) wants to counteract this disadvantage by using the development of iXBRL to provide a clear representation for other stakeholders. iXBRL integrates the machine-readable structure into an XHTML document that can be viewed in any web browser. The iXBRL document, as well as the basic structure (taxonomy) developed and defined by ESMA, correspond to the ESEF format that has to be submitted.

The following describes the essential terms as a glossary

ESEF	<i>European Single Electronic Format</i> means a single electronic format for financial reporting in the EU. XHTML is required as the report format. In IFRS consolidated financial statements, financial disclosures must also be labelled using iXBRL (tagging) in such a way that they can be machine-read automatically.
ESMA	<i>The European Securities and Markets Authority</i> was established in Paris on January 1, 2011. The Authority is part of the European financial supervisory system and has the task of protecting the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system for the EU economy.
HTML	<i>Hypertext Markup Language</i> Text-based markup language for the formatted presentation of text blocks, images and hyperlinks, etc., which forms the basis of websites.
iXBRL	<i>inline eXtensible Business Reporting Language</i> Method that feeds the content of an XBRL instance document into an XHTML document so that it can be displayed in a web browser.

Tagging

	Level of tagging required by ESEF		
	IFRS consolidated financial statements	Individual financial statements	3 rd -country GAAP financial statements
Primary financial statements	Mandatory from 2020	Voluntary	Forbidden
Block tagging of notes	Mandatory from 2022		
Detailed tagging of notes	Voluntary		

Specification of the ESMA that describes exactly which elements must be tagged and when.

Taxonomy	Catalogue of individual elements that are described, classified and displayed in a contiguous structure; in the XBRL context, the set of individual elements of a specific accounting framework (e.g. IFRS taxonomy with all balance sheet items, etc.).
XBRL	<i>eXtensible Business Reporting Language</i> An XML-based markup language designed specifically for the creation and distribution of machine-readable financial reports.
XHTML	<i>eXtensible Hypertext Markup Language</i> Is a text-based markup language used to structure and semantically tag content, such as text, images and hyperlinks in documents. It is a new way of translating HTML 4.01 into XML. In contrast to HTML, XHTML uses the more stringent subset of XML as language basic.
XML	<i>eXtensible Markup Language</i> Is a markup language; a standard format for documents with content that is to be machine-readable and machine-interpretable.

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