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Dear Sirs,

ESMA Consultation Paper on the Regulatory Technical Standards on the European Single Electronic Format (ESEF)

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Corporate Governance and Financial Reporting Expert Groups have examined your proposals and advised on this response. A list of members of the Expert Groups is at Appendix A.

Response

We welcome the opportunity to respond to this consultation. Overall, we do not support the introduction of a mandatory structured electronic reporting for companies. We believe that it will add additional costs for companies without a significant added benefit for both investors and companies. Furthermore, it is unclear the level of investor demand for such a reporting format.

Due to the lack of a comprehensive cost benefit analysis carried out for this policy proposal by the European Commission, we believe that ESMA should recommend that the European Single Electronic Format (ESEF) that should be required is the publication of the Annual Financial Report (AFR) as a portable document format (pdf). Companies and investors are familiar with this format of the AFR and, therefore, the costs of implementing this would be minimal to companies while investors would continue to receive information in a format that is easily accessible.

Q1 The provisions included in the amended Transparency Directive requiring a single electronic format were not subject to a formal impact assessment by the European Commission. While from a legal point of view ESMA could not address in this CP whether there is a need for the provisions included in the amended Transparency Directive, do you believe that a wider assessment should be performed on

the requirements of introducing a single electronic reporting format in Europe? Please indicate your opinion and provide arguments.

Yes, we believe that there should have been a full impact assessment carried out for this provision. This could result in a significant change as to how companies produce annual reports that could add monetary costs and stretch resources thin – especially for small and mid-size quoted companies who already have limited resources.

Furthermore, there was little evidence provided on the issue that this provision is trying to solve (i.e. have a significant number of investors expressed a concern about the accessibility of company information and specifically requested a new electronic format?) and no evidence provided that the benefits of this reporting change will outweigh the costs of companies having to implement these changes throughout Europe. We believe that regulation should be proportionate and appropriate and that policymaking should be backed up by evidence and impact assessments. Therefore, we believe that the European Commission should carry out a wider impact assessment on this matter due to the potential cost impact it could have on businesses, especially small and mid-size quoted companies.

Furthermore, we believe that it is important to segment any cost benefit analysis by the size of company. For example, costs and benefits should be evaluated specifically for SMEs and small and mid-size quoted companies, as it will be more costly for them to implement the potential changes suggested by the ESEF than compared to their larger listed counterparts.

Q2 Do you agree with the description of the policy objectives as included in this section? Are there any further elements that you believe should be analysed? If yes, please indicate them.

As mentioned before, we do not support the introduction of a mandatory structured electronic reporting for companies. We believe that it will add additional costs for companies without a significant added benefit for both investors and companies.

With regard to Policy Objective 1, we note that electronic reporting will be an additional requirement and therefore always add costs, if it does not replace the legal obligation of a company to publish its AFR in a human-readable format (like a pdf) in order to fulfil its legal obligation. We do not support the electronic reporting to replace the current format of AFRs, as we believe that many investors, at least in the UK, are happy with having companies produce pdfs[1]. Furthermore, the consultation paper notes that "…reporting should become easier for issuers, in particular in the context where issuers are seeking listing in a different jurisdiction of the EU." There are very few examples of companies, especially small and mid-size quoted companies, listing in other EU jurisdictions and so the benefit associated with this would be minimal.

With regard to Policy Objective 3, we agree that it is vital to identify which parts of the AFR are important to investors when developing the ESEF and, more generally, how different investors use AFRs. Not all investors use the AFR in the same way – especially when comparing private, retail investors and institutional investors. This has not yet been considered by the European Commission or ESMA, and so it is not clear that investors are demanding a structured ESEF, thus calling into question the broader objective of the introduction of an ESEF.

[1] See the Financial Reporting Council's Financial Reporting Lab Project on Digital Reporting: https://frc.org.uk/Our-Work/Publications/Financial-Reporting-Lab/Lab-Project-Report-Digital-Present.pdf

With regard to Policy Objective 4, comparability is important, but is not the ultimate aim of the AFR, which is to provide information about the company to investors and stakeholders. Furthermore, we are concerned that over-standardisation of the AFR at an EU-level could result in investors receiving less informative information that does not take into account local differences in accounting and reporting practices throughout EU Member States and does not properly contextualise the financial information and numbers in the AFR.

Q3 Do you believe that the introduction of electronic reporting should serve as a basis for further debate on auditing of electronic structured data? Please explain your reasoning.

We believe that any such debate should occur after the introduction of electronic reporting, possibly at the five year point of the Transparency Directive. This change would need time to bed down and starting a debate on the auditing of this data now would be too theoretical.

In the UK, companies are required by Her Majesty's Revenue and Customs (HMRC) to submit their individual company accounts tax returns and accompanying accounts tagged using iXBRL. Nonetheless, investors and users of accounts still focus on the pdf form of the accounts and thus the demand for additional assurance on the iXBRL aspect of accounts is low.

We believe that any such debate on the audit of electronic structured data should only start once the demand for structured electronic reports is sufficiently high and structured electronic reports become the primary form of reporting used by investors and other stakeholders.

Q4 Are you aware of any further elements which are necessary to provide an accurate picture of the current reporting for the purpose of this CP?

No, we agree with the consultation papers' analysis of the elements and current reporting landscape.

Q5 Do you agree with the description of the technologies included in the CP?

We note that, in the UK, companies are required by Her Majesty's Revenue and Customs (HMRC) to submit their individual company accounts tax returns and accompanying accounts tagged using iXBRL. This is not noted in the consultation paper under section 5.1.2.2.

Q6 Do you agree with the choice of the technologies to be further analysed as part of the CBA? If not, please indicate which other technologies you would propose for further analysis.

We agree with the choice of technologies to be further analysed as part of the CBA, to an extent.

We do not support the creation of a new European Standard based on XML or HTML (Option 3 and Option 4). It would be difficult and very expensive for ESMA and the European Commission to develop these that accommodate all the financial reporting circumstances of all EU Member States. Furthermore, it would increase costs for companies throughout Europe, which would have to familiarise themselves with a new standard rather than an existing one (which they may have some exposure to already). Instead, we would recommend that an existing technology is applied rather than create a new standard.

Q7 Do you agree with ESMA's proposal to use the IFRS taxonomy as issued by the IFRS Foundation for reporting under IFRS, subject to formal endorsement in the European Union?

Yes, we agree.

Q8 Do you agree with ESMA's preliminary conclusions not to use regulatory and entity specific extensions? Please provide arguments in your answer in relation to the impact on issuers and users.

No response.

Q9 Do you agree with the proposed approach in relation to the taxonomies of third countries GAAPs deemed equivalent to IFRS?

No response.

Q10 Do you believe that taxonomy shall be developed for other parts of the AFR (outside financial statements)? If yes, please indicate which ones and explain why.

No, we do not believe that a taxonomy should be developed for other part of the AFR, outside of the financial statements. There are far too many national differences in the reporting requirements of the Accounting Directives and the Transparency Directive requirements, which would make it difficult to develop. Furthermore, the management report and audit report are qualitative, narrative-based reports, which make it difficult to create categories and tags for the various scenarios that could be mentioned or included in these reports.

We also are not convinced of the value of tagging pure narrative information in the AFR. We are concerned that the context and specific circumstances would be lost if narrative was forced to be structured a certain way.

Q11 Do you agree that non-structured electronic reporting should be required for the entire Annual Financial Report? Do you agree that the format used shall be PDF? If you disagree, please explain your opinion by providing arguments on the policy objectives and impact on the CBA.

Yes, we agree that non-structured electronic reporting should be required for the entire AFR and we agree that the format that should be required is pdf. As mentioned in our introduction, due to the current lack of comprehensive cost benefit analysis of introducing a structured ESEF, we believe that ESMA should recommend that the ESEF that should be required is the publication of the AFR as a pdf.

Q12 Do you agree with the solution of a single electronic format composed of structured and non-structured data (option B)? If not, please explain your opinion as well as the impact on the CBA.

As mentioned before, due to the current lack of comprehensive cost benefit analysis of introducing a structured ESEF, we believe that ESMA should recommend that the ESEF that should be required is the publication of the AFR as a pdf (Option A – Full unstructured data format for all parts of the AFR).

However, if a structured element has to be included, we would agree with ESMA's analysis to have a single electronic format of structured and non-structured data (Option B).

Q13 Do you agree that iXBRL and XBRL are the most relevant options available for the ESEF?

Yes. We agree that iXBRL and XBRL are the most relevant options available for the ESEF, if a structured element is required. Otherwise, as noted in our introduction, we believe that pdf is most used, accessible and well-known format.

Furthermore, whereas these are, at the moment, the most relevant options to being able to extract a subset of data from the accounts of different companies, any regulations should allow for developments in technology and should not require the use of a technology that may become obsolete within the lifetime of the regulation.

Q14 Could you please indicate what is your preferred solution between iXBRL and XBRL? Please explain the reasons.

If a structured ESEF is required, then we believe that the best solution would be to use iXBRL, as users can pick up an iXBRL and read it, versus XBRL, which displays as code.

As stated in our response to Q13, whereas the current best option to being able to extract a subset of data from the accounts of different companies is iXBRL, developments in technology may render iXBRL obsolete; any proposed regulations should allow for such developments in technology.

Q15 Do you agree that structured reporting format should in a first stage be required for consolidated IFRS financial statements and eventually in a second stage for individual financial statements?

As mentioned before, we do not support the introduction of a mandatory structured electronic reporting for companies. We believe that it will add additional costs for companies without a significant added benefit for both investors and companies.

However, if structured electronic reporting is required, we believe that it should only be required for the consolidated IFRS financial statements. We believe that it would be overly complex to require the structured reporting of individual financial statements due to the differences in reporting practices across Member States and especially as taxonomies do not exist for all reporting standards used across Member States.

Q16a Do you agree with a different approach for the financial statements under national GAAPs compared to IFRS on the grounds of the existence of a taxonomy?

No response.

Q16b Do you agree with the proposed approach in terms of potential development of a EU core taxonomy to be used for national GAAPs in the future?

No. Firstly, we believe that, if the ESEF is required in a structured format, it should only cover consolidated IFRS financial statements as mentioned in our response to Q15. Individual financial statements should be managed by Member States.

Furthermore, some Member States, such as the UK, may already mandate the reporting of certain parts of the AFR in a structured format that relies on a taxonomy developed at the Member State level. Requiring companies to then also have to tag and structure the individual financial statements using a EU core taxonomy would be overly burdensome, with little added benefit.

Q17 Do you agree that a single electronic format should not be required for financial statements under third country GAAP?

No response.

Q18 Would you be in favour for a phased approach for SMEs, if it would be allowed under the legal mandate? Would it be relevant in the context of the development of the Capital Markets Union?

If a structured ESEF is required, then we would be in favour of a phased approach for SMEs and agree with the analysis in the consultation paper. SMEs have less resource available to them to manage reporting changes and, therefore, would need more time to adjust and implement these changes. We believe that a phased approach would be in line with the objectives outlined in the Capital Markets Union Action Plan, which aims to tackle the burden of additional regulation on SMEs and ensure that SMEs are able to create growth throughout the EU.

However, we do not believe that the ESEF will necessarily enhance the visibility of SMEs, as outlined in paragraph 174 of the consultation paper, and so would advise against ESMA placing great value in this benefit in any cost benefit analysis. There is no evidence from other Member States that have implemented some form of structured electronic reporting that this benefit has materialised. In fact, in the UK, investors and other stakeholders still primarily use the pdf form of the AFR rather than the iXBRL form, and so this benefit has not been realised.

Q19 Do you have any other comment to make?

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

Tim Ward
Chief Executive

APPENDIX A

Quoted Companies Alliance Corporate Governance Expert Group

Edward Craft (Chairman)	**Wedlake Bell LLP**
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Melanie Wadsworth	Faegre Baker Daniels LLP
Rob Burdett	FIT Remuneration Consultants
Richie Clark	Fox Williams LLP
Michael Brown	Henderson Global Investors
Bruce Duguid	Hermes Equity Ownership Services
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Darshan Patel Niall Pearson	Hybridan LLP
James Hodges	Hydrodec Group PLC
Peter Swabey	ICSA
Jayne Meacham Carmen Stevens	Jordans Limited
Eric Dodd	KBC Advanced Technologies PLC
Darius Lewington Jane Mayfield	LexisNexis
Anthony Carey	Mazars LLP
Mebs Dossa	McguireWoods
Peter Fitzwilliam	Mission Marketing Group (The) PLC
Cliff Weight	MM & K Limited
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Jack Easton	UHY Hacker Young
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