

Mr. Pavel Svoboda  
Chair of the Legal Affairs Committee  
European Parliament  
60 rue Wiertz / Wiertzstraat 60  
049 Brussels  
Belgium

Brussels, 7 March 2018

**Re: ESMA's Draft Technical Standard on the European Single Electronic Format (ESEF)**

Dear Chair Svoboda,

We are writing to express concerns of EU companies regarding the draft Regulatory Technical Standards (RTS), specifying the new digital format in which issuers should prepare their Annual Financial Reports (AFRs) starting from 2020. The draft RTS, published by European Securities and Markets Authority (ESMA) in December 2017<sup>1</sup>, obliges listed European companies to file their annual reports as a XHTML document in which the consolidated financial statements in IFRS shall be encoded in the so-called inline XBRL (iXBRL)-format.

Our organisations are not supportive of the introduction of a mandatory structured electronic reporting for companies, as we believe that it would generate additional costs for companies that would outweigh the benefits for both investors and companies. Companies consider that the ESMA has not sufficiently consulted or tested its proposal regarding the benefits, expectations or demands of the investors. Potential end-users we have been in contact with show little or no interest in iXBRL but are rather keen on receiving more qualitative information on strategies of public companies as well as on other matters of increasing importance such as ESG topics. We also understood that many investors – in particular retail ones – also tend to prefer PDF format, which would also meet the requirements of Article 4 of the Transparency Directive<sup>2</sup> that mandates ESMA to develop the draft Regulatory Technical Standards specifying the electronic reporting format.

Therefore, we question whether the additional and significant costs related to the implementation and ongoing maintenance of iXBRL are justified, given investors' preference for other searchable formats such as PDF, and that iXBRL is already an outdated technology, dating back to 1980s, meaning they are older than PDF. We believe that in line with the Digital Agenda, the European Single Electronic Format should rather provide for solutions which are state-of-the-art and flexible both for companies and investors. Furthermore, in line with Better

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<sup>1</sup> ESMA 32-60-204, 18 December 2017

<sup>2</sup> Directive 2013/50/EU

Regulation principles, any costs connected to the implementation of the European Single Electronic Format, should be commensurate and justified by major advantages for the users and preparers.

Therefore, we are calling on the European Parliament, the European Commission and the Council of the European Union to properly reflect on ESMA's proposals, taking into account investors' and companies' preferences and concerns, and consider rejecting the draft Regulatory Technical Standard before they are enacted.

We are sending an identical letter to the chair of the ECON committee, for information, due to the strong impact of the proposed measures on the real economy and the links with financial services.

We thank you for your consideration and remain at your disposal to answer any questions you may have.

Yours sincerely,



Markus J. Beyrer

Director General  
BUSINESSEUROPE



Florence Bindelle

Secretary General  
EuropeanIssuers

Copy:

Mr Axel Voss, JURI MEP, EPP Coordinator  
Mr Luis de Grandes Pascual, JURI MEP, EPP Coordinator (Deputy)  
Ms Sylvia-Yvonne Kaufmann, JURI MEP, S&D Coordinator  
Mr Kosma Złotowski, JURI MEP, ECR Coordinator  
Mr Angel Dzhambazki, JURI MEP, ECR Coordinator (Deputy)  
Mr Jean-Marie Cavada, JURI MEP, ALDE Coordinator  
Mr Konstantinos Chrysogonos, JURI MEP, GUE-NGL Coordinator  
Ms Heidi Hautala, JURI MEP, Greens-EFA Coordinator  
Ms Joëlle Bergeron, JURI MEP, EFDD Coordinator

Annex: Background information

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## ANNEX: Background

Article 4 paragraph 7 of the Transparency Directive mandated ESMA to develop draft Regulatory Technical Standards specifying the electronic reporting format. In 2015, ESMA launched a consultation on its Draft RTS, which was followed by its feedback statement stating that Inline XBRL is the most suitable technology to meet the requirement of the Transparency Directive for issuers to report their annual financial reports in a single electronic format. This came despite the mixed feedback received in response to the consultation. ESMA's approach was mostly supported by accounting bodies, regulators, audit and consulting firms, and IT services providers, while many preparers and their representative bodies raised objections. **A considerable number of these respondents believed that the ESEF should require the use of PDF only**, which nowadays allows to search and copy. Following criticism of certain respondents (including EuropeanIssuers<sup>3</sup>), ESMA conducted another cost-benefit analysis, nevertheless without remedying the major shortfalls of the first one, meaning lack or questionable independence of the contractor and lack of sufficient consulting, analysis and understanding of investors' needs.

In the summer 2017, ESMA conducted field tests allowing approximately 25 companies to learn how the Inline XBRL format can be applied and aiming to provide an opportunity to contribute to the development of the specifications of a European Single Electronic Format that better fits their reporting needs. From what we heard, the participants did not have an opportunity to give their views on other issues than those related to the testing of the taxonomy prepared by ESMA and software tools available in the market. In the field tests, ESMA focused on the preparation of reports and not their use, as stated in the Final Report from ESMA. Furthermore, other issuers have not had a chance to participate in the discussions and to contribute to the outcome of the field test or to give their views on other related issues, which will have an important impact on the costs and the risks faced by companies regarding upcoming rules.

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