

How XBRL can significantly improve the European Capital Market – annual financial reports

▶ XBRL Europe Day

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Bodo Kesselmeier

XBRL Europe-
IFRS, Securities and Markets Working Group, Chair
anuboxBRL, General Partner

Transforming Business Reporting



Agenda

1. Significant characteristics of IFRS reporting in the European capital market
 1. National laws & regulations in 28 member states
 2. Reporting Supply Chain & stakeholders
2. Risks of “closing your eyes” activities for
 1. Comparability of face financial statements
 2. Comparability of notes
3. How XBRL can significantly improve the European Capital Market for listed companies independent of size:
to “*facilitate accessibility, analysis and comparability of annual financial reports*”.¹

¹ European Commission, Revised Directive on transparency requirements for listed companies (Transparency Directive) – frequently asked questions, MEMO, Brussels, 12 June 2013

1. Significant characteristics of the IFRS reporting in the European capital market

1.1. National laws & regulations in 28 member states

Challenges:

1. Stock listed companies are subject to national laws and regulations, but not directly subject to European accounting directives. European accounting directives are transferred variably (!) in to national laws & regulations of the 28 member states.
2. Impact on IFRS face financial statements:

National laws granting tight up to wide flexibility on reporting positions in Balance Sheets, Profit and Loss Statements, Statement of Cash Flows etc

Preparers may have the legal rights for example to :

- aggregate (parts of) some concepts (=reporting positions) of the Original IFRS Taxonomy into one new concept,
 - divide Original IFRS Taxonomy's concepts into several more detailed concepts,
 - use company specific labels for concepts (=term which labels the reporting position),
 - change order and hierarchy of concepts compared to the Original IFRS Taxonomy
 - establish company specific subtotals and KPI (e.g. definition of operating profit) which are different than the Original IFRS taxonomy
 - Legal rights differ from member state to member state.
- ➔ **extremely high degree of diversity -
on both national level and European level!**

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 - extremely high degree of diversity – on both national level and European level
3. Impact on Notes:

National laws are requiring stock listed companies to disclose additional information (compared to IFRS bound volume)

Example:

- Germany will generate 300 up to 400 new reporting positions in the German Extension. This would equal 11.000 new reporting positions for the 28 member states of the EU (several hundred percent more additional reporting positions than the Original IFRS Bound Volume!).
 - Legal Sources in a Member State: National Commercial Code, National Corporate Governance Codex, National Stock Corporation Law, National Securities Trading Act, National Accounting Standards Boards
- extremely high degree of additional concepts and diversity on European level plus on member state level– if no national taxonomy extensions is provided

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National laws may require to publish the report in exactly the same layout as audited (layout requirement)

- Exactly the same hierarchy of reporting positions, tables, notes, paragraphs, and sentences.
- Exactly the same label for concepts as being used in the annual report audited
- Even the position of a comma might be important!

→ **Challenge to meet this requirement with XBRL standards**

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Challenges –summary:

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→ Challenge to meet this requirement with XBRL standards

Results:

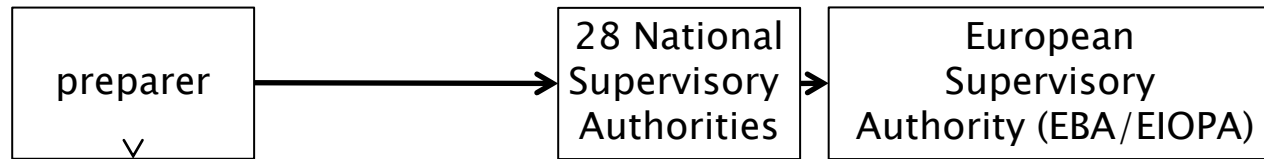
1. The eXtensibility of XBRL (=taxonomy extension) is key to solve European challenges on diversity

2. Layout issue has to be solved

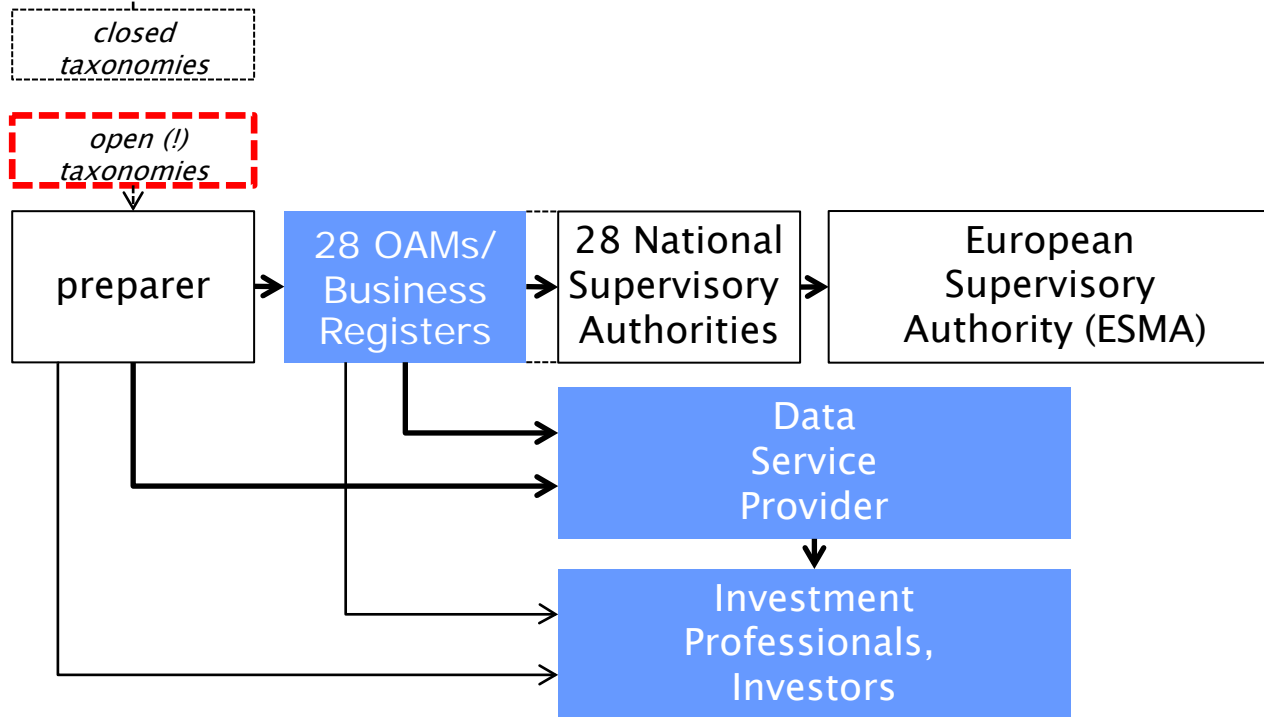
1. Significant characteristics of the IFRS reporting in the European capital market

1.2. Reporting Supply Chain & Stakeholders

European Supervisory Reporting with XBRL: banking (EBA) insurance (EIOPA)



European Supervisory Reporting with XBRL: securities and markets (ESMA)



Results for securities and markets' supervision:

- much more stakeholders to consider
- Must have: data usability & comparability for Investment Professionals
- in spite of data extensibility/open taxonomies

2. Risk of “closing your eyes” activities for

2.1. Comparability of face financial statements

UK IFRS Taxonomy extension compared to the Original IFRS Taxonomy

	IFRS 03/29/2012	UK_IFRS 09.01.2009	
items	IFRS	IFRS	UK_IFRS
Abstracts	812	387	1429
Monetary elements	1660	1542	2338
String elements	619	793	674
Text blocks	367		
Pure / decimal	30	28	114
Shares / per share	27	5	42
Date	10	2	25
Per cent	70		10
Other			37
TOTAL items	3595	2757	4669
Dimensions	85		735
Hypercubes	89		
Tuples			82
	3769	2757	5486
<i>Of which used in Presentation</i>		464	5342
Statement of financial position (Short term / Long term)			
<i>Elements of the XBRL IFRS taxonomy used</i>		22	
<i>Elements added</i>		70	
Soit		318%	
Income statement (by function)			
<i>Éléments de la taxonomie IFRS utilisées</i>		22	
<i>Extensions</i>		47	
Soit		214%	

Source: Pierre Hamon (etXetera), Analysis of the UK IFRS Taxonomy, document not published, February 2013

Results :

- High extension rate as of 214–318 % is necessary for UK national needs
- Reduces substantially comparability with IFRS XBRL reports of other EU member states

2. Risk of “closing your eyes” activities for

2.1. Comparability of face financial statements

Risk of Closing the eyes for harmonization activities will result in:

- Comparability might be extremely limited to Original IFRS Taxonomy’s concepts, insofar as they are used by the preparer at all.
- Just introducing XBRL – without harmonizing extensions – will not improve the traditional situation (without XBRL).
The traditional diversity of P/L statements and Cash Flow statements is higher than the diversity of balance sheets.
- Comparability just for a comparisons “one company over time” but (almost no) comparability:
 - between companies of the same industry
 - between companies in the same member state
 - between companies in different member states
- In the US negative feedback of Investment Professionals had been received (see documents of the CFA Institute for example). Consequently they added more concepts and the US SEC gave more binding guidance on extensions. In Europe we may receive the same feedback than in the US, if don’t learn from US’s experience.
Europe has the chance to to do even better!
- Investment Professional will only applaud for XBRL, if we reach comparability at an acceptable level.
- XBRL technology could be key for improving the European capital markets for all listed companies but especially for small and mid caps. However issuers will not benefit from capital markets being improved unless XBRL does not fundamentally “*facilitate accessibility, analysis and comparability of annual financial reports*”

2. Risk of “closing your eyes” activities for

2.2. Comparability of notes

Risk of Closing the eyes for harmonization activities will result in:

- Potentially 11.000 new concepts for the notes in the 28 European Member states.
- Comparability just for a comparisons “one company over time” but (almost no) comparability:
 - between companies of the same industry
 - between companies in the same member state
 - between companies in different member states
- Companies may not use Original IFRS Taxonomy’s concepts at all, for example if member state’s taxonomy extension contains much more detailed concepts than in the Original IFRS Taxonomy.
Example: If the German IFRS taxonomy extension on interim reporting contains three up to four times more concepts than the Original IFRS taxonomy, then German companies will not tag the information twice but would use only the German extension elements.

➔ **Users/investment professionals will get a disaster in reality if they compare note’s of stock listed companies**

3. How XBRL can significantly improve the European Capital Market for listed companies independent of size

Our recommendations will be found in the whitepaper of the “IFRS, Securities and Markets Working Group” of XBRL Europe:

- Project started in April 2013, Face to Face Meeting today
- Working packages, milestones, project plan to be established today

Aspects evaluated by the working group during the last years:

1. Need to harmonize taxonomy extensions in Europe:
 - National taxonomy extensions of EU member states
 - Company specific extensions

→ Narrow rules for extending content to maintain a good level of comparability
2. European technical architecture for IFRS taxonomy extension
→ **Binding regulation to use a common European architecture**
3. Procedures or technical tools to simplify the reuse of common elements (database of European extensions or other)
4. → **Binding regulation to use such tools**

European IFRS Taxonomy Extension Framework

3. How XBRL can significantly improve the European Capital Market for listed companies independent of size – regulative aspects

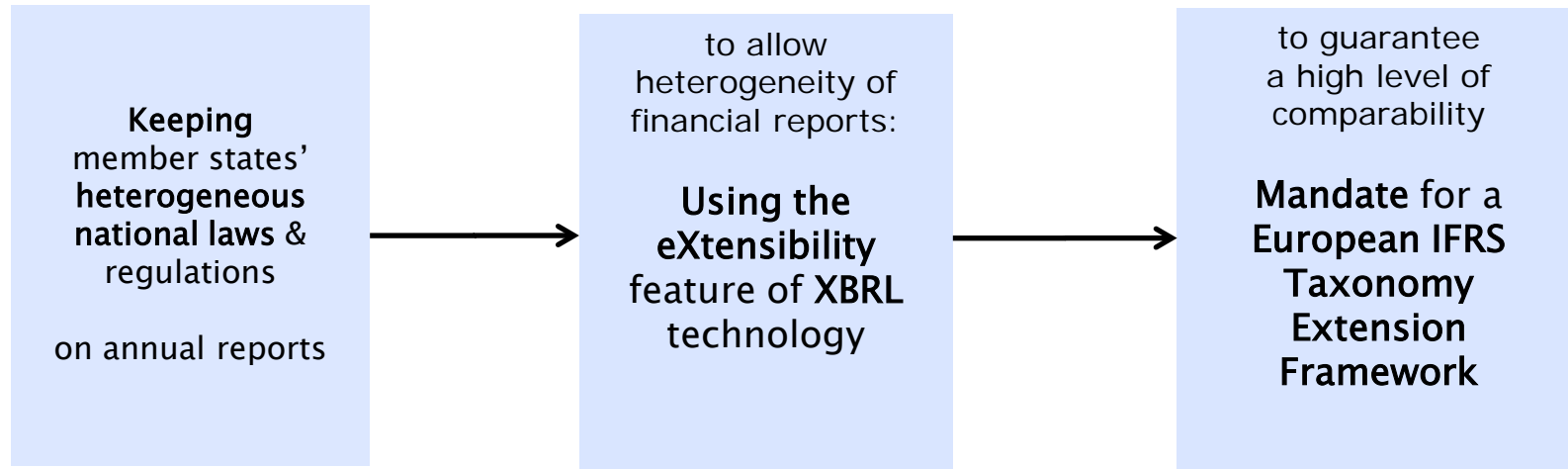
European regulation for example on the following aspects, might be suggested in our whitepaper (not agreed upon until now):

- Companies' XBRL report must be available for free and at one central place
 - See XBRL implementation at the US SEC → improved market transparency
 - ...in order to achieve EU parliament's aim to "*facilitate accessibility of annual financial reports*"
- In a digital world the focus should be limited to the content. Layout should not have the same importance like content (see "Layout requirement" at the slides before)
 - for example: the auditor's opinion might be limited to the content of annual reports (layout excluded) – e.g. audit opinion on an XBRL instance file.
 - Alternatively: Companies should be obligated to publish the content of financial reports without being obligated to publish the layout of the annual report as audited.

Results: Advantages for all stakeholder in the supply chain – issuer up to investment professional

3. How XBRL can significantly improve the European Capital Market for listed companies independent of size – regulative aspects

Aim: to “*facilitate accessibility, analysis and comparability of annual financial reports*”.¹



Result: Improved financial market for the European listed companies independent of size

Dr. Bodo Kesselmeier
U.S. Certified Public Accountant

Affiliations:

- **XBRL Europe**, IFRS Working Group, Chair with Pierre Hamon (etXetera), Chair
- **DVFA**, German Society of Investment Professionals, Small and Mid Cap Expert Group, Member
- **German CPA Society**, XBRL Working Committee, Chair
- **anuboXBRL GmbH & Co. KG**, General Partner

Contact:

Phone: +49 89 856385 1-0

Fax: +49 89 856385 1-19

Email: bodo.kesselmeier@xbrl-eu.org

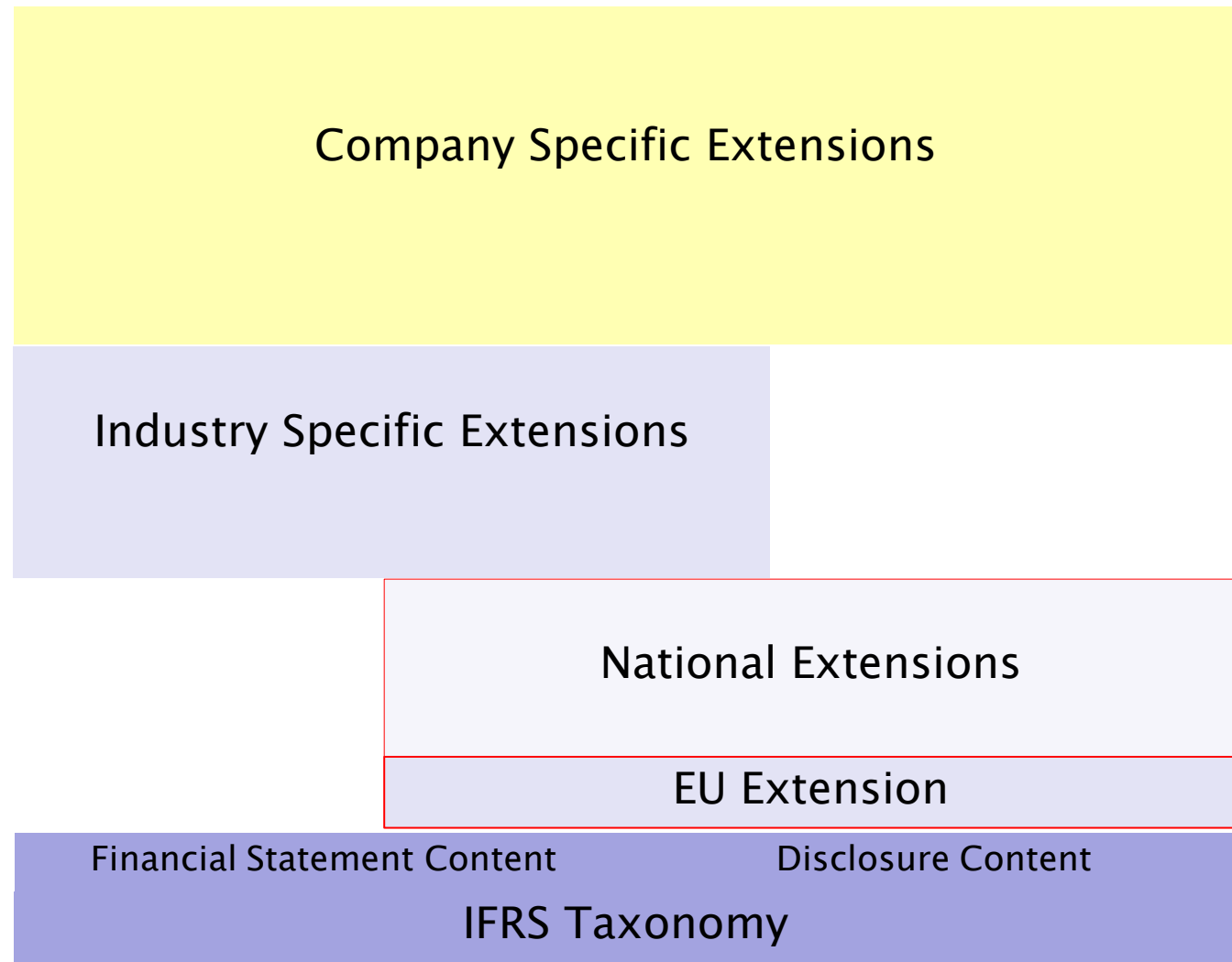


XBRL Europe, The IFRS, Securities and Markets Working Group, www.xbrl-eu.org

XBRL Europe Working Group: IFRS, Securities and Markets Working Group

- aims are:
 - ✓ to promote XBRL for European securities and markets,
 - ✓ to ensure comparability of XBRL data for investment professionals,
 - ✓ to harmonize IFRS Taxonomy Extensions in Europe, and
 - ✓ to optimize the XBRL-implementation processes of European stock listed companies.
- Our main activities are:
 - ✓ Supporting European institutions like the Members of the European Parliament, European Commission, ESMA, EFRAG, and European associations in the area of capital markets with XBRL.
We are serving these institutions with the worldwide experience of the XBRL International community in capital markets and with best practices know how.
 - ✓ Supporting European national accounting standard setters and national supervisory authorities.
 - ✓ Offering a platform to European XBRL jurisdictions, listed companies, investment professionals, regulators, service providers and software companies to share XBRL experiences, for example how to implement EU national IFRS XBRL Taxonomy extensions.

Extending the IFRS Taxonomy – Types of Extensions



Aim:
To increase comparability by minimizing Company Specific Extensions and by minimizing National Extensions