ESEF observatory

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Best practices & data utilisation

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corporatings Feedback of KPMG and preface by EURONEXT

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Foreword

By EURONEXT

ESEF AND DIGITALISATION: CATALYSTS FOR TRUST AND GROWTH IN FINANCIAL MARKETS

EURONEXT

by Mathieu CARON, Head of Listing and Corporate Services

The technological revolution has deeply transformed our society, greatly increasing the efficiency of our daily tasks and generating massive amounts of data, which is now commonly referred to as the "new black gold of the 21st century." However, effectively harnessing this data poses a significant challenge, particularly in the financial markets, where regulatory frameworks have sometimes been slow to catch up with technological innovation.

The implementation of the European Single Electronic Format (ESEF) in 2021 marked a turning point in the digitalisation of the financial disclosures of European companies. By facilitating access to issuer data, ESEF is already transforming the daily reality of professionals in the financial sector. Investors can now access a much larger quantity of information to make faster, better-informed financial decisions.

These regulations boost investor confidence and promote high-quality financing and investments.

In this context, expectations regarding transparency have significantly evolved. Today, Euronext assists more than 6,000 institutional investors from over 60 countries, all seeking the best possible investment opportunities. Additionally, numerous financial research organisations track a large pool of issuers and are required to provide recommendations and price targets in an increasingly rapid flow of information.

Faced with an ever-increasing, fast-paced flow of information, investors and analysts need clear, accurate and comparable data. New standards and processes, such as ESEF, enhance the reliability and comparability of financial data, thereby contributing to market participants' trust.

Euronext's mission is to facilitate access to financing and visibility for over 2,000 listed companies on its markets. This digital transformation of the financial sector is a major milestone, and our issuers must grasp its implications to improve their financial communication and maintain visibility. For investors, this transition provides an opportunity to gain better knowledge of competitors, analyze a greater number of companies and invest in more virtuous companies.

In this regard, this study by Corporatings, conducted with the support of KPMG, will provide you with key insights into the implementation of ESEF and the best practices observed during the latest campaign, to help you benchmark your own practices. We wish you an instructive read.

Netherlands, Rotterdam

Belgium, Gent

01.

THE DIGITALISATION OF LISTED COMPANY PUBLICATIONS IN EUROPE

THE ELECTRONIC FORMAT AND ITS OBJECTIVES

AN INTERNATIONAL WAVE OF DIGITALISATION

Far from a passing trend, electronic publications are set to become the standard in European reporting practices. As the volume of published data continues to increase, the race towards full digitalisation is well underway. However, ESEF is primarily catching up with the worldwide race towards the XBRL standard, which is already widely used internationally (North America, Japan, China, India...). In the United States, for example, the Securities and Exchange Commission (SEC) mandated the use of XBRL format for the financial statements of listed companies as early as 2006.

In line with the Transparency Directive, ESEF aims to facilitate access to corporate financial statements.

THE OBJECTIVES OF ESEF

1 | **Facilitating the financing of European companies** in the face of declining financial research by improving the circulation and use of information (increasing the visibility of small and mid-cap companies and the international competitiveness of large-cap companies).

2 | Leveraging digitalisation to **boost confidence and transparency in EU capital markets.**

3 | **Providing a comparable representation of companies' financial situation** by harmonizing their reporting requirements and using a standard format already well established worldwide.

THE GREEN FUTURE OF ELECTRONIC PUBLICATIONS

After the financial data of annual reports in Europe, sustainability data will soon be published in the digital format: the CSRD (Corporate Sustainability Reporting Directive) will come into effect in 2024. We can expect a progressive increase of the amount of financial and sustainability data published in this format.

WHY DO ANALYSTS TURN TO ELECTRONIC DATA?

by Boris Bourdet, financial analyst and portfolio manager

As the world becomes increasingly digital, the financial analysis profession is lagging behind. By definition, when investors select and compare companies to invest in, they incorporate the data published by issuers into a valuation model, which enables them to make projections and define price targets. However, while many professions have made significant progress in digitalisation, financial analysis remains largely confined to a 'traditional' approach: sourcing PDF files for relevant information, entering data into Excel while praying to avoid copy-paste errors… Those who compare companies on a daily basis know how time-consuming and error-prone financial modeling can be!

Meanwhile, the financial sector continues to evolve and face new challenges: the number of listed companies is increasing, they all publish their information simultaneously, the amount of data to be processed is growing, and with sustainability data, new risks and opportunities arise… This means that analysts have to dedicate more and more time to this heavy maintenance work, leaving less time to identify promising investments. Granted, there are already plenty of third-party data providers that offer financial data in abundance, especially in Anglo-Saxon markets. Unfortunately, this data is not reliable enough to support sound investment decisions. This is because the existence of an intermediary compromises the reliability of the obtained data: biases related to incomplete market coverage, non-transparent calculation methods, delays in data retrieval, formatting choices… At the end of the line, analysts are faced with data whose exact composition is unknown, which can lead to comparing incomparable information. As a result, their entire analysis may be distorted, forcing them to return to time-consuming data processing tasks to verify the accuracy of the information.

At last, the digitalisation of financial data offers an alternative to these tedious methods: the prospect of immediate access to the data published by companies is no longer a fiction, but a reality that promises to revolutionise analysts' daily routine. For them, it's all about saving time and concentrating on tasks with higher added value.

However, this progress will only be possible under one condition: analysts must have access to raw fundamental data. In short, for knowledgeable investors, a complete transition to automated processes (in other words, the end of copy-pasting) is only conceivable if the accessible data is sufficiently reliable and detailed. Only granular data can provide the highest degree of precision, allowing experts to select the most relevant information for their analysis. Digital data is the only viable alternative for analysts to access reliable, granular data while achieving actual productivity gains. If this condition is met, analysts can bid farewell to manual data entry and get used to better analyses on larger samples of issuers, and with a higher degree of precision. By facilitating access to their raw data, issuers also have better guarantees of being included in the scope of investors' study.

It is therefore high time, in the third millennium, for analysts and issuers to embrace the digitalisation of raw fundamental data!

United Kingdom,Jacobite Steam Train

02.

QUALITY & COMPARABILITY OF ESEF DATA: 2023 VERSUS 2022

PURPOSE AND METHODOLOGY OF THIS OBSERVATORY

WHY CREATE THE PRESENT GUIDE FOR ISSUERS AND DATA USERS?

At a time when issuers are still adapting to the ESEF format and the new reporting practices, the CSRD will soon be extending the scope of digitalisation to sustainability data. This directive carries major stakes, given that sustainability and social impact have become key communication focuses and investment criteria.

Digitised financial reporting is therefore an ongoing development – a reality that should alert European issuers, many of whom are still unfamiliar with the actual contents of their ESEF reporting. All too often, they still publish confusing or incomplete electronic data and need to understand how vital data quality is from an analyst's standpoint. We stand at a crossroads, where data digitalisation is already a reality but not yet fully mastered.

It seems more necessary than ever to take stock of how European financial players are adapting to their new digital reality. What are the main challenges faced by analysts when reviewing European publications? What are the key technical and strategic mistakes made by issuers? What developments have been observed since the creation of the ESEF format?

Our study aims to highlight the main obstacles to the publication of qualitative and easily exploitable ESEF data for all. Now is the best time to rectify reporting errors and adopt virtuous practices that enable the use of ESEF as a tool for financial communication, and even a performance lever in its own right.

Lithuania, Trakai Island Castle

METHODOLOGY AND SCOPE OF THE STUDY

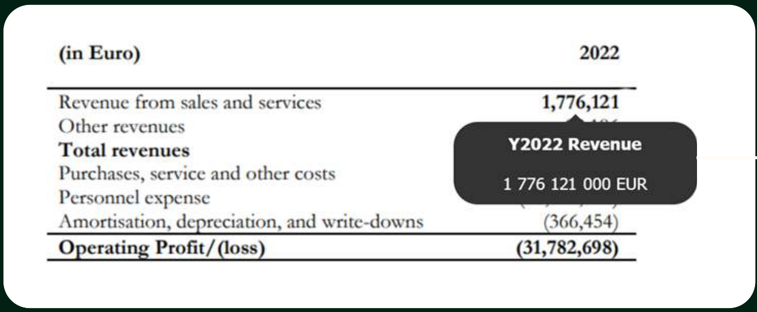
- The study focuses solely on tagging the primary statements of IFRS consolidated financial statements (and not the notes to the consolidated financial statements, for example).
- We used our **proprietary Corporatings database,** consisting of electronic data published by companies in the United States and Europe, i.e. 15,000+ companies.
- The analysis was carried out on data from reports of companies that published two electronic reports before May 21, 2023, for fiscal years beginning after January 1, 2022, AND between January 1, 2021, and December 31, 2021.
- In total, **2,364 European companies** from **22 countries** are involved, resulting in the analysis of **4,728 reports.**

A GLANCE INTO THE MOST CRITICAL DIGITAL ISSUES

Scaling issues

EXAMPLE

DRAWN FROM A 2022 ANNUAL REPORT



(in Euro)	2022
Revenue from sales and services	**1,776,121**
Other revenues	
Total revenues	
Purchases, service and other costs	
Personnel expense	
Amortisation, depreciation, and write-downs	(366,454)
Operating Profit/(loss)	**(31,782,698)**

Y2022 Revenue

1 776 121 000 EUR

In its electronic filing, this company multiplied its income by a thousand.

EXPLANATION

The electronic format requires issuers to select the disclosed amounts in their reports and add information such as currency, scale and precision. Some issuers pick the wrong scale, i.e., one that does not fit the disclosed information.

Denmark, Copenhagen

France, Mont Saint Michel

RECURRING CASES

Case n°1 : The amount is not part of any calculation (98% of cases):

Scaling errors are quite frequent on amounts that do not contribute to a total or subtotal. In this case, they are limited to a fragment of the data. The most common occurrences are related to:

- Earnings per share
- Amounts disclosed in footnotes (under a statement)

Case n°2 : Most disclosures within the financial statements are incorrect (2% of cases):

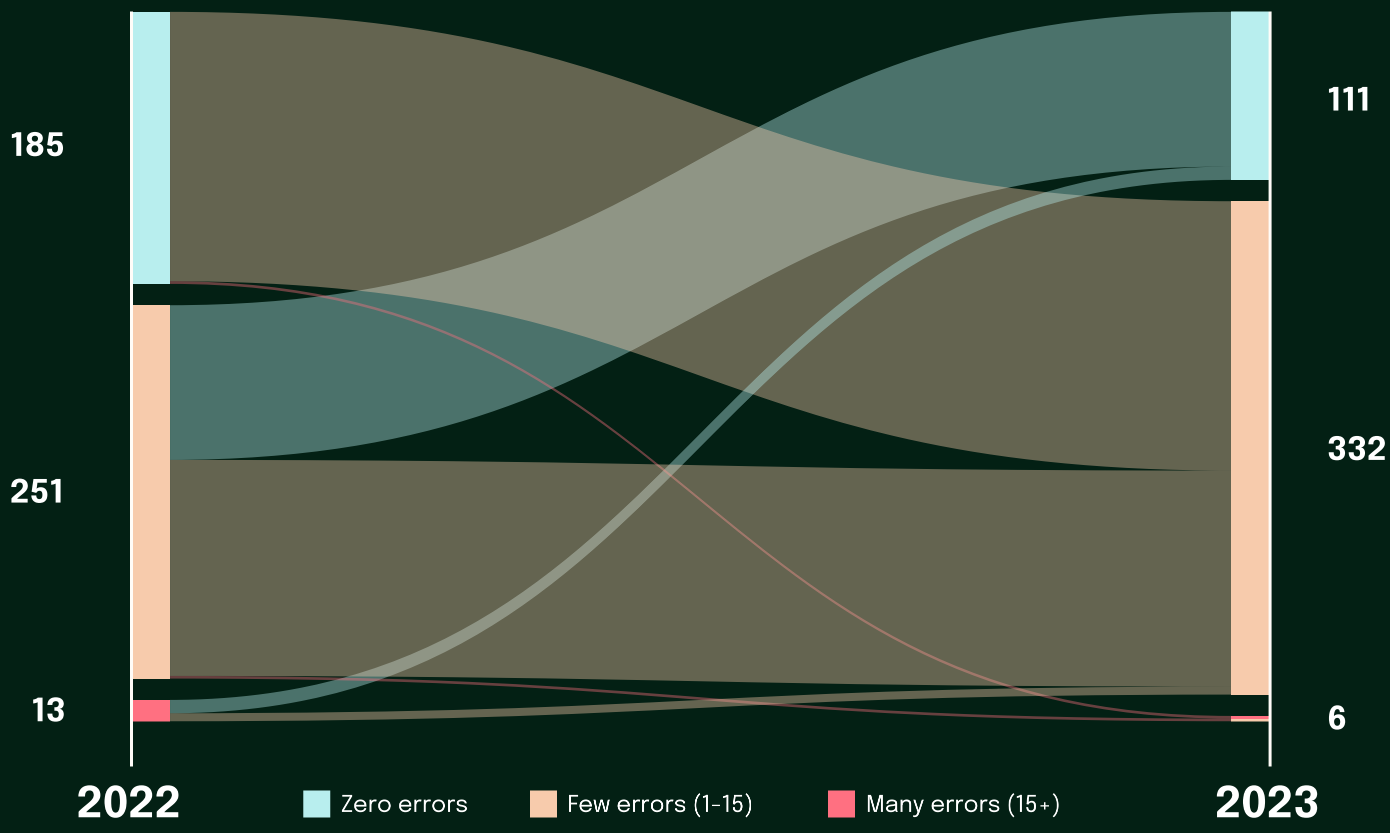
The electronic format requires issuers to disclose how subtotals are calculated. These calculations are then used to perform automated checks. Issues with scale are then caught by these checks... unless all amounts are incorrect.

⚠️ As discussed in « Missing calculations » (cf. p23), it is quite common for issuers to fail to disclose part of their calculations. In that case, it is more likely to find a scaling error on these amounts.

PREVALENCE

Evolution of the 449 reports presenting scaling errors*

*Does not include the 1,915 issuers which disclosed error-free reports in both 2022 and 2023



- **1,915 companies published reports without any scale issues in both 2022 and 2023.**
- Scale issues appeared in **14.3% of 2023 reports, up from 11.2% in 2022.**
- A significant proportion (54%) of these appear in **reports which did not contain such issues the previous year.**

+ 3,1%

scaling errors between 2022 and 2023

EFFECTS

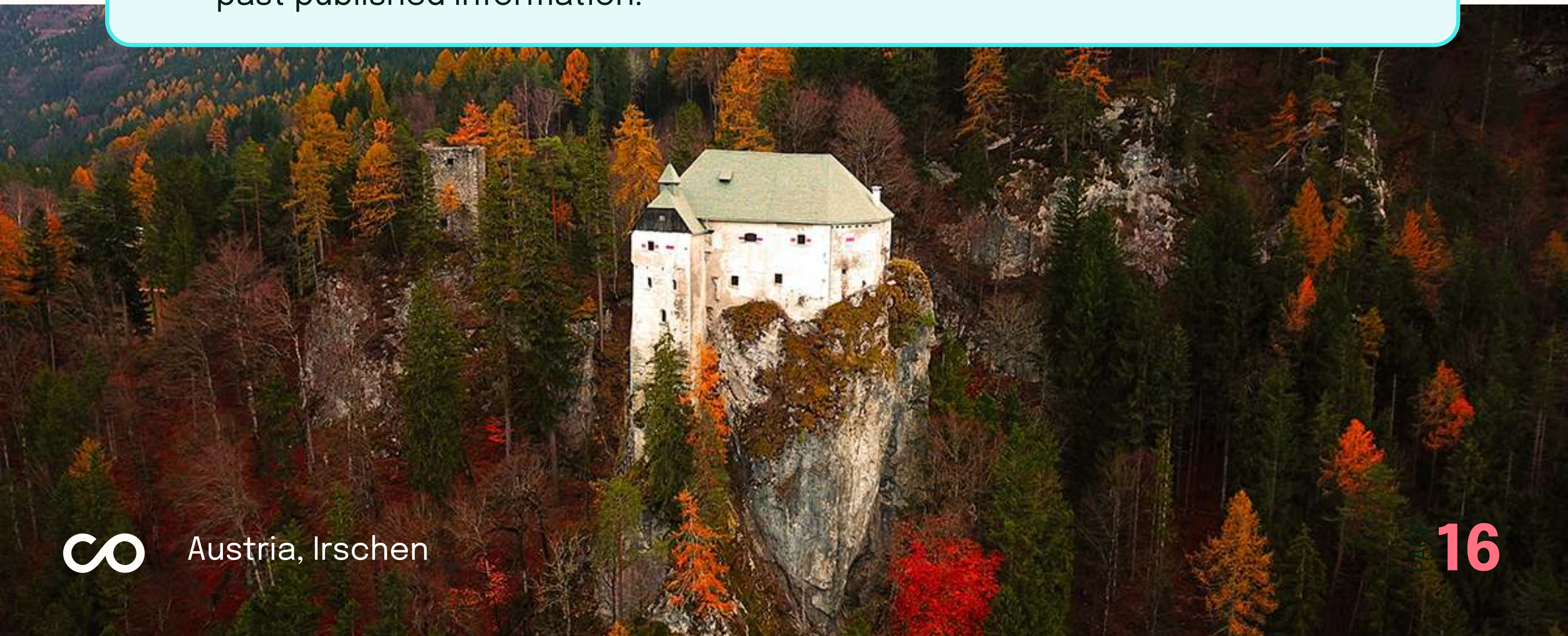
- Such errors drastically alter the position of the company in screenings and projections.
- These issues may drastically alter the value of basic ratios such as days sales outstanding, which combine the balance sheet with other financial statements.
- The company may not be screened by a financial analyst who uses a ratio as a filter to select companies for valuation.

SOLUTIONS

- Scaling errors that affect the entirety of financial statements can be avoided by making sure to check **at least one disclosed amount within the balance sheet and income statement.**

- **Scaling errors in the rest of numerical disclosures** can easily be detected by:
  - Comparing the report with the previous year's report and looking into data that conveys a restatement with a significant change in magnitude.
  - Comparing the order of magnitude of the data between the reporting period and the previous year.

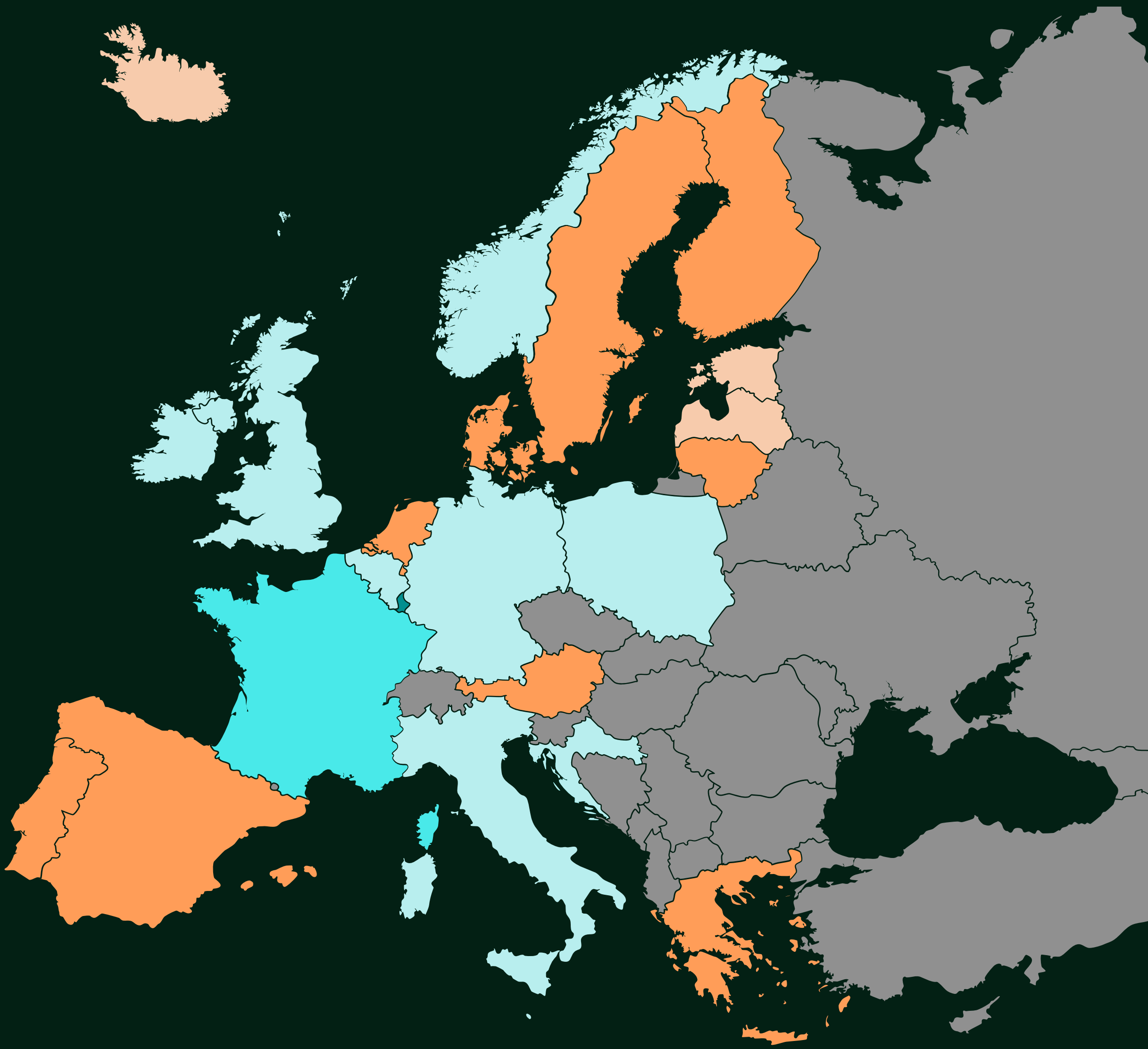
- **The detection of all cases described above can be automated.** The solution that yields the best results, assuming the company's past publications are reliable, is **the comparison with past reports.** Thankfully, the electronic format is purposefully designed to facilitate the retrieval of past published information.



Austria, Irschen

EUROPEAN INSIGHTS

2022-2023 evolution of the number of reports containing at least one scaling error



0% to 5% increase
0% (neutral)
0% to 5% decrease
5% to 10% decrease
>10% decrease
No data

corporatings

Feel free to ask us for other geographical benchmarks!

Sign issues

EXAMPLE

DRAWN FROM A 2022 ANNUAL REPORT

NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	5,134
NET PROFIT/(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS (NET OF TAXES)	(73)
Non-controlling interests	(722)
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT	4,337
BASIC EARNINGS PER SHARE IN EUROS FOR CONTINUING OPERATIONS	0.656

Profit(loss) attributable to NCI Y2022

- 722 000 000 EUR

In its electronic filing, this company reports the contribution to profit/loss from its **non-controlling interests** using a negative sign, which means it is a net loss.
However, looking at the report more closely, it becomes obvious that the contribution from non-controlling interests is a positive 722 million €. **The company chose the wrong sign, resulting in a 1.4 billion € misstatement.**

EXPLANATION

As shown in the example, negative signs in a financial statement do not always correspond to a negative value for the line item. They often are used **to indicate that the value is to be subtracted to calculate the next subtotal in the statement.**

While there is freedom in how the information is displayed, users of the information obviously need to know the actual situation conveyed by the data. The electronic format therefore follows a **simple convention: the meaning of each sign is given by the name of the metric.**

For instance:

- For the Profit (loss) metric, a positive value corresponds to a net profit, while a (negative) value corresponds to a net (loss).
- For the Income taxes paid (refund) metric, a positive value corresponds to a net payment, while a (negative) value corresponds to a net refund.

Iceland, Seljalandsfoss

RECURRING CASES

The electronic format has a few safeguards against this type of error. However, they heavily rely on the accuracy of the calculations performed within the report.

Case n°1: There is no safeguard for the calculation (72%):

A limited list of metrics does not trigger sign consistency checks, for reasons beyond the scope of this document. This list notably includes the sum of cash flows from (used in) operating activities.

Case n°2: The issuer did not provide calculation (17%):

The consistency of the reported value cannot be checked, which makes a sign error more likely.

Case n°3 : The issuer provided the calculation in reverse order (11%):

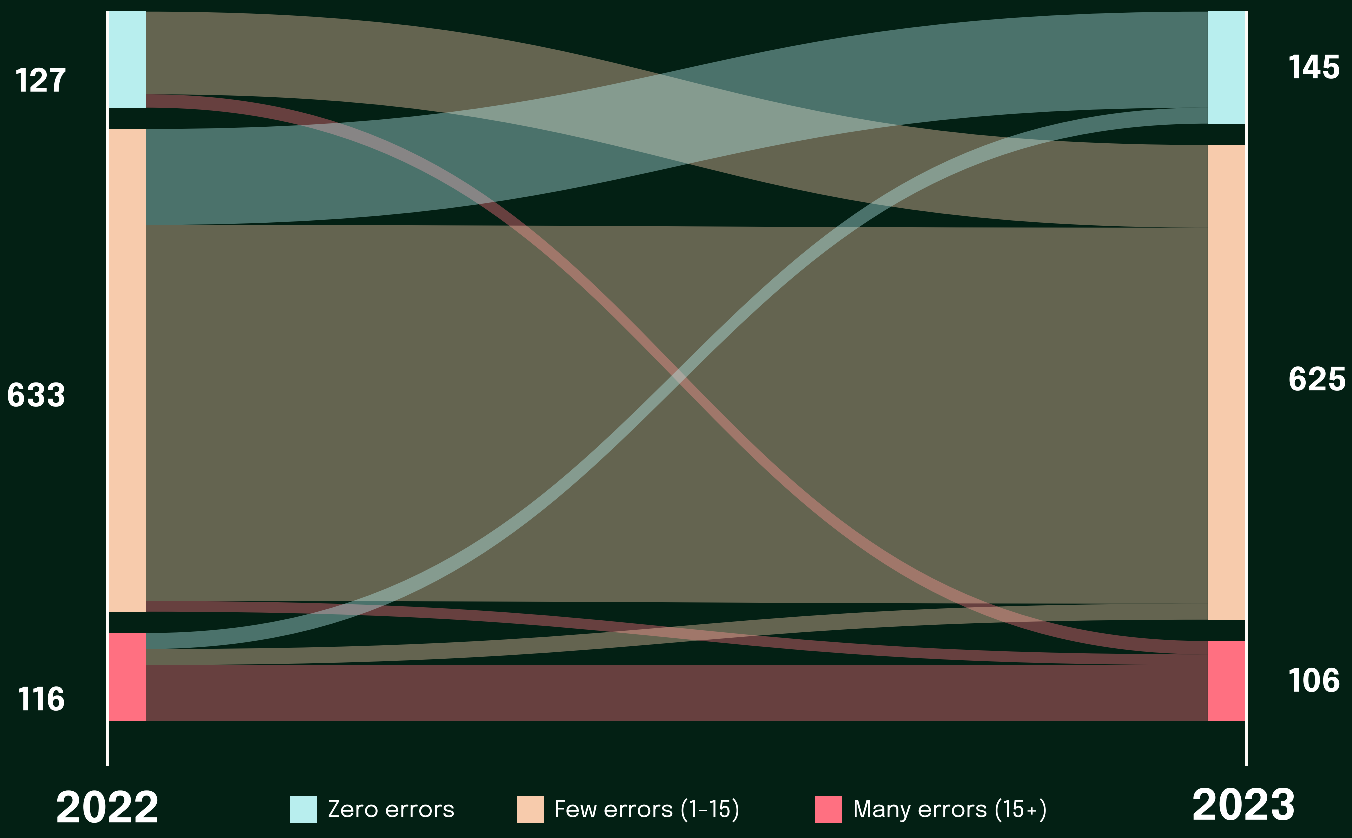
This is the case in the provided example. The format expects the calculation to be described in a specific order, with components “rolled-up” in the calculation’s total.

When the issuer attempts to describe how to calculate a component by subtracting other components from the subtotal, the format safeguards will paradoxically favor the creation of a sign error.

PREVALENCE

Evolution of the 876 reports presenting sign errors*

*Does not include the 1,488 issuers which disclosed error-free reports in both 2022 and 2023



- **1,488 companies published reports without any sign issues in both 2022 and 2023.**
- Sign errors appear in **30,9% of 2023 reports, down from 31,7% of reports in 2022.**
- The most common errors can be found on:
  - Taxes paid vs taxes refund
  - Interest paid vs interest received
  - Net profit attributable to non-controlling interests vs net loss attributable to non-controlling interests

-0,8%

sign errors between 2022 and 2023

EFFECTS

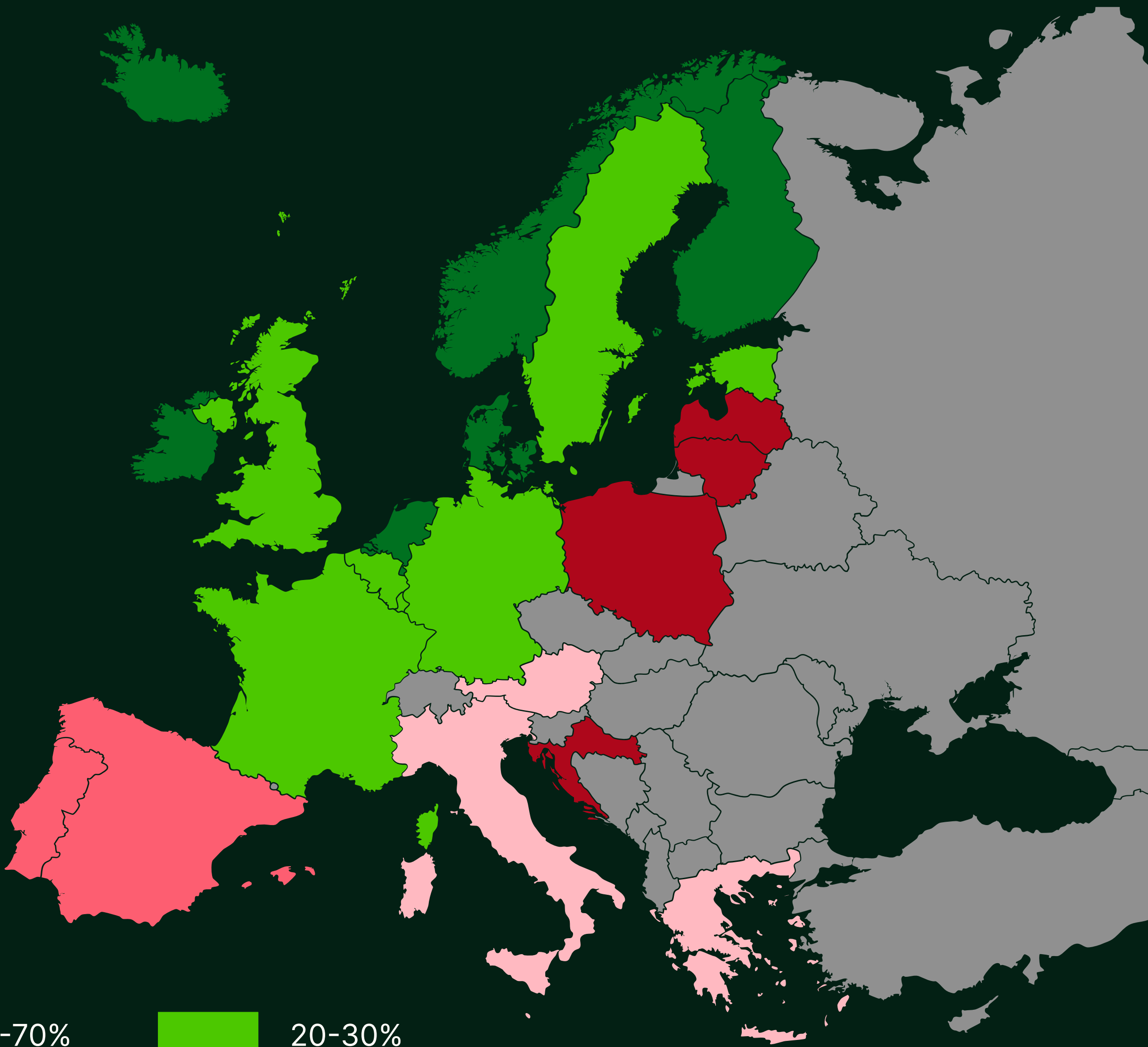
- The situation of the company presented may be the **opposite of its real situation.**
- Such issues may **alter the value of ratios** the item participates in, significantly changing their value, although not to the point of appearing as an obvious misstatement.
- An **analyst** might carry out proper calculations to value the company but base them on a wrong ratio because of the sign error – **thus distorting his entire analysis.**

SOLUTIONS

- **Comparing calculations with common practice** can help detect most calculations declared in the wrong order. As a general rule, any calculation performed by the issuer should be carefully reviewed.
- For instance, **in the example we provide**, profit (loss) is described to be a component of profit (loss) attributable to owners of parent. This goes against common sense and common practice and therefore warrants further examination.
- **Calculations should be provided** wherever possible. Many issuers do not carry out all the calculations as they are required to do. Many of the errors we noted could have been avoided by disclosing the calculation properly.
  - It is worth noting that as of 2023 – three years after the introduction of the format – some software still do not allow report creators to disclose all calculations.
  - Some items cannot be documented with the format's calculations, for instance earnings per share or monetary details disclosed in a footnote. These items should be more closely reviewed by from preparers and reviewers.
- **Complementary checks** can easily be implemented to verify subtotals for which the format does not provide automated safeguards. These complementary checks will catch a large majority of sign errors within the terms of these subtotals.

EUROPEAN INSIGHTS

Percentage of reports containing at least one sign error in 2023



60-70%
50-60%
40-50%
20-30%
10-20%
No data

corporatings

Feel free to ask us for other geographic benchmarks!

Missing calculations

EXAMPLE

DRAWN FROM A 2022 ANNUAL REPORT

Operating profit	**5 426**
Cost of net debt	-588
Income tax expense	-1 666
Profit from continued activities	**3 029**

The automated validation of this report shows no error at all when checking the consistency of its calculations. However, in its electronic filing, this issuer filed its "cost of net debt" with an inexact figure, and the subtotal for profit from continued activities does not match the displayed calculation (5426 - 586 - 1669 = 3171). The error does not show up in the validation report because the issuer has also incorrectly described the calculation in the human-readable paper version.

EXPLANATION

The ESEF specifications require issuers to describe the calculations that apply in their financial statements. All issuers are required to provide **information about the "roll-up" calculation between line items** in their financial statements, where the calculation describes how a total or subtotal in the financial statements is calculated.

Additionally, ESMA states that issuers should also provide other information such as the **"cross-period" calculations** that can be performed to reconcile cash and equity at the end of a reporting period with their amounts at the beginning of the period, as described by the statement of cash flows and the statement of changes in equity.

This information not only allows for numeric validation for report creators, but it also provides precious information to end users about the structure of the financial statements.

RECURRING CASES

One obvious case of missing calculations occurs if if the issuer simply forgot to provide the calculation. We however identified few reports where this seemed to be the primary reason.

Case n°1 : The software used does not allow the input of the calculation (59%):

A large part of the software used to create financial reports in the electronic format does not allow its users to provide two different ways to calculate the same subtotal.

Much software also fail to let users provide cross-period calculations. It is also possible that some issuers have been unaware of software updates and did not try to input additional calculations for the report they published in 2023.

Case n°2 : Providing the calculation triggers a validation message (35%):

The validation system chosen* by ESMA is very strict. It entails the creation of error messages in a number of cases where there is no real issue with the report:

- The financial statements are rounded, and the numbers are not adjusted to make the calculations exact.
- Similar calculations are described on several occasions in the report.

The validation system is then very likely to create error messages.

Many issuers (mistakenly) believe these error messages to convey actual conformance issues, and may omit a calculation as a way to “solve” the message. By doing so, they are actually increasing the probability of a non-conformance going unnoticed.

Case n°3: a part of the line item also uses “dimensions” (6%):

The electronic format provides two options to declare the accounting meaning of a line item in their statements. One of them, the use of “dimensions”, is meant to be used only in very specific situations, such as to identify the columns in the statement of changes in equity. Some issuers prefer to use them more liberally, with arguments of increased comparability.

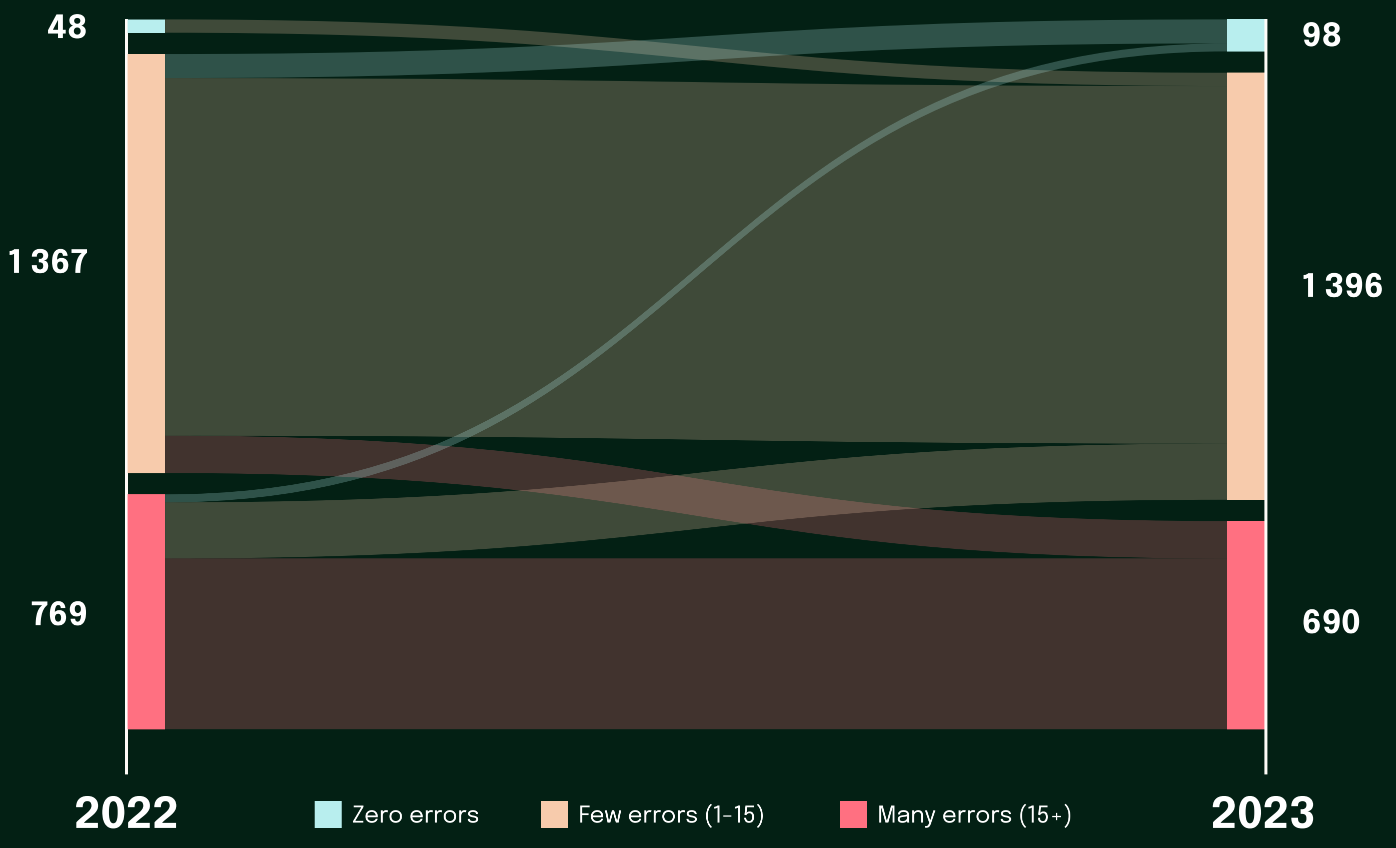
However, the electronic format does not allow the declaration of calculations between line items if they don’t all use the same dimension.

*The XBRL technology - which provides the basis for the ESEF format - does offer alternative validation systems that would prevent a significant portion of the mentioned issues.

PREVALENCE

Evolution of the 2,184 reports presenting missing calculations*

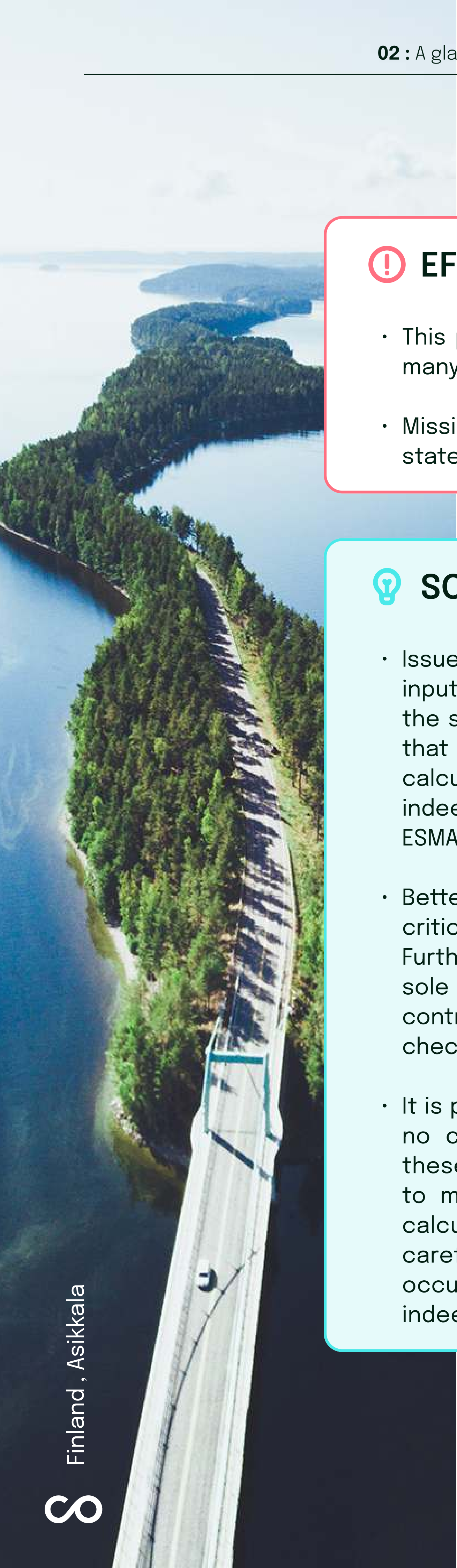
*Does not include the 180 issuers which disclosed error-free reports in both 2022 and 2023



- **180 companies published reports without any missing calculation in both 2022 and 2023.**
- Missing calculations can be found in **88,8% of 2023, down from 90,4% of 2022 reports.**
- The most common issues that cannot be attributed to software capabilities are:
  - The calculation of subtotals within changes in equity
  - The calculation of components of cash and cash equivalents

-2,2%

missing calculations from 2022 to 2023



Finland , Asikkala

EFFECTS

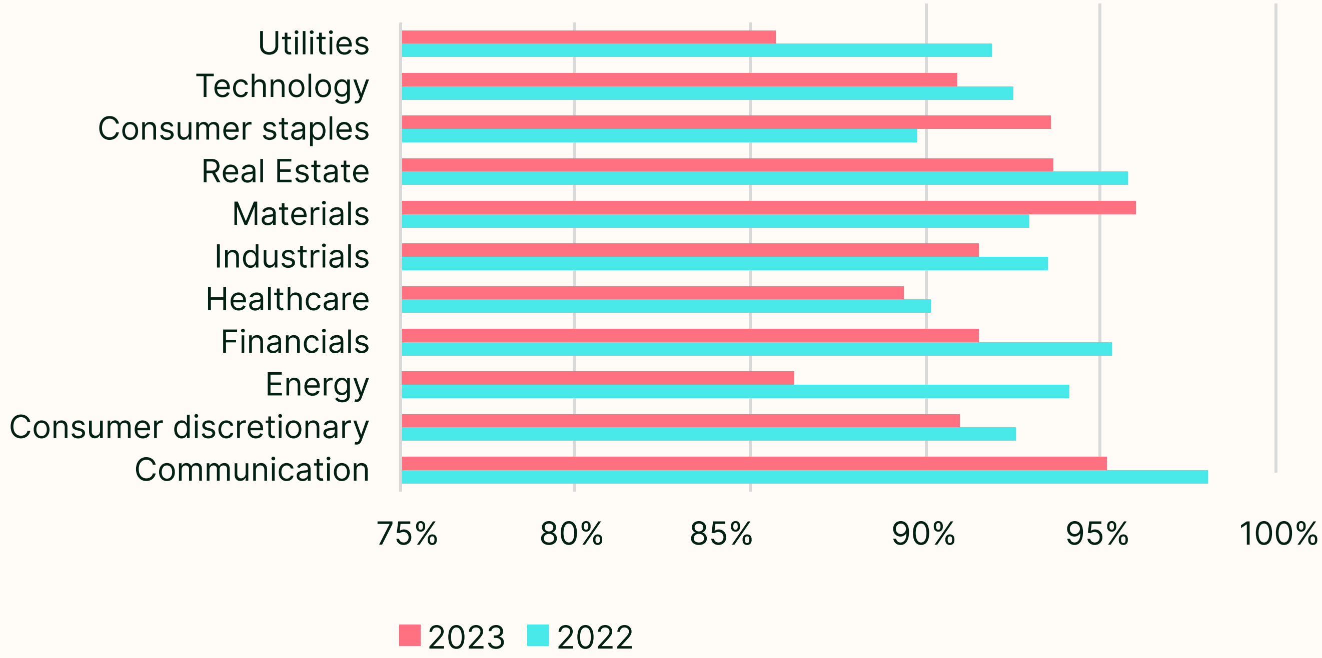
- This prevents the detection of wrong values and of many other potential quality issues.
- Missing calculations make the structure of the statement more difficult to understand.

SOLUTIONS

- Issuers should make sure their software allows the input of calculations when several calculations use the same line as a subtotal. They should also check that other calculations, such as cross-period calculations or calculations between columns, are indeed described in their report as recommended by ESMA.
- Better communication must be made about the non-criticality of some of the validation messages. Furthermore, a report must not be praised on the sole basis that it has no validation warnings. On the contrary, this may indeed signal that all possible checks have not been performed.
- It is possible to automatically detect areas in which no calculations have been declared, and, within these areas, to check whether the line items seem to match a given calculation. Areas in which no calculation seems to be possible should be carefully reviewed, as this is actually a rare occurrence. This is typically a hint that there is indeed a numerical issue.

EUROPEAN INSIGHTS

Percentage of reports including at least one missing calculation



corporatings

Feel free to ask us for other sectoral benchmarks!

Slovenia, Kranjska Gora

USE OF EXTENSIONS AND CORE METRICS

Improperly anchored extensions

EXAMPLE

DRAWN FROM A 2022 ANNUAL REPORT

Cash flow from operating activities	**-7,975,441**
Net change in long-term funding	2,063,032
Net change in short-term funding	1,103,026
Net change in long-term loans	
Net change in short-term loans	
Net change in investments	
Net change in collaterals	
Interest on assets	
Interest on liabilities	93,905

Interests on liabilities

Non-standard metric (created by the issuer)
Described as comprising the standard metrics **Current provisions** and **Other current liabilities**

In this cash flow statement of a banking institution using the direct method, the item "Interest on liabilities" within operating cash flows does not match any of the line items already available in the reference list of standard or common practice line items, so the issuer created its own custom ‘Interest on liabilities’ line item. The issuer then describes how this line item relates to standard line items. It describes ‘Interests on liabilities’ as an aggregation of several line items, including ‘Current provisions’ and ‘Other current liabilities’. But these items are of a different nature: ‘Interests on liabilities’ is a cash flow, while ‘Current provisions’ is a balance sheet item. Such a disclosure is likely to cause confusion and classification errors when a user or a software attempts to understand the issuer’s custom line item.

Sweden, Fridhemsplan Metro Station

EXPLANATION

As shown in the example, it is common for primary financial statements to include entity-specific line items ("extensions"), when the entity:

- Discloses information that is material for the entity at a more granular level than what is common practice;
- Groups together common practice line items that are not materially significant for the entity when considered individually.

In such a situation, the electronic format expects the issuer to disclose how this line item relates to standard or common practice line-items, either by:

- Disclosing how the line item is calculated, if it is a subtotal in the statement;
- Disclosing the standard or common practice line-item with the widest (and closest) accounting meaning, as well as the most significant standard or common practice line items that have been aggregated into the entity-specific line item, if any. This is commonly called 'anchoring' the entity-specific line item.

This information allows users of the electronic data to better understand the meaning of the entity-specific line-item.

Ireland, Trinity College

RECURRING CASES

Case n°1 (93%):

The item selected as an anchor is not the closest possible one: a generic all-encompassing item is selected instead, and no information is provided about the line items that have been aggregated into this specific line item.

One common case is that of entities creating line items to aggregate several equity reserves, without indicating whether the created line item actually belongs to or includes “retained earnings”, nor disclosing the aggregated equity reserves. Instead, those entities simply indicate that the created line item is included in equity attributable to owners of parent.

Note: there are some legitimate occurrences where a line item cannot be linked to anything except such a generic item. We identified most of those cases and did not include them in the statistical figures shown in this section.

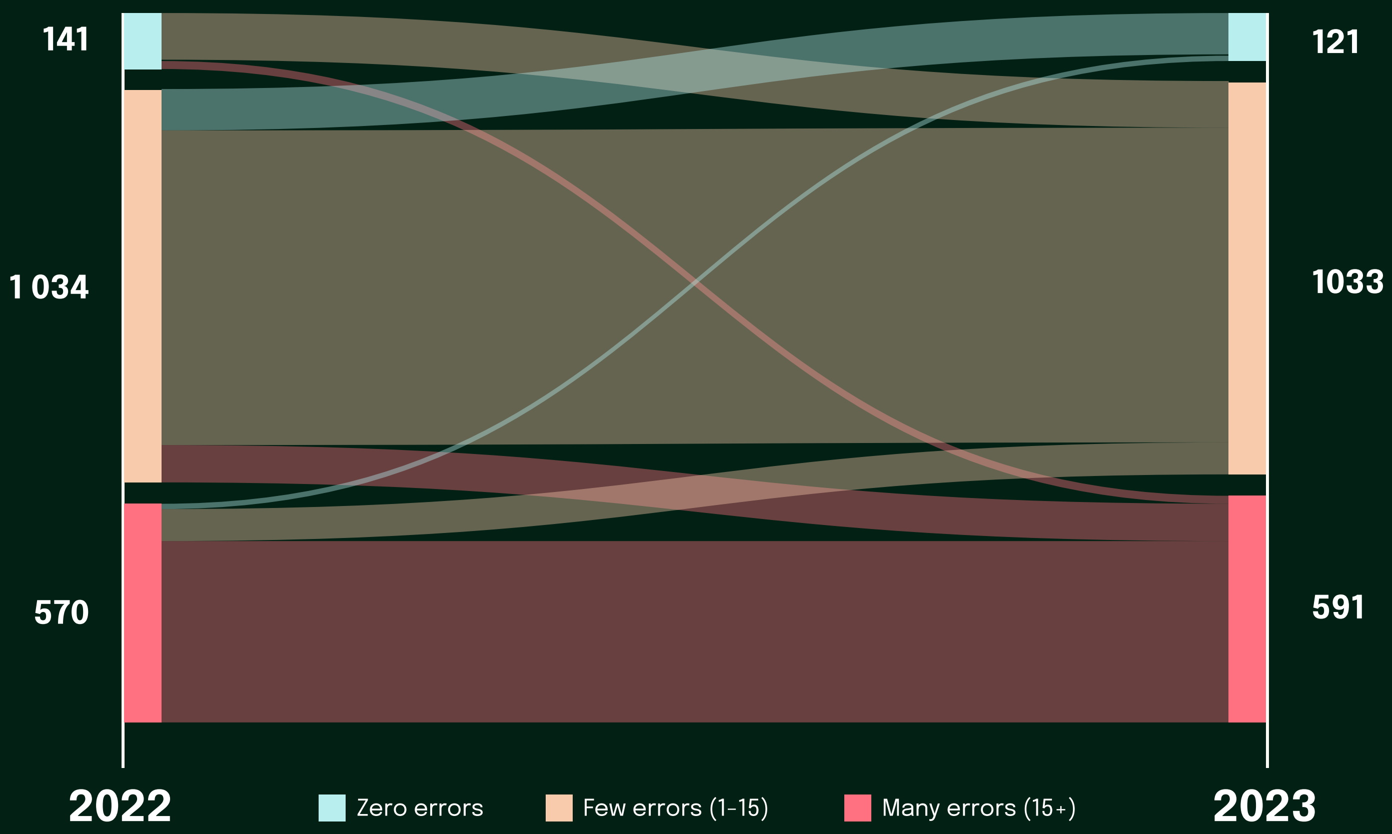
Case n°2 (7%):

The selected item is of the wrong nature. **As shown in the example,** we have observed cases where the items selected as anchors are simply not of the same nature or do not have an accounting meaning that matches that of the entity-specific line item.

PREVALENCE

Evolution of the 1,745 reports presenting improperly anchored extensions*

*Does not include the 619 issuers which
disclosed error-free reports in both 2022 and 2023



- **619 companies published reports without any improperly anchored extensions in both 2022 and 2023.**
- The company-specific line items could have been better anchored in **68,7% of 2023 reports, up from 67,9% of 2022 reports.**
- Entity-specific line items for which information cannot be found are most often present in:
  - Equity (within the balance sheet)
  - Cash flows from or used in investing activities.

+0,8%

improperly anchored extensions between 2022 and 2023

EFFECTS

- This makes it more difficult to understand the entity's specific line items, and therefore hinders some operations, such as the analysis of the issuer's commercial activity.
- In certain cases of abundant use of improperly anchored extensions, this can give the impression that the financial statements do not provide any information on the elements that are important or necessary for an accurate valuation of the entity.

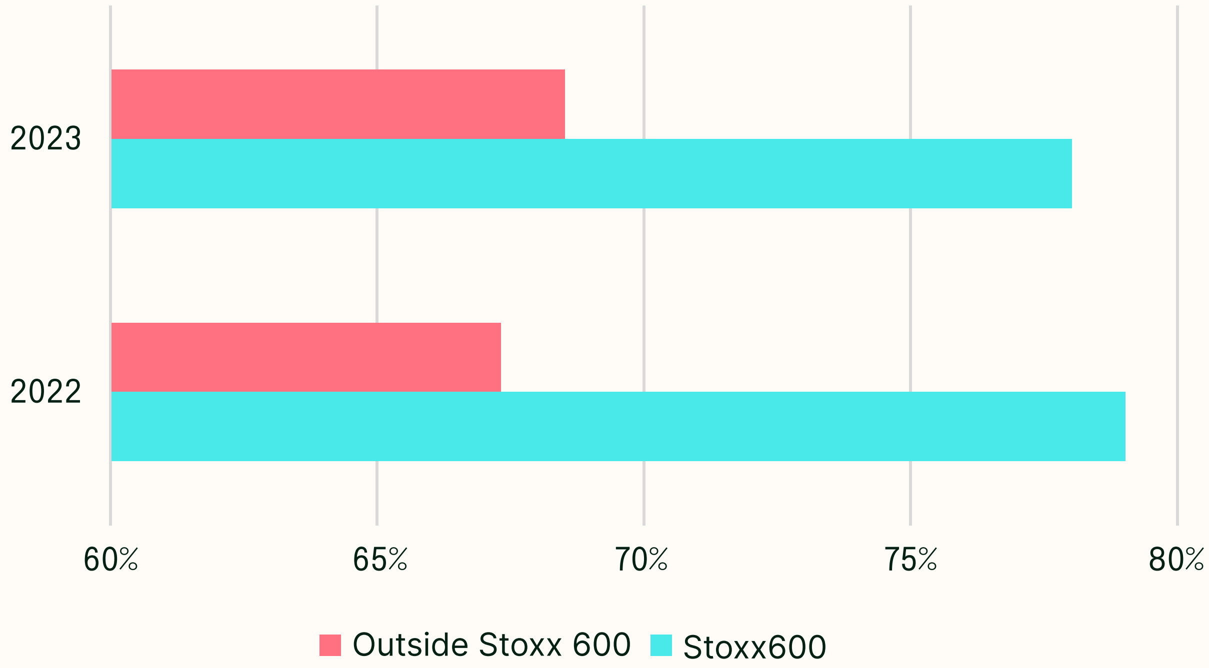
SOLUTIONS

- **Issuers:** you should identify entity-specific line items for which no information is provided through the anchoring mechanism. This task can be automated. You should also review the identified line-items to determine whether they actually are so unique that they cannot be linked to any of the common practice or standardized line items.
- **Issuers:** for each table of your financial statements, get hold of a list of the most commonly reported line items. These will be the ones financial analysts will be using to benchmark companies. For each of these line items that you don't include directly in your table and that is not linked to any of your entity-specific line items, ask yourself if you really want to tell users that the value for this line item is zero.
- **Users:** when encountering an entity-specific line item whose electronic description is lacking, consult the appendices if they are in a language you know or look into the report of the company's peers for similar line item that may be properly anchored.

Croatia, Island of Visovac

EUROPEAN INSIGHTS

Percentage of reports with at least one improperly anchored extension



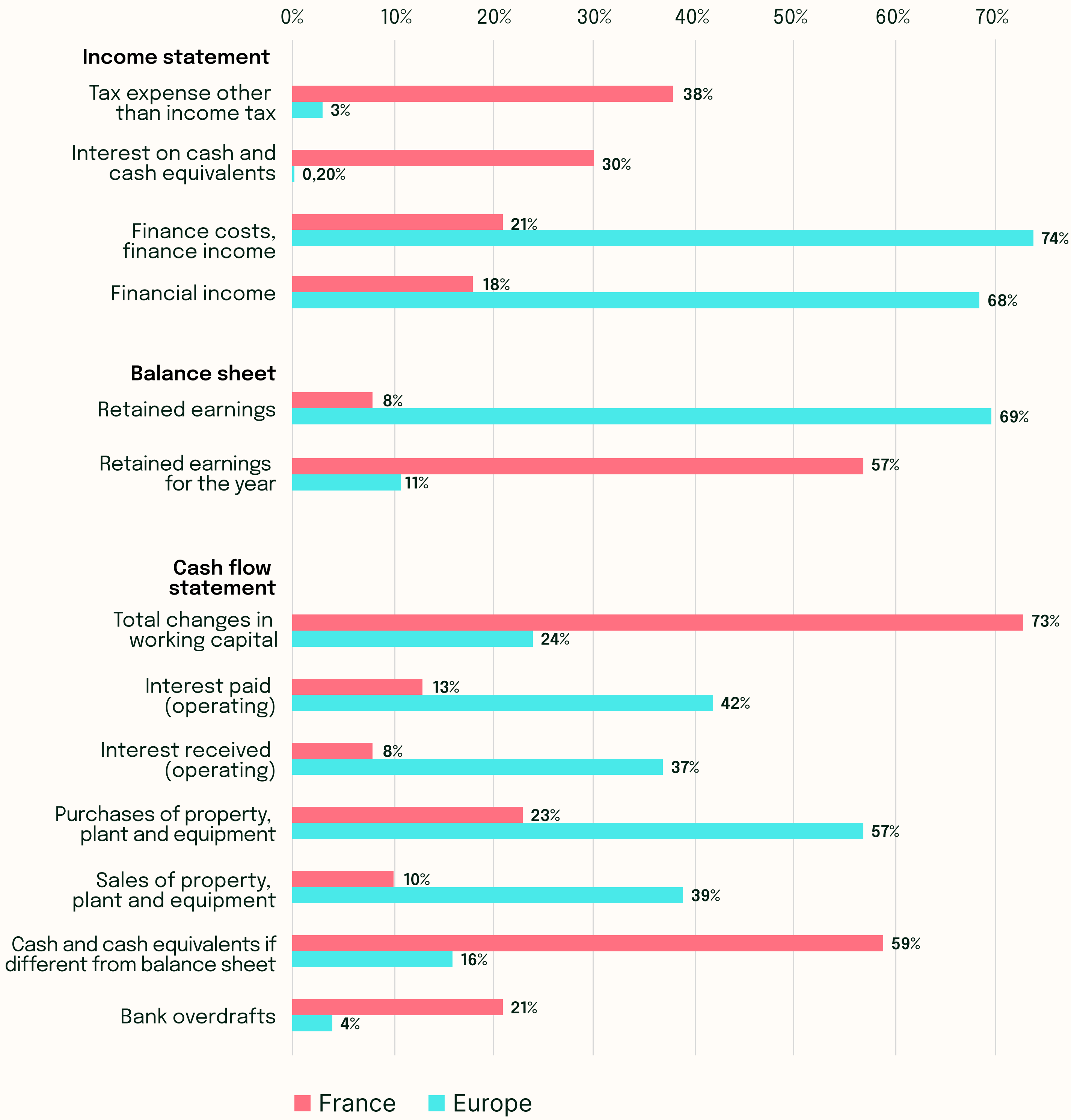
corporatings

Feel free to ask us for other sectorial benchmarks!

Germany, Neuschwanstein Castle

France vs Europe benchmark on mapping

FLAGRANT DIFFERENCES BETWEEN FRANCE VS EUROPE IN THE SELECTION OF TAGS



Spain, Alhambra

INSIGHT

We can observe noticeable differences in tag selection in certain specific areas between French issuers and other European issuers.

In the income statement, specifically in the operating result, a significant proportion of French issuers (almost 40%) use the tag specific to taxes other than income tax, whereas this proportion is very low in other European countries. This could be explained as follows. First, many French issuers present their income statement by nature of expense. In addition, the 2020-01 ANC guidance which is widely applied by French issuers for the presentation of their IFRS primary financial statements includes an illustrative IFRS income statement by nature of expense with a separate line item for "Taxes other than income tax".

Regarding finance income and cost, French issuers also generally follow the 2020-01 ANC guidance, which prescribes the following breakdown for such elements:

- Income on cash and cash equivalents
- Cost of debt
- Cost of net debt
- Other finance income
- Other finance expense


Latvia, Turaida Castle

With that presentation, the first line item can often be tagged with "Interest on cash and cash equivalent", provided that the line does not include other significant components (per the graph above, this seems to be the case for 30% of issuers). However, this presentation does not permit the use of “Finance income” and “Finance costs” concepts, which are widely used in other European countries.

Comparisons of finance income and cost between issuers are therefore likely to be meaningful only at the level of the ‘Finance result’ subtotal, which is not systematically presented in the income statement.

The Primary Financial Statements project, which is expected to be finalized in 2024, could standardise both the content of the finance result, and the presentation of its components.

In the balance sheet, a French specificity can also be noticed: 50% of French issuers display the net result for the year separately from other retained earnings (as is done in French GAAP financial statements). As a result, the concept “Retained Earnings” is far less widespread among French issuers compared to other European issuers.

Finally, differences in practices are noticeable in the cash flow statement.

First, French issuers very predominantly use the concept “Increase (decrease) in working capital”, either on a standalone basis or as a subtotal, while other European issuers rather seem to use more detailed concepts (e.g. Adjustments for decrease (increase) in trade accounts receivables or payables). Once again, this could result from the application of the 2020-01 ANC guidance in France, which encompasses an illustrative cash flow statement displaying a separate line for the change in working capital, while the illustrative example in IAS 7 does not include such a line.

Italy, Cinque Terre

Moreover, it appears that **interests paid and received** are frequently presented within cash flows from operating activities by European issuers, while French issuers usually present them within financing cash flows (for interest paid) and investing cash flows (for interest received). French issuers also regularly present interest paid on lease liabilities separately from other interest paid, which may explain why the use of direct concepts is limited.

As for **investing cash flows**, we observe that cash flows related to the purchase or sale of property, plant, and equipment are presented separately by French issuers far less frequently compared to other European issuers. Once again, this is likely due to the application of the 2020-01 ANC guidance, which illustrates one single line item for purchases property, plant, and equipment together with intangible assets and one single line item as well for sales of property, plant, and equipment together with intangible assets. This differs from the illustrative example in IAS 7, which seems less prescriptive. Another reason that may explain the very limited use of direct tags in this area is related to the fact that French issuers sometimes present increases in property, plant, and equipment separately from liabilities on acquisition of property, plant, and equipment in the cash flow statement, with the cash outflow corresponding to the sum of the two lines, which necessarily requires tagging through custom concept.

Finally, in their cash flow statement, French issuers use the concept of net cash (i.e., the concept "Cash and cash equivalents if different from statement of financial position) much more frequently than other European issuers. Net cash corresponds to cash and cash equivalents presented on the asset side of the balance sheet net of overdrafts repayable on demand, which are an integral part of the entity's cash management. Among other European issuers, bank overdrafts seem to be more frequently considered as liabilities rather than cash and cash equivalents.

HOW ISSUERS ADAPT TO REGULATION

FEEDBACK FROM KPMG

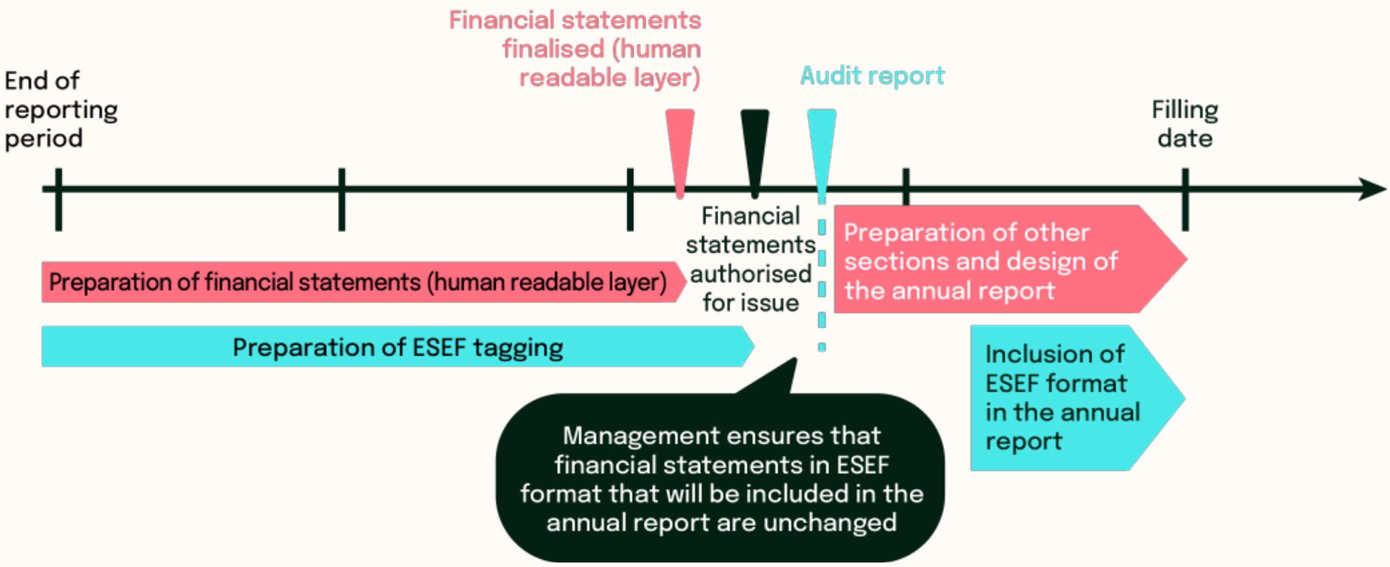
by Astrid Montagnier, Partner Technical Accounting at KPMG

The ESEF process is complex to grasp for its various stakeholders as it is multifaceted and requires a deep knowledge of both regulatory, accounting, and IT requirements. Additionally, the tagging tools to produce ESEF reports are not yet fully mature and may not always meet all requirements. Finally, the issuers preparing the ESEF reports are still in a learning curve. As a result, there is room for quality improvement.

A COMPLEX PRODUCTION AND REVIEW PROCESS

The timeline below illustrates the preparation of IFRS consolidated financial statements in the ESEF format within the French context, where, in the vast majority of cases, this format is subject to auditors' work prior to the filing of the annual financial report.

In general, the audit report is issued a few days after the financial statements are authorised for issue and includes a conclusion on the ESEF format "intended to be included" in the annual financial report. The ESEF tagging of consolidated financial statements must therefore be finalised prior to this date to allow auditors to conduct their final work. Once the financial statements are audited, it is the issuer's responsibility to ensure that the annual report in the ESEF format that is filed with the regulator is in agreement with the financial statements on which the auditors have performed their work.



Luxembourg, Bourscheid Castle

This requires further comments:

1 The timeframe to prepare the ESEF tagging is often very tight: tagging now includes the notes to financial statements, which are typically finalised shortly before the financial statements are authorised for issue. Finalisation and control of the taxonomy package often have to be performed within a few days, limiting back-and-forth iterations. This is particularly challenging when tagging is outsourced to a service provider, especially if the provider faces correction requests from multiple issuers within the same timeframe.

2 The auditor's work relating to the ESEF format included in the taxonomy package is finalised when the audit report is issued. It is then the issuer's sole responsibility to ensure that the ESEF format included in the filed annual financial report remains unchanged. However, between the date when the audit report issued and the filing date, several changes are often made to the financial report (it may get designed by a communication agency, which may imply to relocate the tags on the text zones, and in some cases, to migrate the ESEF tagging to another production tool). All of these steps carry risks of altering the ESEF format.

3 For the 2022 year ends, we have observed a number of cases where the planned dates for issuing the audit reports had to be postponed, as the issuers had difficulties to finalise the ESEF format within the planned time frame. When comparing the dates of the audit reports between 2021 and 2022 year ends, for companies listed in the SBF 120 index, it is noticeable that the audit report is issued slightly later in 2023 compared to 2022 (+0.4 day on average), with around fifty issuers in this index for which the audit report was issued later.

THE TOOLS ARE NOT YET FULLY MATURE

In addition to process and timeline issues, there are still issues with tagging production tools, despite their continuous improvement. Regarding the primary financial statements, in our view, the following areas still need improvement to increase compliance with the regulation, reduce the risk of errors, and permit data usability:

1. **Completeness of calculations:** In many tools, it is not possible to fill in certain calculations, which increases the risk of errors (incorrect sign, date, or scale).

2. **Presentation linkbase:** the presentation linkbases do not always comply with guidance 3.4.1 of the ESMA reporting manual. This prevents automated calculations between columns or between opening and closing, thereby increasing the risk of errors.

3. **Footnotes to primary statement tables:** the tagging functionalities are limited in several tools for data included in footnotes. As a result, these data may not be included in calculations or may not be assigned any dimensions, which compromises compliance and makes the data less usable.

4. **Language:** some tools do not allow the creation of extension labels in multiple languages, which can result in extensions that are less usable for foreign-speaking users.

5. **Control functionalities:** quality inspection features provided in the production tools are still underdeveloped, and often do not adequately enable issuers to self-check their tagging before submission to auditor review.

Estonia, Viru Bog

THE PRESENTATION IS NOT ALWAYS WELL-SUITED FOR DIGITAL CONSUMPTION

The presentation format of financial statements in IFRS is relatively flexible, and the tagging of financial statements in the ESEF format adapts to the presentation choices made by issuers. However, there are cases where issuers adopt presentation options that do not derive directly from IFRSs (these options could even be considered non IFRS compliant but may still be used in practice because they do not have a material impact), which cannot be easily tagged and require the use of extensions that impair comparability or introduce the risk of errors.

Some examples include:

1. Deducting non-controlling interests at the bottom of the income statement, instead of allocating profit or loss between the group's share and the non-controlling interests' share (as illustrated in IAS 1), which increases the risk of mis-tagging non-controlling interests.

2. Presenting acquisitions of property, plant, and equipment separately from changes in related liabilities in the statement of cash flows, which requires the use of extensions that are less comparable to peers.

3. Presenting offset elements in the statement of cash flows, leading to increased use of extensions.

4. Presenting equity before and after profit appropriation, which complicates tagging and can make it less understandable.

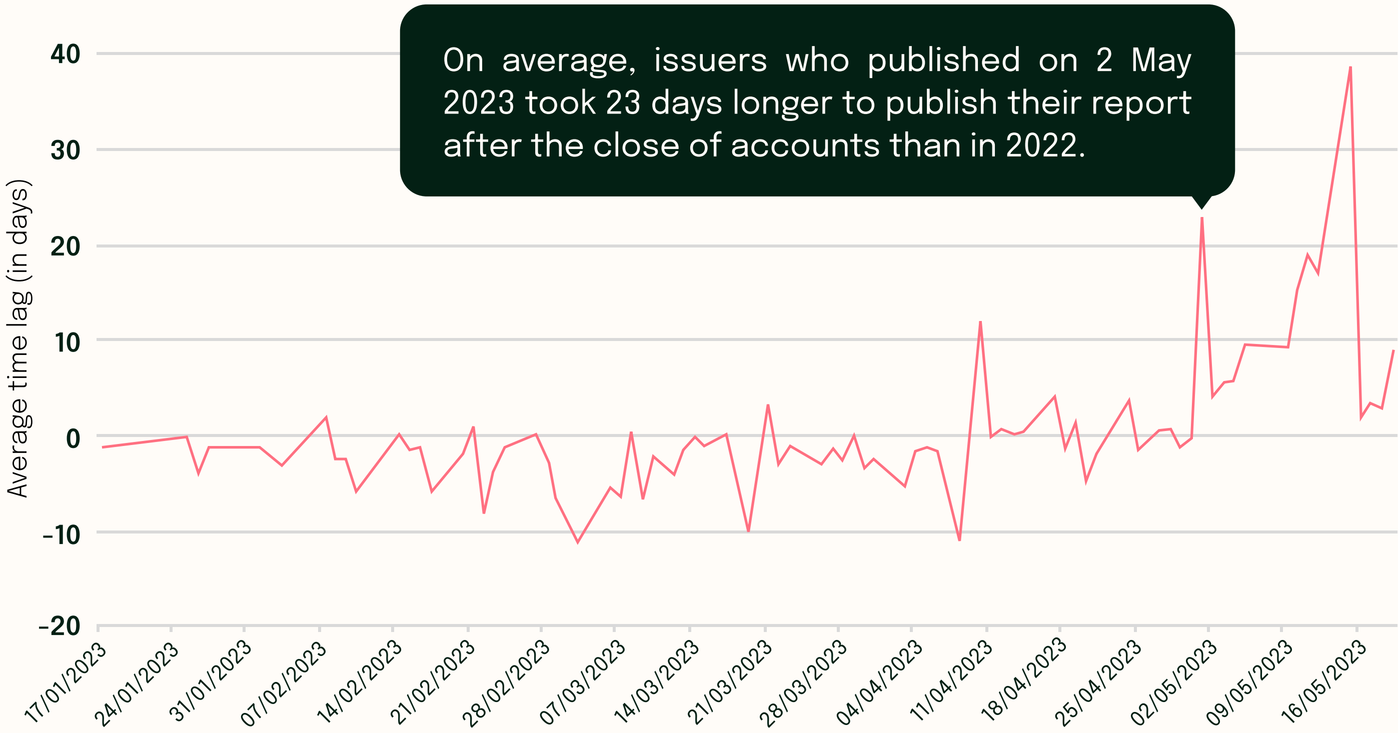
We can only recommend that issuers using such options upgrade their presentation format to better comply with IFRS and facilitate their tagging in ESEF format.

In addition to these issues, there are limitations in the IFRS taxonomy for certain concepts commonly used by issuers or for specific use cases, which also leads to the creation of extensions that hinder comparability. For instance, this applies to subordinated debt classified as equity, put option liabilities over non-controlling interests, or the presentation of cash flows related to discontinued operations in the cash flow statement.

Publication schedule in Europe

The ESEF tagging does not have a significant impact on the timelines for filing annual financial reports at the European level, as the analyzed companies have generally improved their filing dates between the 2021 and 2022 reporting periods, with an average improvement of 1.3 days. However, this overall stability conceals significant disparities among issuers.

Delays based on publication date in 2023



On average, issuers who published on 2 May 2023 took 23 days longer to publish their report after the close of accounts than in 2022.

These delays become increasingly significant as the issuer's filing date approaches or exceeds the April 30 deadline. Of course, there may be external factors that could affect the analysis, but it still suggests that issuers who typically have tight timelines to meet the April 30 deadline face even greater challenges in meeting the additional requirements associated with ESEF.

Conclusion

As mentioned by Euronext, the technological revolution has been generating enormous volumes of data, and this "new black gold" has created new challenges, especially in the realm of Big Data. For the financial sector, ESEF represents a transformative challenge, but it also facilitates access to issuer data. The entire ecosystem can benefit from the circulation of clear, accurate, and comparable financial information.

Of course, financial analysts are particularly affected as they still engage in time-consuming and error-prone tasks of copying and pasting raw data from PDF reports. Digitalisation revolutionises their daily work by providing immediate access to reliable and granular fundamental data. In order for companies to also benefit from this format and improve their visibility among investors, they must master the ins and outs of their ESEF filings.

Our study thus aims to support companies and all stakeholders in learning about this new format, so that they can harness electronic data as a lever for performance.
Between 2022 and 2023, we observed a stagnation in data quality, which significantly impacts data comparability. This state of affairs is detrimental to all users of financial data as they are not fully benefiting from the available information. However, while obstacles to optimal utilisation of the ESEF format still remain, there is a clear improvement in data reliability when the subject and its implications are understood. It is encouraging to note that when ESEF is not seen as a mere regulatory constraint, but rather as an opportunity for financial communication, data quality follows.

Ultimately, we are at a pivotal moment where stakeholders can distinguish themselves: the key is to seek to leverage the potential of digitalisation, instead of passively undergoing this process. With the upcoming extension of the digital format to extra-financial data through the CSRD, mastering ESEF is a crucial endeavor if one aims to capitalise on the green and digital transition.

"Our mission is to provide you with access to all the information published by companies. We are expert facilitators of analysis, serving all finance professionals."

Alexandre Prat-Fourcade, CFA
Co-founder & CEO, Corporatings

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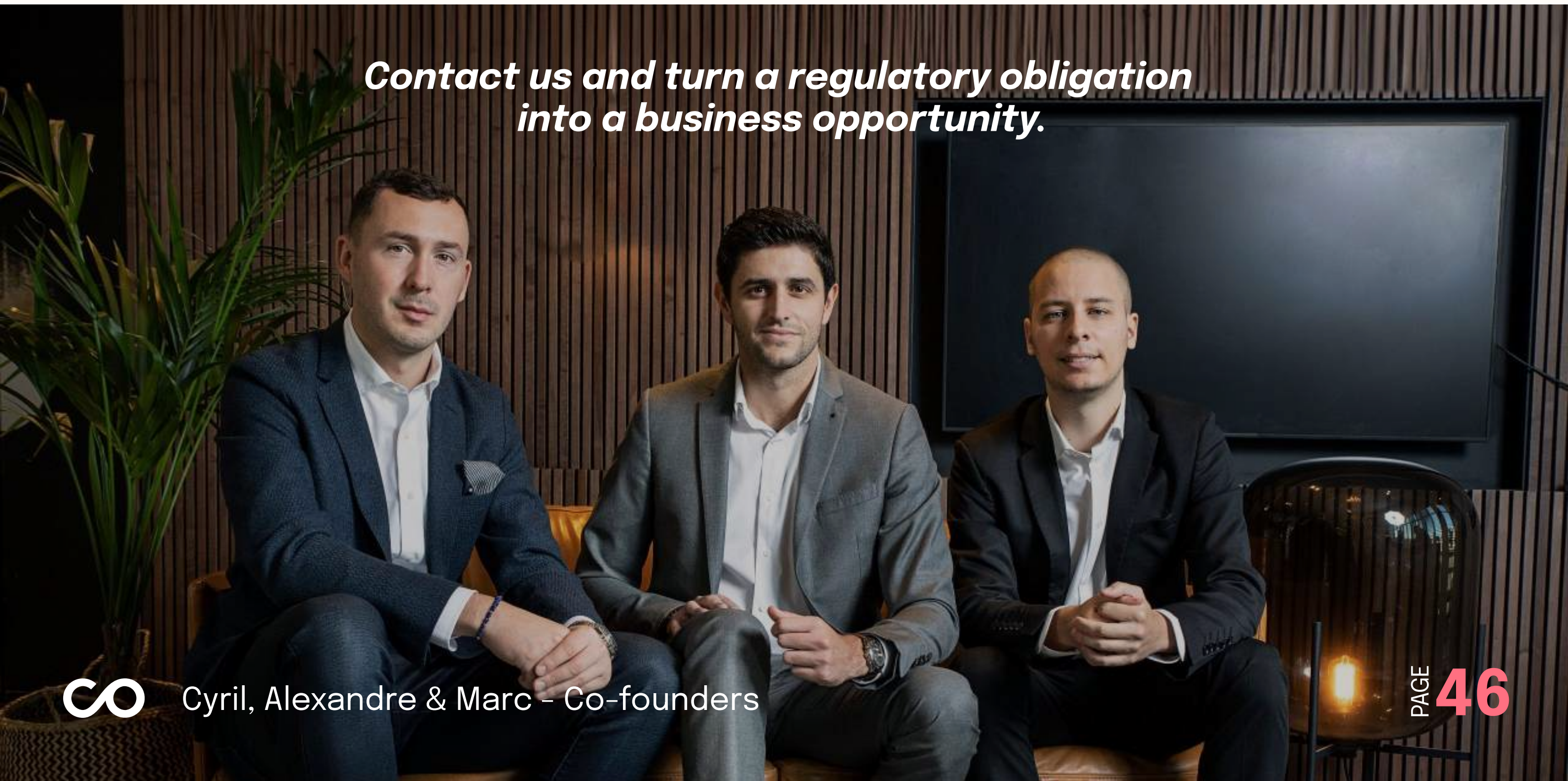
Explore, benchmark and **analyse** data published by all listed companies



Contact us and turn a regulatory obligation into a business opportunity.

Cyril, Alexandre & Marc - Co-founders

Annex

EVERYTHING YOU NEED TO KNOW ABOUT ESEF

WHAT IS ESEF?

From 1 January 2021, European listed companies on a regulated market must publish their annual report in a single electronic format: ESEF (European Single Electronic Format).

This requirement was introduced by the amended Directive 2004/109/EC of the European Parliament and of the Council, known as the "Transparency Directive", and aims to standardise the publication of issuers' annual financial reports.

To harmonise company accounts and promote their comparability, ESMA drew up and submitted draft technical regulatory standards to the Commission, concluding that the most appropriate technology was a single digital publication standard, which has long been used around the world: iXBRL (Inline eXtended Business Reporting Language).

Greece, Santorini

iXBRL, THE TECHNICAL LANGUAGE OF ESEF

The iXBRL technical format aims to facilitate the reading and comparability of data contained in financial reports. It meets a twofold standardisation requirement:

- A single format: all ESEF reports must be published in the standard XHTML web format, which can be read by any Internet browser.

- A standardised structure: this xHTML document must be structured using "barcodes" called tags, taken from the ESEF taxonomy (a transformation of the IFRS into a technical dictionary) and translated into the technical language XBRL (eXtensible Business Reporting). These tags identify the nature of each piece of information and facilitate navigation within the document.

Norway, Lofoten Islands

By linking each element of the financial report to its corresponding XBRL tag, issuers create a mapping of the information contained in their report, translated into a language universally understood by computers and readers.

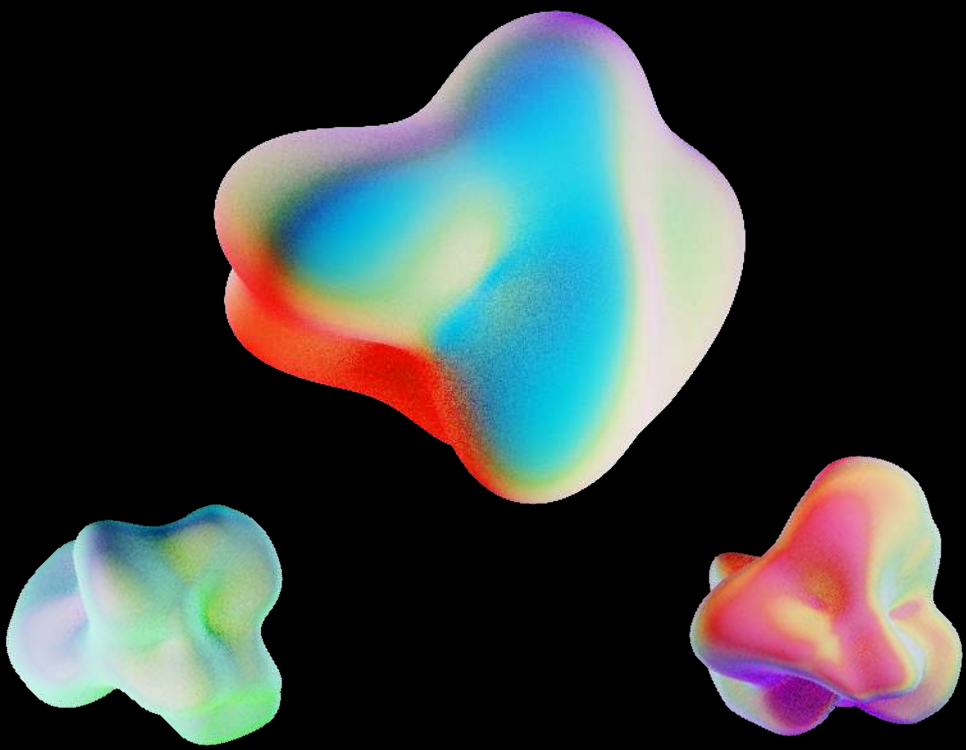
The ESEF taxonomy is a direct extension of the IFRS taxonomy. By imposing the use of this taxonomy for all reports, ESMA enabled users to understand IFRS consolidated financial statements in a comparable way, no matter the language of the report.

WHAT DATA DOES ESEF FOCUS ON?

From 1 January 2021, only the primary financial statements of IFRS consolidated financial statements had to be tagged in accordance with ESEF standards. These primary financial statements include the income statement, the statement of other comprehensive income, the balance sheet, the statement of changes in equity and the cash flow statement.

On 1 January 2022, this requirement was extended to the notes to the financial statements. However, this is a broader form of tagging known as "block tagging" method: a single XBRL tag is assigned to an entire note (including the associated tables and figures).

corporatings



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