Early empirical evidence on ESEF Best Practices

Virtual event: ***Extending ESEF opportunities***

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Methodology

Data Sample

Up to 661 annual reports have been downloaded from the filings.xbrl.org repository. This repository was created by XBRL International and is freely accessible.

Assurance strategy

The fundamental concept is to re-create the financial Statements and Notes, but using iXBRL information only. Basically, it is to reproduce the financial statements existing in the report, as designed to be seen by humans. But now as the computer will see them. If there is something that does not fit, it is easier to detect what and why.

Guidance 3.4.6: The presentation linkbase shall mirror the structure of the human-readable layer of the issuer's report.

Tools used

Arelle, open source suite, version 2021-11-03

Arelle is of free download and works in any computer. Detects errors against XBRL specifications. Widely used as validator of reference. Author: Herm Fischer.

Heuristic Quality Control powered by an Expert System

Even no technical errors are detected by the validator, may still remain "confusions" of the preparer. I.e. expressing the value 0,43 (with a comma) with format="num-dot-decimal". Or both dot and comma as decimal separators in the same report.

All-in-one tool easyQC

Validates the annual report with Arelle, specifically parametrized for ESEF. Creates the list of facts, a sheet for each financial Statements and Note, and a printout for the linkbases. The Heuristic Quality Control is running in the background while detecting warnings in the process.

Statistical tabulator developed ad hoc automating running and presentation.

Declaration of conflict of interest. The author is the creator of the easyQC tool, which he markets through his company easyESEF Limited, Ireland.

Data sample by country, currency and issuer size
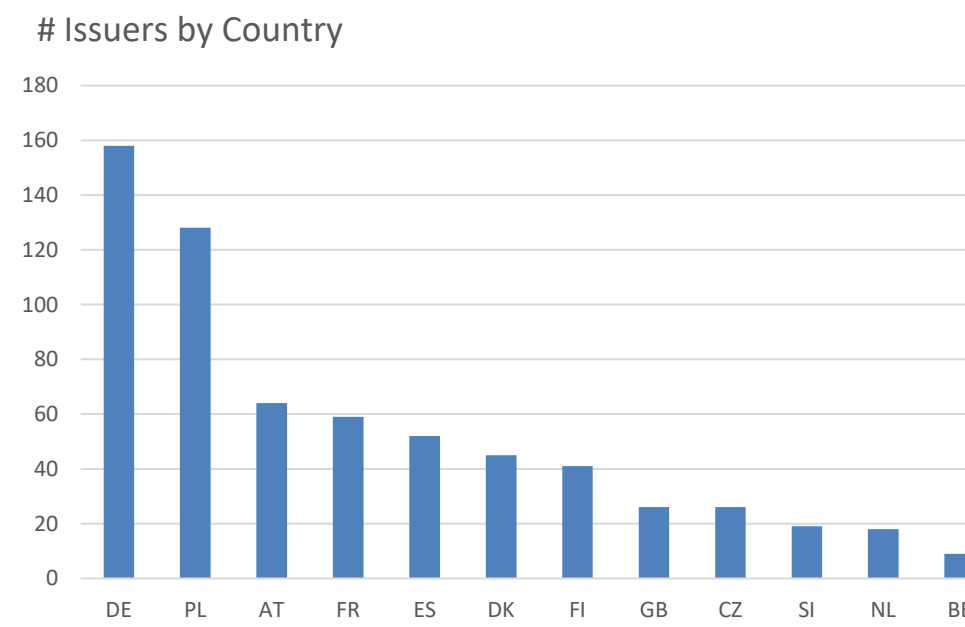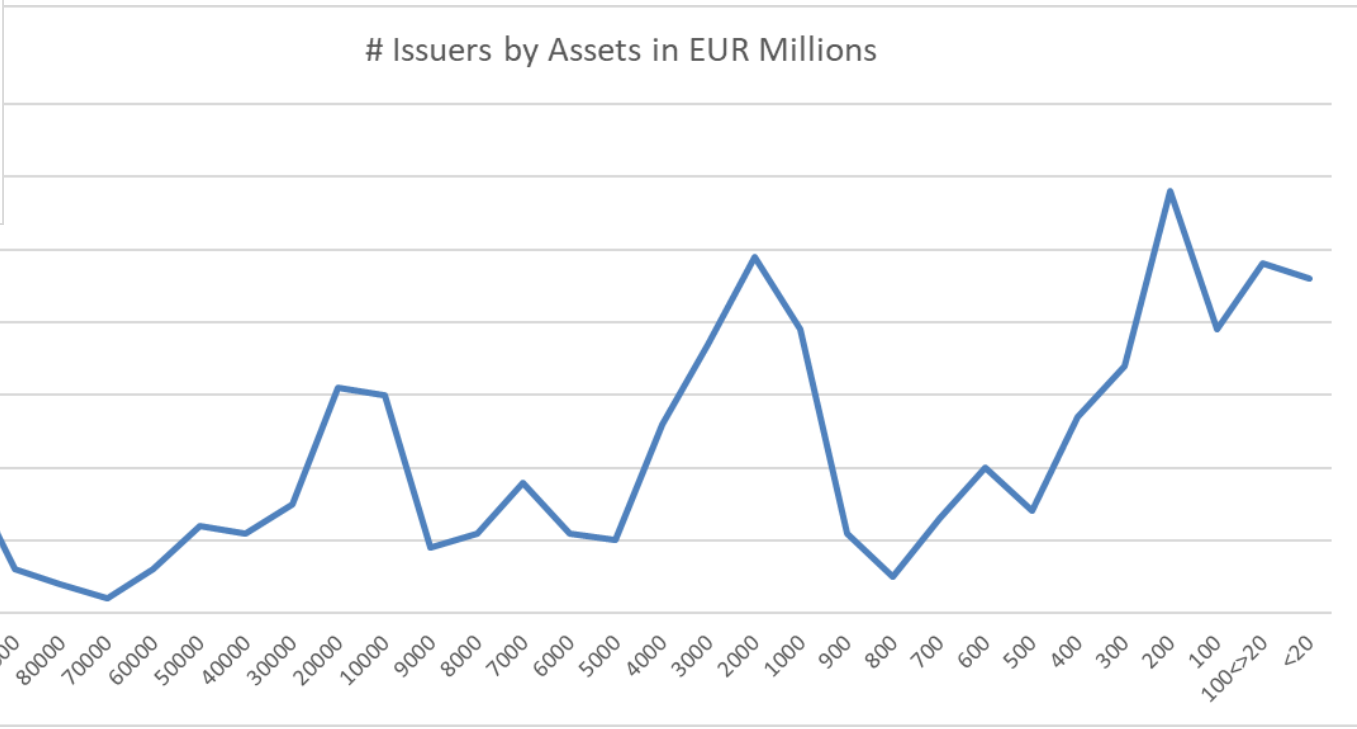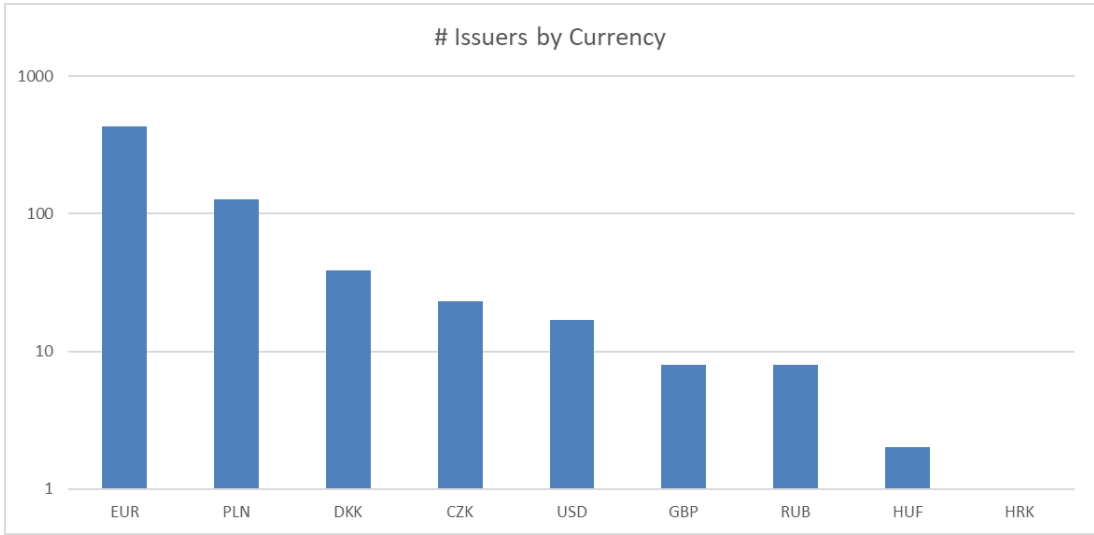
Issues detected by Arelle

Download Arelle at arelle.org/arelle/pub/

open source xbrl platform

70 %   ESEF.2.7.1. targetXBRLDocumentWithFormulaWarnings

This is because arithmetical errors have been found in the financial statements. This can be due to both the existence of arithmetical errors and incorrect tagging, which in turn leads to arithmetical errors.

50%   ESEF.RTS.Annex.II.Par.2.missingMandatoryMarkups

Annex II Page 16 Table 1. *Mandatory elements of the core taxonomy to be marked up for financial years beginning on or after 1 January 2020.*

Particularly ignored, by 48% (solved with a simple "N/A"): ExplanationOfChangeInNameOfReportingEntityOrOtherMeansOfIdentificationFromEndOfPrecedingReportingPeriod

www.esma.europa.eu/sites/default/files/library/esma32-60-204_final_report_on_rts_on_esef.pdf

31% ESEF.2.5.4.displayNoneUsedToHideTaggedFacts

This is because some figures are shown for humans (while untagged for computers) and other figures for computers (while hidden for humans). This *trick* factually divides the report into two parts: one for the person and other for the computer. **The very basic ESEF concept is one single annual report, with figures to be consumed by both a person and that person's computer**. This practice is expressly forbidden, of course.

27% ESEF.3.2.1.extensionTaxonomyElementNameDoesNotFollowLc3Convention

Internal element names, such as *ext:CostOfDomesticSales*, have to follow a convention called Label CamelCase Concatenation (LC3), as described in 2.1.4 of www.xbrl.org/technical/guidance/frta-recommendation-2005-04-25.htm Check with the Generator provider.

10%   ESEF.2.6.1.reportIncorrectlyPlacedInPackage

5%   ESEF.3.1.3.missingOrInvalidTaxonomyPackage

5%   ESEF.RTS.Annex.III.3.missingOrInvalidTaxonomyPackage

5%   ESEF.RTS.Art.6.a.noInlineXbrlTags

3%   ESEF.3.1.5.extensionTaxonomyDocumentNameDoesNotFollowNamingConvention

That are basically occurrences of the same error. To be corrected by the provider of the Generator tool. The annual report is a "*Taxonomy Package*" (.zip file) containing the displayable annual report, and the XBRL metadata files (linkbases). specifications.xbrl.org/spec-group-index-taxonomy-packages.html

7% ESEF.3.2.5.abstractConceptDefinitionInExtensionTaxonomy

The preparer is not allowed to create Abstract elements and should not need to create them either. Check with the Generator provider.

7% ESEF.2.5.3.targetAttributeUsedForESEFContents

By sure a false positive, due to local regulation, only found in Denmark.

5% ESEF.RTS.Annex.IV.Par.4.2.monetaryConceptWithoutBalance

Extension monetary elements MUST provide balance attribute Credit/Debit

4% ESEF.2.2.4.inconsistentDuplicateNumericFactInInlineXbrlDocument

The same Fact for the same date and characteristics has been reported several times in the annual report but with different values.

2% ESEF.3.3.1.extensionConceptsNotAnchored

When the preparer creates an element, MUST to indicate with which IFRS element it is anchored, being **narrower** (of which is part) or **wider** (part of it).

2% ESEF.3.4.6.UsableConceptsNotAppliedByTaggedFacts

Guidance 3.4.6. All usable concepts in extension taxonomy relationships MUST be applied by tagged facts.

Issues detected by easyQC

Download easyQC demo at easyesef.eu/resources/

60%   PS Facts with no presentation statement detected

51%   NS Fact no show as periodStartLabel not found

There are Facts in the annual report that cannot be placed in a financial Statement or Note. As typically every Fact of the annual report is placed in a financial statement, probably something is wrong.

periodStartLabel indicates about Facts with date at the start of the year.

20%   MP Neither preferred label periodStartLabel nor periodEndLabel is used

6%   MS periodStartLabel is missing

5%   ME periodEndLabel is missing

The Statements [510000] [520000] *Statement of cash flows* and [610000] *Statement of changes in equity* uses *periodStartLabel* and *periodEndLabel* for respectively *Cash and cash equivalents* and *Equity* at beginning/end of period. Why this report doesn't?

55%   ER Non-English labels unnecessarily redefined

42%   LR English labels unnecessarily redefined

ESMA already provides labels for each and every IFRS element. These labels are formally translated and published in 23 languages by the European Commission. A preparer creating its own label linkbase can only lead to confusions.

24%   LE English is missing in label linkbase. Guidance 1.1.1

"ESMA encourages issuers to provide, for the extension taxonomy elements, labels in a language customary in the sphere of international finance"

30% SL Substitution between standard and preferred label

30% ML Missing labels

28% PL Preferred label not found: standard label is used instead

5% DL Duplicated declaration of labels

4% LM Language used but not declared in label linkbase

Each element defined by the preparer MUST have declared its label (*preferred* if applicable) for all the languages used in the report.

ESEF taxonomy: the label linkbase defines 4,610 labels, plus another 547 variations (*preferred label labelRoles*), as *totalLabel, periodStartLabel, periodEndLabel, terseLabel, negatedLabel, negatedTerseLabel, negatedTotalLabel and netLabel*. No official translation has been provided for such 547 *labelRoles* to languages other than English. **Fixed in ESEF 2012!**

Don't panic! See this Open Source ESEF Label Linkbase Generator Program.

45%   DT Date translated according to XBRL 2.1 Recommendation, paragraph 4.7.2

45%   DT Date translated according to XBRL 2.1 Recommendation, paragraph 4.7.2

6%   DU Date similarly translated according to XBRL 2.1 Recommendation, p. 4.7.2

The start of the financial year in XML (and XBRL as well) is 31 December of the previous year, not 1 January of the current year. Arcane, but true. See www.xbrl.org/specification/xbrl-recommendation-2003-12-31+corrected-errata-2005-11-07.htm

5%   DO Date out of existing periods   Why? Better check it.

2%   DD Identical Start and End Date

The financial period is usually one year. Why only one day? Confusion between instant and period?

10% DS Decimals too much accurate
9% AC Accuracy of decimals

In financial reporting, Facts are not usually represented in units with decimals, as this would result in numbers that are too long. When reducing the number of displayed digits, it is required to specify how many digits are significant to the right or to the left of the decimal separator. See more at www.xbrl.org/WGN/precision-decimals-units/WGN-2017-01-11/precision-decimals-units-WGN-2017-01-11.html

6% XD Mixed use of formats num-dot-decimal and num-comma-decimal
Usage of BOTH dot and comma decimal separators for different figures in the same report. Extremely unusual in actual reports. Symptom of misuse.

1% OB Fact value unusually low/high

If attributes *scale* or *format* are misused, the computed values of facts may differ orders of magnitude of the actual values. No arithmetic errors raised.

Documents available on the web

Documents of the virtual event:
ESEF today, ESG tomorrow: Early empirical evidence on ESEF Annual Reports
Extending ESEF opportunities: Early empirical evidence on ESEF Best Practices
It includes this presentation and the Excel with the findings in the 661 reports. Other presentations about the same topic are also included.

Guidance on iXBRL www.xbrl.org/guidance-categories/report-creation/

ESMA Reporting manual www.esma.europa.eu/sites/default/files/library/esma32-60-254_esef_reporting_manual.pdf

Open source and other resources, by usage in the 661 reports:
128xpdf2htmlEX 28xPowerTools_for_Open_XML
14xSmart_HTML_Converter
9xOpen_Source_ESEF_Label_Linkbase_Generator
8xCSS_Tools:_Reset_CSS   4xAspose.Words 2xRECEiX (by Clausion)

Questions? Comments? Contact ignacio@boixo.com

Many thanks!