FINANCIAL CONDUCT AUTHORITY

Delay to the implementation of the European Single Electronic Format

Consultation Paper
CP20/12 **

July 2020

How to respond

We are asking for comments on this Consultation Paper (CP) by 28 August 2020.

You can send them to us using the form on our website at: www.fca.org.uk/cp20-12-response-form

Or in writing to:
David Stubbs
Financial Conduct Authority
12 Endeavour Square London E20 1JN

Telephone:
020 7066 1557

Email:
cp20-12@fca.org.uk

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1 Summary

Why we are consulting

1.1 In this consultation paper, we set out proposals to postpone by 1 year the mandatory European Single Electronic Format (ESEF) requirements for annual financial reporting under the Transparency Directive (TD). We are making these proposals now because of the exceptional circumstances caused by the coronavirus (Covid-19) crisis, which has significantly affected a wide range of companies, including many which are issuers of securities.

1.2 The ESEF initiative aims to enhance the transparency of financial data disclosed by issuers whose transferable securities are admitted to trading on EU regulated markets. Under ESEF, issuers will 'mark-up' their annual financial reports with electronic tags to make them machine readable. This will make easier the process of evaluating corporate performance by investors across industry sectors and different jurisdictions. This will help to improve the long-term effectiveness of European capital markets and, therefore reduce the cost of capital. We fully support the ESEF initiative.

1.3 The rules implementing the ESEF requirements are already in place. Issuers must publish their annual financial reports in the ESEF format from the start of 2021 for financial years beginning on or after 1 January 2020. To meet these requirements issuers will need to devote potentially significant management and operational time, especially in the second half of this year.

1.4 The exceptional circumstances of the coronavirus crisis have already put significant pressures on issuers. In this context, and in line with our other recent actions to relieve burdens on issuers, our proposed changes to the ESEF application timetable will allow issuers to focus on their more immediate and significant priorities. Issuers will, however, be able to publish and file their annual financial reports voluntarily in the new ESEF if they choose to do so. We also intend to continue with our programme of investment in the National Storage Mechanism to support the initiative.

Who this applies to

1.5 This proposal applies to issuers with transferable securities admitted to trading on UK regulated markets, or who are considering admission to trading on a UK regulated market. It is also of interest to:

- Issuers with securities admitted to our Official List or considering a listing.
- Firms advising issuers or advising persons investing in them.
- Firms or persons investing or dealing in UK listed securities or securities admitted to trading on a UK regulated market.
- Firms providing research and analysis on issuers, and accountants and other advisors and service providers helping issuers with the preparation and publication of their annual financial statements.

The wider context of this consultation

1.6 The wider context of this consultation includes, in addition to the exceptional circumstances of the coronavirus crisis, the UK's exit from the EU. The EU Regulatory Technical Standard (RTS) setting out the detailed requirements and timetable for application is already in force and will be part of UK law under the EU Withdrawal Act. We can only change the RTS when we have the powers to do so at the end of the Transition Period. This means that this proposal to change the mandatory requirements set out in the RTS with effect from 1 January 2021 assumes and is contingent upon the ending of the Transition Period at the end of 2020.

What we want to change

1.7 We want to push the ESEF mandatory requirements back by 1 year. This would mean that:

- The requirement for all issuers to publish their annual financial reports in XHTML web browser format, replacing the current PDF format, would be pushed back to financial years starting on or after 1 January 2021, for publication from 1 January 2022.
- The requirement for issuers who prepare consolidated annual financial statements in accordance with International Financial Reporting Standards (IFRS) to tag basic financial information would be pushed back to financial years starting on or after 1 January 2021, for publication from 1 January 2022.
- The requirement for issuers who prepare IFRS consolidated annual financial statements to tag notes to the financial statements would be pushed back to financial years starting on or after 1 January 2023, for publication from 1 January 2024.

Outcomes that we are seeking

1.8 We want to help issuers to focus their management and operational resources on their immediate and urgent needs in the exceptional circumstances caused by the coronavirus crisis, without damaging the present transparency and effectiveness of the UK's capital markets. We also want issuers to remain able to file voluntarily their annual financial reports in the new ESEF in 2021.

1.9 We also want to achieve a smooth and effective long-term implementation of the ESEF initiative, which delivers a high-quality enhancement of the transparency and efficiency of the UK's regulated markets.

Measuring success

1.10 We would measure our success by feedback on the implementation of ESEF under our proposal and on its effectiveness in avoiding excessive short-term costs for issuers.

Equality and diversity considerations

1.11 We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.

1.12 Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010. But we will continue to consider the equality and diversity implications of the proposals during the consultation period, and will revisit them when making the final rules. In the meantime, we welcome your input to this consultation on this.

Next steps

1.13 We would like your comments on the questions raised by this paper by 28 August 2020.

1.14 We are consulting on these proposals over a shortened timetable to enable timely communication to issuers and implementation of any changes which may be decided upon.

1.15 We will be providing further information on how to submit annual financial reports, taking into account the issues raised in this consultation paper, on the National Storage Mechanism (NSM) website.

2 The wider context

Background

2.1 The European single electronic format (ESEF) introduces requirements for annual financial reporting in electronic format. We strongly support the ESEF initiative.

2.2 Requiring the marking up of annual financial reports with digital tags and publication in the XHTML format makes the content of a company's annual financial reports machine readable by appropriate software. This will improve the accessibility, analysis and comparability of annual financial reports. In the long term, this will make capital markets more efficient and therefore help lower the cost of capital for issuers.

2.3 The ESEF requirements have been implemented under the Transparency Directive (TD). The TD establishes requirements in relation to the disclosure of periodic and ongoing information about issuers whose transferable securities are already admitted to trading on a regulated market situated or operating within an EU Member State. In the UK, the TD has been implemented in the FCA Handbook through the transparency rules in the Disclosure Guidance and Transparency Rules sourcebook (DTRs).

2.4 The TD includes a requirement for issuers to make public an annual financial report which includes their audited annual financial statements. These reports must also be filed with what the TD calls the 'officially appointed mechanism' in the relevant jurisdiction. In the UK, the FCA's National Storage Mechanism (NSM) has been designated the UK's officially appointed mechanism for this purpose and we have recently upgraded and improved the facility, partly in preparation for ESEF. This process is ongoing, with more investment planned during 2020.

2.5 The requirement for issuers to prepare their annual financial reports in a single electronic reporting format with effect from 1 January 2020 was introduced as Article 4(7) into the TD in 2013 by the Transparency Directive Amending Directive. The precise electronic reporting format was subsequently specified in a regulatory technical standard (RTS) which came into force in June 2019.

2.6 Following consultation in CP 19/27, we amended our DTRs to introduce a new rule in DTR 4.1 (DTR 4.1.14R) to implement Article 4(7) of the amended TD. This rule came into force in December 2019 and applies to annual financial reports for financial years beginning on or after 1 January 2020.

2.7 The requirements are, in summary:

- Issuers will need to prepare their entire annual financial report in Extensible Hypertext Mark-up Language (XHTML). This will make a company's annual financial reports machine readable and will replace the current PDF.
- Issuers who prepare consolidated annual financial statements in accordance with IFRS must tag certain disclosures in those statements using digital tags (technically known as inline Extensible Business Reporting Language (iXBRL)) following the taxonomy contained in the RTS.

- Issuers preparing consolidated annual financial statements in accordance with IFRS must tag certain notes to the annual financial statements using iXBRL tags following the taxonomy contained in the RTS.

2.8 These requirements are introduced in a phased approach in order to facilitate the smooth implementation of publishing financial information in a machine-readable format and, in particular, to allow issuers reasonable time to adapt to iXBRL technology. The requirements to prepare the annual financial report in XHTML and to prepare IFRS consolidated financial statements using digital tags are for financial years starting on or after 1 January 2020. The requirement to prepare the notes to IFRS consolidated financial statements using digital tags is for financial years starting on or after 1 January 2022.

2.9 We expect all impacted issuers will need to familiarise themselves with the new requirements in switching to the XHTML format for preparing and filing their annual financial reports. Issuers may integrate tagging into existing internal processes for producing their annual financial reports, or they may outsource the work to a third party.

2.10 From the end of the transition period, issuers in scope of the FCA's transparency rules will be issuers with transferable securities admitted to trading on a UK regulated market.

Implications of the coronavirus crisis for ESEF implementation by issuers

2.11 As set out above, the rules implementing the ESEF requirements are already in place. To meet the current timetable set out by these rules, issuers will need to devote management and operational resource to ensure that they will be able to publish annual financial reports in the ESEF format from the beginning of 2021. This call on issuers' resources is likely to be particularly significant in the second half of this year and the first half of 2021.

2.12 The unprecedented circumstances of the coronavirus crisis have already put significant pressures on issuers, as they are forced to re-plan many aspects of their business, operations and finances. These pressures are likely to continue and intensify over the short to medium-term.

2.13 In response to the coronavirus crisis, the FCA, in common with bodies across the public sector, has looked for ways in which burdens on companies subject to its regulation can be reduced without impacting consumer protection or market integrity in the short term.

2.14 The ESEF initiative aims to create public value in the long term rather than to mitigate immediate consumer harm. In the context of the significant pressures on issuers caused by coronavirus, we think that a short delay to the mandatory ESEF application timetable would support issuers, by allowing them to focus their management and operational resources on their more immediate priorities.

2.15 We do not believe that a short delay in the mandatory requirements will damage the existing or long-term level of market transparency, orderliness and cleanliness. This is because:

- ESEF itself does not increase the amount or type of information to be available, but is instead intended to enhance the ease with which that information can be used. So, there will be no reduction in market transparency.
- As we expect the benefits of ESEF to accrue in the longer term, a short delay now will not significantly impact the delivery of these longer-term benefits. In fact, a delay is likely to support the more effective implementation of ESEF, and help achieve its ultimate goals. This is because the quality and accuracy of digital tagging is likely to be better assured if issuers are able to devote proper attention to it, which they may not be able to do at present.
- Issuers will be able to publish and file their annual financial reports voluntarily in the new ESEF format if they choose to do so. We continue to encourage issuers to publish and file voluntarily in the new ESEF format where they are able to.
- While we recognise that a delay may reduce the numbers of issuers using ESEF this year, we consider that, on balance, the benefits of a delay outweigh this cost. (See the CBA section later in this document for more details on this.)

3 Our proposal

What we propose

3.1 Under the current rules (DTR 4.1.14R and the RTS), there is a phased implementation of the mandatory requirements:

- All issuers will need to prepare their entire annual financial report in Extensible Hypertext Mark-up Language (XHTML) for financial years starting on or after 1 January 2020. This will make a company's annual financial reports machine readable and will replace the current PDF.
- Issuers who prepare consolidated annual financial statements in accordance with International Financial Reporting Standards (IFRS) must tag certain disclosures in those statements using digital tags for financial years starting on or after 1 January 2020.
- Issuers who prepare consolidated annual financial statements in accordance with IFRS must tag certain notes to the annual financial statements using digital tags for financial years starting on or after 1 January 2022.

3.2 We propose that mandatory publication and filing of annual financial reports in ESEF machine-readable format (XHTML) for all issuers will be pushed back by 1 year. We propose also that ESEF mandatory tagging requirements for issuers preparing IFRS consolidated financial statements will be pushed back by 1 year. These proposals are set out as follows in Table 1 below:

Table 1: Current and proposed timeframe

Obligation	Current timeframe	Proposed timeframe
Annual financial reports for all issuers to be published in ESEF machine-readable format	Financial years starting on or after 1 January 2020 (publication from 1 January 2021)	Financial years starting on or after 1 January 2021 (publication from 1 January 2022)
Mandatory tagging requirements for issuers preparing IFRS consolidated financial statements	Financial years starting on or after 1 January 2020 (publication from 1 January 2021)	Financial years starting on or after 1 January 2021 (publication from 1 January 2022)
Requirements on issuers preparing IFRS consolidated financial statements to tag notes to the annual financial statements	Financial years starting on or after 1 January 2022 (publication from 1 January 2023)	Financial years starting on or after 1 January 2023 (publication from 1 January 2024)

3.3 This would mean that:

- All issuers would be required to prepare the entire annual financial report in XHTML for financial years beginning on or after 1 January 2021.
- Issuers preparing consolidated annual financial statements in accordance with IFRS would be required to tag the financial statements for financial years beginning on or after 1 January 2021.

- Issuers preparing consolidated annual financial statements in accordance with IFRS would be required to tag the notes to the financial statements for financial years beginning on or after 1 January 2023.

3.4 We propose to do this by amending the transitional provision in DTR TP 1(32) and Article 8 and Annex II of the RTS.

3.5 Another option would be to push back the mandatory tagging requirements related to annual financial statements by 1 year as set out above, but to leave the timetable for tagging the notes to the annual financial statements as it is currently.

3.6 We have considered whether we should retain the current timetable for tagging the notes to the annual financial statements, i.e. that this should be applicable for financial years starting on or after 1 January 2022 but have decided to consult on the basis of pushing the whole timetable back by a year for each step, in order to facilitate the smooth implementation of financial reporting in a machine-readable format, and in particular to allow issuers reasonable time to adapt to the use of iXBRL technology.

EU Withdrawal

3.7 Our power to amend the ESEF RTS is contained in the Official Listing of Securities, Prospectus and Transparency (Amendment etc.) (EU Exit) Regulations 2019 ('the SI') and will only come into force when the Transition Period ends. The proposals in this consultation to delay the mandatory requirements set out in the RTS with effect from 1 January 2021 is, therefore, contingent on our power under the SI having come into force by the end of 2020.

Questions

Q1: *Do you agree with our proposal to delay by 1 year the mandatory requirement for all issuers to publish their entire annual financial report in XHTML web browser format?*

Q2: *Do you agree with our proposal to delay by 1 year the mandatory requirement for issuers who prepare consolidated annual financial statements in accordance with International Financial Reporting Standards (IFRS) to publish these statements with tagging of basic financial information in ESEF machine-readable format, as set out in the RTS?*

Q3: *Do you agree with our proposal to delay by 1 year the mandatory requirement for issuers who prepare consolidated annual financial statements in accordance with International Financial Reporting Standards (IFRS) to publish notes to the annual financial statements with tagging in ESEF machine-readable format, as set out in the RTS?*

Annex 1
Questions in this paper

Q1: *Do you agree with our proposal to delay by 1 year the mandatory requirement for all issuers to publish their entire annual financial report in XHTML web browser format?*

Q2: *Do you agree with our proposal to delay by 1 year the mandatory requirement for issuers who prepare consolidated annual financial statements in accordance with International Financial Reporting Standards (IFRS) to publish these statements with tagging of basic financial information in ESEF machine-readable format, as set out in the RTS?*

Q3: *Do you agree with our proposal to delay by 1 year the mandatory requirement for issuers who prepare consolidated annual financial statements in accordance with International Financial Reporting Standards (IFRS) to publish notes to the annual financial statements with tagging in ESEF machine-readable format, as set out in the RTS?*

Annex 2
Cost benefit analysis

Introduction

1. FSMA, as amended by the Financial Services Act 2012 and the Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018, requires us to publish a cost benefit analysis (CBA) of our proposed rules and technical standards. Specifically, section 138I and section 138S require us to publish a CBA of proposed rules and technical standards, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide estimates of outcomes in other dimensions. Our proposals are based on carefully weighing up these multiple dimensions and reaching a judgement about the appropriate level of consumer protection, taking into account all the other impacts we foresee.

Background to this CBA

3. Previous estimations of the costs and benefits of implementing ESEF have concluded that the medium and longer-term benefits may outweigh short term costs.

4. ESMA undertook an analysis of ESEF which relied on a combination of a calculation of costs and tangible benefits, and a survey to understand benefits which could not be quantified.

5. In our QCP 25 (CP 19/27) we carried out a qualitative CBA and referred to ESMA's analysis. We concluded that the costs of ESEF are likely to be outweighed by the benefits over the medium to longer term, as anticipated costs savings emerge for issuers and market participants incorporate the new format into their processes for evaluating investments.

6. Whilst these CBAs considered the costs and benefits associated with a decision to implement ESEF, we consider here those related to a delay of 1 year in its implementation during the coronavirus pandemic.

Problem and rationale for the intervention

7. In light of current circumstances, we consider it likely that there is a temporary shift in relative costs and benefits of continuing with the original timetable of implementation of ESEF.

8. During the current pandemic and from the resulting economic ramifications, it is likely that issuers face additional (opportunity) costs as a result of implementing ESEF at this time. Costs could increase due to tying up management resource at a time when issuers are facing significant other challenges not foreseen by previous analyses.

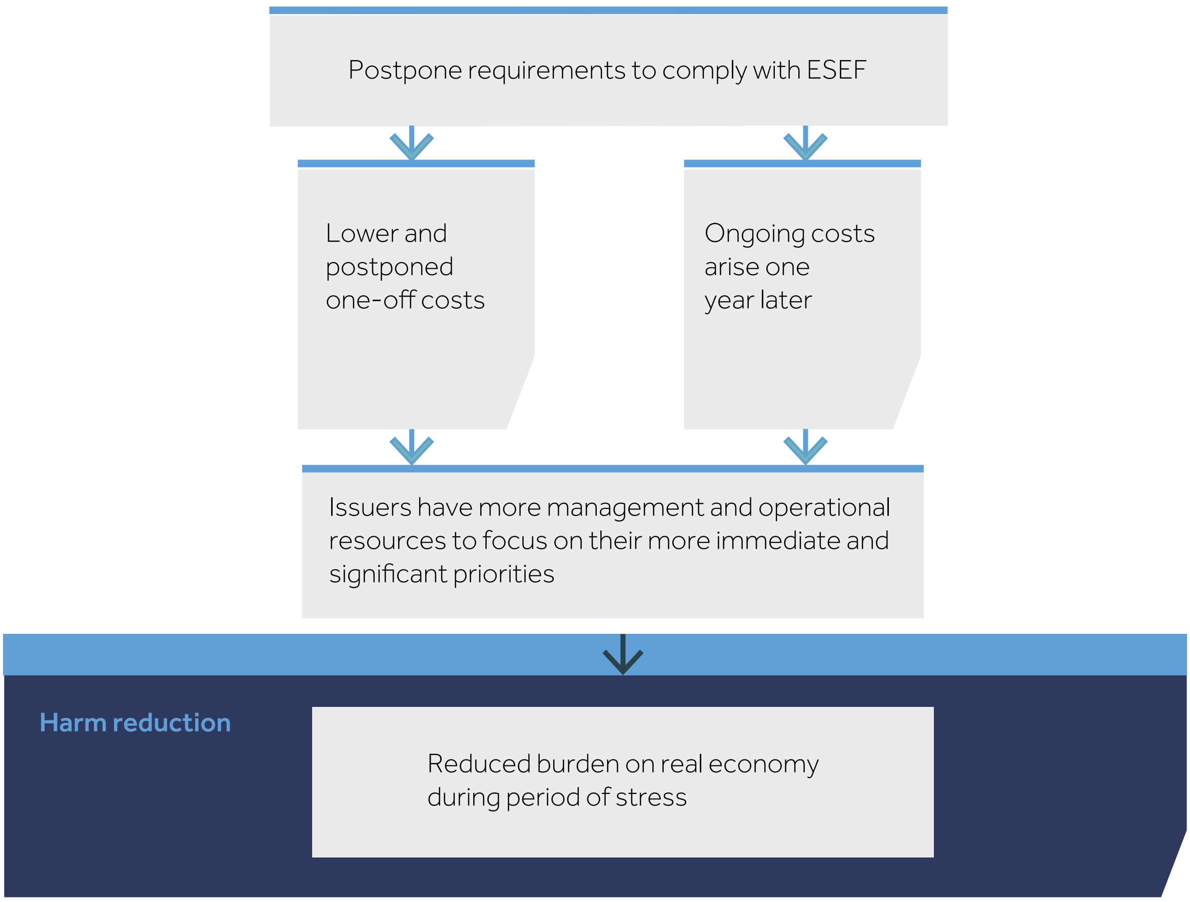
9. Further, it is possible that there would be reduced benefits during these exceptional circumstances, for instance due to low awareness among issuers. It may also be less likely that issuers and analysts are able to benefit from ESEF in the short term under current circumstances, as discussed below.

Our intervention

10. As outlined in the CP, we propose that mandatory preparation of annual financial reports in XHTML, and mandatory tagging of annual financial statements and notes in the ESEF for issuers preparing IFRS consolidated financial statements will be postponed by one year.

11. The figure below illustrates how we expect this intervention to reduce the risk of harmful side-effects on the UK economy.

How delayed ESEF requirements address risks to market integrity



Baseline and other key assumptions

Baseline

12. The costs and benefits of the delay are considered against those of the baseline of implementation according to the current timetable. We did not quantify these costs previously since they arise from an EU directive, with a CBA having been undertaken by ESMA. Given we are now proposing to delay the implementation, we are considering the relevant costs and benefits of doing so.

13. In the original ESMA analysis, most issuers estimated the total costs of implementation to be between €400,000 and €1 million. Around 30% of reported total costs corresponded to one-off costs, implying a one-off cost per issuer of €120,000-€300,000. The remaining costs corresponded to the 5-year net present value of ongoing and extension costs, discounted at 4%. This implies ongoing costs of around €65,000-€160,000 per year.

14. However, as noted in QCP 25, "issuers in the UK may already submit audited financial statements in structured data format to HMRC or Companies House", suggesting that ESEF implementation costs may be incremental rather than entirely new. As such, in the baseline, we expect both one-off and ongoing implementation costs to be lower than those reported in the ESMA survey, especially given that the ESMA sample includes only one UK issuer. Adopting baseline costs that are lower than the survey average results in a more conservative estimate of the benefits of a delayed implementation.

15. In the absence of further UK-specific evidence, we consider a wide range of average one-off costs between £40,000-£120,000, and average ongoing costs of around £20,000-£70,000 per issuer per year. This range includes the lower bound of responses in the ESMA survey, but also reflects our consideration of the limitations of the sample, as well as existing iXBRL-based reporting in the UK.

16. To calculate costs, we use issuers on The Official List as a proxy for issuers in scope of ESEF requirements. We recognise that this is not identical to issuers with transferable securities admitted to trading on a UK regulated market but consider it a reasonable proxy. As of 19 June 2020, The Official List included a count of 2,021 unique issuers. For the purposes of estimation, we assume that this remains approximately constant over the evaluation horizon. We also assume that, in the baseline, all issuers comply with the original timetable.

17. The ESMA CBA also considered costs to National Competent Authorities and Officially Appointed Mechanisms. However, as per the CP proposals, the FCA's investment in the NSM will continue as planned. As such, we consider that the cost of implementation to the FCA and NSM are not significantly different from the baseline.

Other key assumptions

18. While the proposal allows for issuers still to implement ESEF within the original timetable, it is difficult to determine the share of firms that will opt to do so. For the purposes of estimation, we assume that between 70-90% of issuers will opt to delay implementation in response to our proposal. Adopting a high percentage of those that might delay means we are likely to estimate higher levels of impact from the policy proposal (both in terms of lost benefits and saved costs from the original timetable).

19. We also assume that if implemented according to the original schedule, issuers will face one-off costs that are 5% higher compared to the proposed delayed implementation. This reflects our consideration of elevated opportunity costs, such as scarce management and operational resource, during the ongoing pandemic.

Summary of costs and benefits

20. The estimated costs of the CP proposals amount to a total of around £0.7m in familiarisation costs to issuers. This reflects the costs of reading the CP and understanding our proposals.

21. In addition to the estimated costs, the CP proposals would result in reduced benefits that would have accrued from compliance with ESEF in line with the original timetable. These may be lower than previously estimated due to the coronavirus pandemic and the related low level of awareness about ESEF. We consider this lost benefit to be not reasonably quantifiable.

22. We estimate that the proposals will result in total one-off benefits of between £32m-£141m. This corresponds to ongoing costs not being applicable in year one, and the benefit of delaying otherwise higher implementation costs.

23. Given our analysis of likely costs and benefits above, our conclusion is that benefits of a delay to ESEF implementation by one year will outweigh its costs.

Costs of delaying implementation

Additional familiarisation costs to issuers

24. We estimate the additional familiarisation costs of the proposal using our Standardised Cost Model, assuming a document length of 6,000 words, a reading speed of 100 words per minute, and an hourly compliance staff salary (including overheads) of £60. If six staff members read the document, this corresponds to familiarisation costs of around £360 per issuer. Since all 2,021 issuers will incur these costs, we estimate the resulting total one-off costs to be around £0.7m.

Loss of first year of ongoing benefit

25. Given our assumption that most issuers will opt to postpone implementation in response to the proposed policy, our proposals would result in only a fraction of the originally anticipated ongoing benefits materialising during the first year.

26. The ongoing pandemic adds significant uncertainty to the extent to which the expected ongoing benefits from ESEF implementation would accrue in the baseline and hence be lost under the CP proposals. We consider it likely that rushed implementation during the pandemic would give rise to errors, thereby diminishing the benefits of ESEF to its users. We therefore expect in the baseline the benefits of ESEF implementation for the first year would be lower than originally anticipated, given the current circumstances. We consider the cost of this lost benefit to be not reasonably quantifiable.

Benefits of delaying implementation

Saved ongoing costs in year one

27. Postponing implementation by one year would result in one year fewer of ongoing costs to issuers. Given the baseline estimate of ongoing costs to issuers from ESEF implementation, postponing the requirements by one year would result in a one-off saving in costs amounting to around £20,000-£70,000 per issuer. Given the assumed range of issuers postponing implementation and discounting at 3.5%, this would correspond to a total one-off benefit of between £27m-123m.

Saved higher and delayed one-off costs

28. As per our key assumptions, implementation costs are modelled to be 5% higher if implemented according to the original timetable compared to one year later. Moreover, if postponed by a year, implementation costs would be subject to our standard discount rate of 3.5%.

29. These assumptions yield a one-off benefit from cost savings of around £3,000-£10,000 per issuer. Given the assumed range of issuers postponing implementation, this would correspond to a total one-off benefit of between £5m-18m.

Annex 3
Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules and technical standards, the FCA is required by section 138I(2)(d) and section 138S(1) FSMA to include an explanation of why it believes making the proposed rules and technical standards is (a) compatible with its general duty, under s. 1B (1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K (2) and s.138S(1) FSMA to state its opinion on whether the proposed rules and technical standards will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules and technical standards are compatible with the duty on the FCA to discharge its general functions (which include rule-making [and technical standard-making]) in a way which promotes effective competition in the interests of consumers (s. 1B (4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of Her Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

The FCA's objectives and regulatory principles: Compatibility statement

6. The proposals set out in this consultation are primarily intended to advance our operational objective of market integrity.

7. They are also relevant to the FCA's consumer protection and effective competition objectives.

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that the relevant markets function well because they will assist issuers at the time of the coronavirus crisis and help with ensuring a smooth implementation of ESEF. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s. 1F FSMA.

9. We support the ESEF initiative as it should improve transparency and foster better information for investors, helping markets work well. Market integrity would be supported in that the structured data resulting from ESEF should improve the quality of investor analysis and the accuracy of pricing in the market. In helping to ensure a smooth implementation of ESEF this proposal should act towards this objective.

10. Market integrity will also be supported by minimising burdens on issuers during the exceptional circumstances of the coronavirus crisis.

11. In preparing the proposals set out in this consultation, we have had regard to the regulatory principles set out in s. 3B FSMA.

The need to use our resources in the most efficient and economic way

12. Our proposals will allow for a better implementation of ESEF by promoting a smooth implementation both from the perspective of acting towards a higher awareness of the scheme and of promoting a better accuracy and completeness in issuer's filing. This smoother implementation will act to reduce the costs to the FCA, for example, by saving monitoring costs in the first year.

The principle that a burden or restriction should be proportionate to the benefits

13. Our proposals to delay ESEF requirements are compatible with this principle because they do not impose any additional burdens on issuers.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

14. ESEF should assist growth in the UK economy by improving transparency in the financial reporting. This in turn should improve the accuracy of pricing in the market and of capital allocation.

The general principle that consumers should take responsibility for their decisions

15. Our proposal is consistent with this principle.

The responsibilities of senior management

16. We consider that our proposals do not undermine this principle.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

17. We consider that our proposals do not undermine this principle.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

18. This principle is not relevant to our proposals.

The principle that we should exercise of our functions as transparently as possible

19. Our proposal is consistent with this principle.

Expected effect on mutual societies

20. We do not expect the proposals in this paper to have a significantly different impact on mutual societies.

Treasury recommendations about economic policy

21. We have also considered the most recent recommendations from the Treasury on aspects of the economic policy of the Government, which we should have regard to when acting to advance our objectives and meet our duties (s. 1JA FSMA).

22. We consider that our proposals are consistent with these recommendations as a more effective implementation of ESEF fostered by a postponement of 1 year of mandatory requirements will act to promote greater transparency in the market which will foster the development of more effective competition between issuers. This will further promote economic growth by improving transparency about issuer performance which will foster better capital allocation and more accurate pricing in the market.

23. ESEF implementation should foster innovation in data analysis by allowing analysts to use structured data to compare issuer performance. A smoother implementation of ESEF should increase these benefits.

Equality and diversity

24. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protect characteristic and those who do not.

25. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraphs 1.11 and 1.12 of the Consultation Paper.

Annex 4
Abbreviations used in this paper

ESEF	European Single Electronic Format
ESMA	European Securities and Markets Authority
EU	European Union
FSMA	Financial Services and Markets Act 2000
IFRS	International Financial Reporting Standards
iXBRL	'Inline' eXtensible Business Reporting Language
NSM	National Storage Mechanism
PDF	Portable Document Format
TD	Transparency Directive
xHTML	EXtensible Hyper Text Mark-up Language

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

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All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN

Appendix 1
Draft Handbook text

TECHNICAL STANDARDS (ELECTRONIC REPORTING FORMAT) INSTRUMENT 2020

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the powers and related provisions in or under:

(1) regulation 72 (Transfer of directive functions to the FCA) of the Official Listing of Securities, Prospectus and Transparency (Amendment etc.) (EU Exit) Regulations 2019 (the "Regulations"), for the purposes specified in paragraph 31 (to specify the electronic reporting format for annual financial reports) of Schedule 2, Part 3 of the Regulations; and

(2) the following sections of the Financial Services and Markets Act ("the Act") as amended by the Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018:

(a) section 138P (Technical standards);
(b) section 138Q (Standards instruments); and
(c) section 138S (Application of Chapters 1 and 2).

B. The rule-making powers listed above are specified for the purposes of section 138Q(2) (Standards instruments) of the Act.

Pre-conditions to making

C. The FCA has consulted the Prudential Regulation Authority and the Bank of England as appropriate in accordance with section 138P of the Act.

D. A draft of this instrument has been approved by the Treasury in accordance with section 138R of the Act.

Modifications

E. The FCA amends Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, in accordance with the Annex to this instrument.

Commencement

F. This instrument comes into force on IP completion day as defined in the European Union (Withdrawal Agreement) Act 2020.

Citation

G. This instrument may be cited as the Technical Standards (Electronic Reporting Format) Instrument 2020.

By order of the Board
[*date*]

Annex

In this Annex, underlining indicates new text and striking through indicates deleted text.

COMMISSION DELEGATED REGULATION (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format

…

Article 8

Entry into force and application

…

It shall apply to annual financial reports containing financial statements for financial years beginning on or after ~~1 January 2020~~ 1 January 2021.

…

ANNEX II

Mandatory markups

…

2. Issuers shall mark up all disclosures made in IFRS consolidated financial statements or made by cross-reference therein to other parts of the annual financial reports for financial years beginning on or after ~~1 January 2020~~ 1 January 2021 that correspond to the elements in Table 1 of this Annex.

3. Issuers shall mark up all disclosures made in IFRS consolidated financial statements or made by cross-reference therein to other parts of the annual financial reports for financial years beginning on or after ~~1 January 2022~~ 1 January 2023 that correspond to the elements in Table 2 of this Annex.

Table 1

Mandatory elements of the core taxonomy to be marked up for financial years beginning on or after ~~1 January 2020~~ 1 January 2021

…

Table 2

Mandatory elements of the core taxonomy to be marked up for financial years beginning on or after ~~1 January 2022~~ 1 January 2023

…

DISCLOSURE GUIDANCE AND TRANSPARENCY RULES SOURCEBOOK (ELECTRONIC REPORTING FORMAT) INSTRUMENT 2020

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 73A (Part 6 Rules);
(2) section 89A (Transparency rules);
(3) section 89C (Provision of information by issuers of transferable securities); and
(4) section 137A (The FCA's general rules).

B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on IP completion day as defined in the European Union (Withdrawal Agreement) Act 2020.

Amendments to the Handbook

D. The Disclosure Guidance and Transparency Rules sourcebook (DTR) is amended in accordance with the Annex in this instrument.

Citation

E. This instrument may be cited as the Disclosure Guidance and Transparency Rules Sourcebook (Electronic Reporting Format) Instrument 2020.

By order of the Board
[*date*]

Annex

Amendments to the Disclosure Guidance and Transparency Rules sourcebook (DTR)

In this Annex, underlining indicates new text and striking through indicates deleted text.

DTR TP 1 Disclosure and transparency rules

DTR Sourcebook – Transitional Provisions

(1)	**(2) Material to which the Transitional Provision applies**	**(3)**	**(4) Transitional Provision**	**(5) Transitional Provision: dates in force**	**(6) Handbook Provision: coming into force**
…	…	…	…	…	…
32	*DTR* 4.1.14R	R	*DTR* 4.1.14R applies in relation to a financial year of an *issuer* beginning on or after ~~1 January 2020~~ 1 January 2021.	From ~~13 December 2019~~ [*date*]	From 13 December 2019
…	…	…	…	…	…

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FINANCIAL
CONDUCT
AUTHORITY

12 Endeavour Square London E20 1JN
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk