



Why Europe is open for business

The European Financial Transparency Gateway could be the door that allows investors to access a wealth of information about listed companies. It's part of a broader drive to use digital technology to make corporate information more transparent, as *Sally Percy* explains.

Where could you go to access a single resource that would provide you with statutory information on every listed company based in the European Union (EU)? The short answer to that question is nowhere – at least for now. The longer answer could be the European Financial Transparency Gateway (EFTG) – possibly in the not-so-distant future.

The reason no single such resource exists today is that every EU Member State has its own officially appointed mechanism (OAM), usually a storage facility that publishes statutory information relating to its listed companies. As a result, any investor who wants to compare and contrast companies across different Member States will need to access a different OAM for each one, with all the variation in cost, quality of information and user experience that approach is likely to entail.

"Member States have different national mechanisms for storing information about companies, with different mandates and operating models," explains Thomas Toomse-Smith, a Project Director at the Financial Reporting Lab

of the UK's Financial Reporting Council. "These mechanisms all work in slightly different ways, and the information they provide varies in terms of scope and usability. Investors often tell us they would like a European version of the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system that is operated by the US Securities and Exchange Commission."

Drive for transparency

The EU believes that good-quality, reliable information acts as a catalyst for investment and is committed to improving the transparency of information provided by listed companies within the EU. In 2013, it revised the Transparency Directive with a view to ensuring that investors in listed companies receive a regular flow of statutory information.

The same directive also required the European Securities and Markets Authority (ESMA), and the national competent authorities from each EU Member State, to work together on creating a single, centralized point of entry for the public to access statutory information on listed companies.



ESMA responded to this request by issuing draft regulatory technical standards on the operation of a single European Electronic Access Point, but the ESMA Board of Supervisors decided to pause the project in January 2018.

Now, however, the European Commission has embarked on its own pilot project to explore the feasibility of a single European Electronic Access Point using the distributed ledger technology blockchain. Funding for the project is being provided by the European Parliament. This access point, the EFTG, is a layer of back-end technology that creates a blockchain from the databases that are maintained by the national OAMs. It thus delivers a consistent experience for users looking to access statutory information about listed companies in the EU, no matter where the user or the company is based. Blockchain was chosen for the pilot because the technology has the potential to work with different databases while also offering immutability, security and timeliness of information.

The man in charge of the pilot is Alain Deckers, Head of Unit, Corporate Reporting, Audit and Credit Rating Agencies at the Directorate-General for Financial Stability, Financial Services and Capital Markets Union at the European Commission. "The objective is not to create a centralized database," he explains. "Instead, we want to see if we can link all the different national repositories in which statutory information is already disclosed. From a user's point of view, it would look like a single database, though, because it would provide a single point of entry to the information."

Pilot in progress

At present, a small number of national OAMs are working with the Commission on the pilot, which is intended to establish whether the EFTG

is actually feasible as a single point to access information from across the EU. Whether the pilot proceeds to full-scale implementation will depend not only on its success, but also on political decisions that need to be made at a later date. If full implementation does go ahead, it is unlikely to materialize until after 2019, due to the European Parliament elections taking place this year and the renewal of the European College of Commissioners.

"The technical development of the EFTG pilot will be completed in the second quarter of 2019," Deckers explains. "At this stage, we cannot prejudge the outcome of the pilot, nor speculate on the solution that will eventually be chosen to implement the European Electronic Access Point as it was envisioned in the Transparency Directive."

He acknowledges that technology has presented some challenges. Nevertheless, he says that "you can always find a technical solution to what you're trying to achieve." If the project progresses to full-scale implementation, however, business models and governance could become bigger issues than technology. This is because the OAMs in some countries are private, profit-making entities while the EFTG, as a network-based system, will require an effective governance structure if it is to operate effectively.

In the long term, Deckers believes the EFTG could potentially have uses that extend beyond allowing investors and other interested parties to access statutory information. For example, it may be helpful to statistical authorities or central banks.

Kyle Lamb, Global XBRL Technical Lead at EY, says that if the EFTG is fully implemented across the EU in the future, it will bring significant benefits to investors.

"It's an incredibly powerful concept," he explains, "because it would be a single and

transparent gateway that would allow everyone to compare entities across the European market, from armchair analysts and small investors all the way up to retail investors and major institutions. They could potentially also compare entities across the wider capital markets, including foreign private issuers in the US for which comparable XBRL reports are published too.”

One format fits all

The EFTG reflects the broader trend within the EU for company information to be made more easily available through digital means. Another significant development is the European Single Electronic Format (ESEF) – the electronic reporting format that issuers on EU regulated markets must use for preparing their annual financial reports from 1 January 2020.

Today, annual reports tend to be produced in printed and pdf formats. With the onset of the ESEF, however, listed companies will have to prepare their annual reports in XHTML, a computer markup

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Mohini Singh
CFA Institute

language that can be opened with standard web browsers. Furthermore, where presented, the IFRS consolidated financial statements, and potentially other content required by national OAMs within annual financial reports, will need to be marked up with XBRL tags in the Inline XBRL (iXBRL) format that makes the labeled disclosures structured and machine-readable. This will allow large amounts of financial information to be analyzed more easily with software.

Toomse-Smith points out that the EFTG and the ESEF logically fit together. “Around 7,000 companies across Europe are going to have to start using the ESEF from 2020,” he says. “For that to bring any real benefits, the data will need to be accessed from one place.”

Lamb also believes there’s a natural linkage between the two initiatives. “While OAMs predominantly collect annual financial reports from issuers in pdf format, they make them available publicly through different interfaces,” he says. “Each report is also laid out and presented slightly differently, which makes the task of using software tools to extract useful and comparable

data for analysis more complex, burdensome and, ultimately, costly. Now, with the introduction of the ESEF, the outputs will become more standardized, as well as computer-accessible and comparable.”

At present, several different actors are driving the XBRL digitalization agenda as it relates to the reporting of financial information in Europe. These include the European Commission, the European Central Bank and the European authorities under the European Systemic Risk Board (including ESMA, the European Banking Authority and the European Insurance and Occupational Pensions Authority). Industry working groups organized through industry association XBRL Europe, not-for-profit standards association XBRL International and collaboration project EuroFiling also support the practical implementation of the XBRL standards.

Nevertheless, Lamb believes that market stakeholders also need to ensure that analysts and investors, as important end users of annual reports and other financial information, quickly engage with some key industry working groups. These are the working groups that are preparing guidance and best practice for preparers, software vendors and the European OAMs that will collect ESEF reports. “Otherwise, there is a risk that the embedded XBRL data they end up with in ESEF reports won’t be fit for their purposes when they receive it,” he warns.

The democratization of information

One association of investment professionals that is getting engaged with the debate is CFA Institute. “From the start, we have supported ESMA’s efforts to establish the ESEF, since we believe it will improve the democratization of information,” says Mohini Singh, the institute’s Director of Financial Reporting Policy.

“Technology should be effectively deployed to provide investors with the information they need for their investment decisions.”

Nevertheless, she adds that, while CFA Institute supports the use of iXBRL for XBRL tags, it believes that more should be done to promote electronic reporting. “Structured reporting should not only apply to all parts of the annual report, but also to interim reports, since investors make investment decisions throughout the year,” she says.

Broader EU initiatives that provide further context for both the Transparency Gateway and the ESEF are the fitness check on public reporting by companies and the European Commission’s FinTech Action Plan, which is intended to help create a more competitive Europe.

“It’s the direction of travel that’s really interesting,” notes Toomse-Smith. “More and more of the data put out by companies will be digital and consumed digitally. For preparers, that’s worth understanding, because it all points to information being a lot more transparent in the future.” ■

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