

arkksolutions

What does it  
take to meet  
the ESEF  
requirement?

IFRS

INCOME STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2020

The background features a complex financial visualization. On the left, a waterfall chart shows a series of blue bars representing changes in value, with a vertical axis labeled 'IFRS'. The chart starts with a positive bar, followed by several smaller positive and negative bars, and ends with a large positive bar. Overlaid on this are several financial statement tables. One table is titled 'INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020' and lists items like 'Interest receivable and similar income', 'Interest payable and similar charges', and 'Net interest income'. Another table is titled 'STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020' and lists items like '(Loss)/profit for the financial year', 'Other comprehensive loss', and 'Items that will not be reclassified to the income statement'. A third table is partially visible, showing 'Available-for-sale investments' and 'Fair value movements taken to reserves'. The tables use columns for '2018' and '2017' with values in '£000'. The overall background is dark with a network of glowing blue lines and dots.



# Our study into the ESEF (European Single Electronic Format) mandate

## Introduction

The concept of tagging financial returns first arrived in the UK over ten years ago. Ireland followed closely after, with the requirement for firms to produce an iXBRL document of their annual statutory returns. This made returns easier to analyse and increased comparability.

“Tagging” involves taking the latest taxonomy (essentially a dictionary of tags) and mapping them onto a set of accounts. This means that despite variances in phrasing and language, it’s simple to compare one set of end-of-year accounts with another.

With ESEF, the regulatory body ESMA requires Primary Statements of main market listed firms across the EU to be tagged also using iXBRL. This shift is part of a global digital transformation to make financial reporting easier to compare and analyse.

This trend towards streamlining reporting goes beyond ESEF, and does not just benefit the regulators. FSN’s *Innovation in Financial Reporting*<sup>1</sup> study surveyed 600+ senior finance professionals, finding that;

- 33% believe innovation can help automate and accelerate reporting
- 23% feel they spend too much time cleaning and manipulating data
- 40% are worried about reporting potentially inaccurate information

## Research Summary

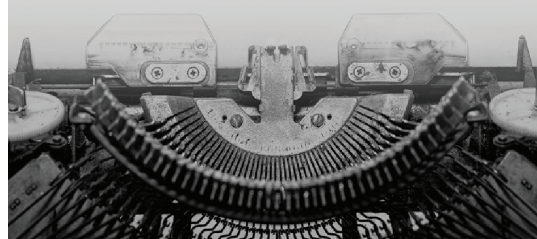
Arkk’s very first offering supported HMRC and Revenue filers with iXBRL tagging. Ten years on, we have a team of dedicated taggers and reviewers based in the UK who apply over 1,000,000 tags per year. With ESEF fast approaching and an evolution of financial reporting on the horizon, we tasked our team with preparing the Primary Statements of 27 publically listed records (across the FTSE 100, FTSE 250 and Irish Listed firms) under the ESEF standard.

This report shows our findings specifically around:

- What does a small, medium or large set of accounts look like?
- How much of a Primary Statement can be tagged under the ESMA taxonomy?
- What impact with this additional step have on the current publishing process?

## This report shows:

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## 2

## How big is my ESEF challenge?

Looking at our research, we found on average 212 figures in the Primary Statements. That includes the previous year figures, meaning firms must apply approximately 107 new tags to their accounts each year.

Below we display an income statement with 44 data points, to give readers a view on how much information needs to be tagged in their financial statements. The size of a company's financial statements, and the number of figures, will determine how much effort is required to tag their financial information.

### CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2017

|                                                        | Notes    | 2018<br>£'000 | 2017<br>£'000 |
|--------------------------------------------------------|----------|---------------|---------------|
| <b>Turnover</b>                                        | 1        | <b>65,202</b> | <b>59,778</b> |
| Net operating costs                                    | 2        | (54,981)      | (47,029)      |
| <b>Operating Profit</b>                                |          | <b>10,221</b> | <b>12,749</b> |
| Analysed as:                                           |          |               |               |
| <b>Headline EBITDA</b>                                 |          | <b>23,771</b> | <b>23,493</b> |
| Depreciation and amortisation                          |          | (11,373)      | (10,395)      |
| <b>Headline operating profit</b>                       |          | <b>12,398</b> | <b>13,098</b> |
| Exceptional maintenance                                |          | (2,734)       | (3,263)       |
| Adjustment for defined benefit pension cost            |          | -             | 3,756         |
| Exchange gains / (losses)                              |          | 136           | (546)         |
| Profit on disposal of fixed assets                     |          | 20            | 44            |
| Asset impairments                                      | 10       | -             | (320)         |
| Gain from changes in fair value of investment property | 10       | -             | 1,332         |
| Professional fees incurred in respect of financing     |          | -             | (1,625)       |
| Other operating income                                 |          | 401           | 273           |
| <b>Operating Profit</b>                                |          | <b>10,221</b> | <b>12,749</b> |
| Interest payable and similar charges                   | 4        | (5)           | (19)          |
| Income from current asset investments                  |          | 224           | 437           |
| Changes in fair value of investments                   | 13       | -             | 23            |
| Other finance costs                                    | 5        | (986)         | (655)         |
| <b>Profit on ordinary activities before taxation</b>   | <b>3</b> | <b>9,454</b>  | <b>12,535</b> |
| Tax on profit on ordinary activities                   | 7        | (2,856)       | (2,331)       |
| <b>Profit for the financial year</b>                   |          | <b>6,598</b>  | <b>10,204</b> |

### 3 How do I account for my

## individual requirements?

One of ESEF's main objectives is to improve analysis and comparability for financial statements and to make information more accessible. That's why there's a taxonomy (based off the IFRS taxonomy) which provides a list of available tags.

In practise, firms vary in the way they present their Primary Statements. They may have industry specific line items, or certain areas of their business they want to highlight for stakeholders. This means that certain data points do not have a corresponding tag in the taxonomy.

For HMRC and Revenue iXBRL tagging, if a figure can't be mapped to IFRS it is left blank, which affects the completeness and comparability of the document.

To combat this, ESEF is introducing the concept of "extending" and "anchoring". Essentially, this allows the tagger to create (or extend) their own tag to describe what the data point is. To stop this becoming a free-for-all with firms inventing their own taxonomy, the tagger must link (or anchor) the data point to the most appropriate item in the taxonomy:

In fact, only 82% of figures in the Primary Statements we examined had correlating tags. The remaining 18% need to be extended and anchored.

#### EXAMPLE TABLE

Year ended 31 December 2018

| (in £s million)                                   | Notes    | 2018<br>£'000  | 2017<br>£'000 |
|---------------------------------------------------|----------|----------------|---------------|
| <b>Turnover</b>                                   |          |                |               |
| Continuing operations                             |          | <b>5,753.3</b> | 5,081.0       |
| <b>Net Fees<sup>(1)</sup></b>                     |          |                |               |
| Continuing operations                             | 4        | <b>1,072.8</b> | 954.6         |
| <b>Operating profit from continued operations</b> | <b>4</b> | <b>243.4</b>   | 211.5         |
| Net finance charge                                | 8        | <b>(4.9)</b>   | (6.9)         |
| <b>Profit before tax</b>                          |          | <b>238.5</b>   | 204.6         |

Item to tag:  
**Net Fees<sup>(1)</sup>** for  
Continuing Operations

No option in the  
taxonomy

Suggested anchor  
"Turnover from  
Continued Operations"  
as it is a sub-set of this  
overall figure.

This is a great step forward in allowing firms to accurately represent their own data, whilst referencing back to the EU-wide standard. It does also require a certain amount of understanding and knowledge around the concept of tagging to make accurate judgements on the anchoring elements.

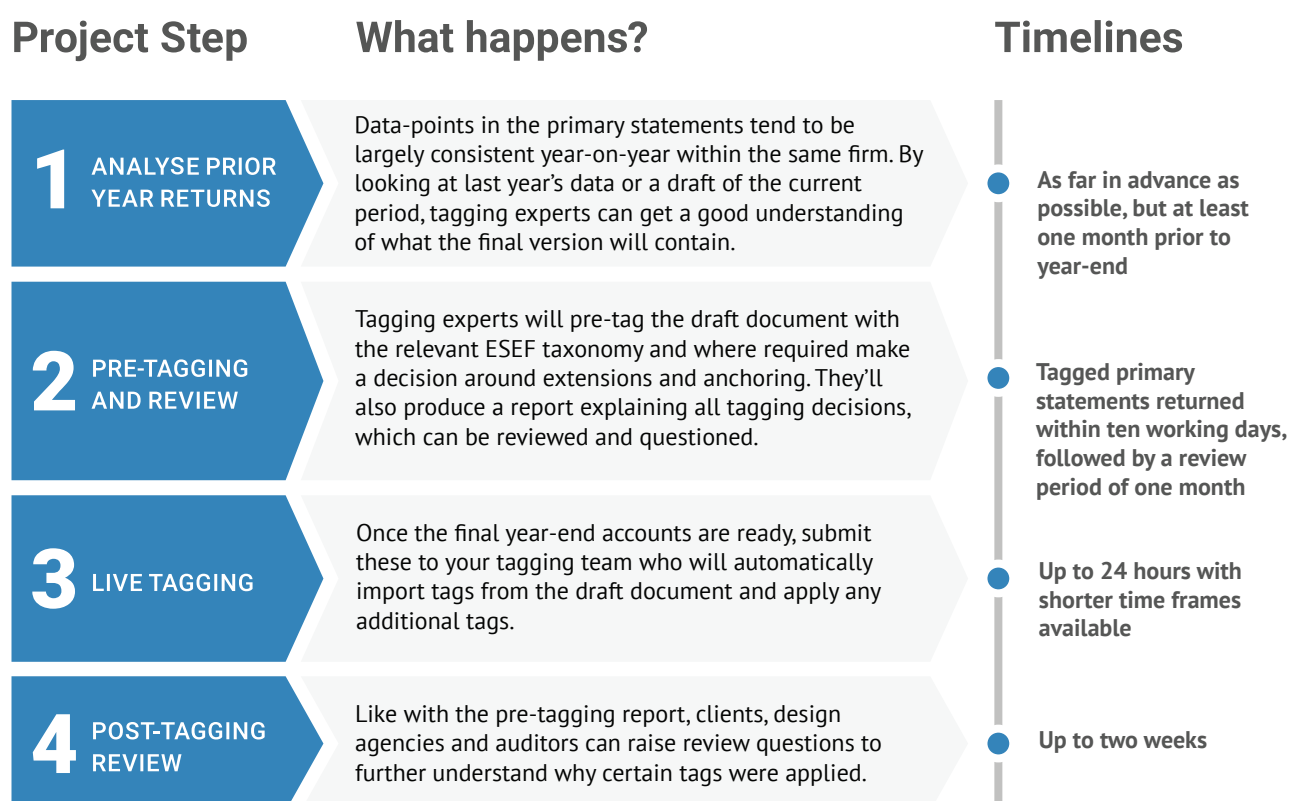
## 4 How does this fit into

### my current process?

Preparing Primary Statements for publication is a time-critical challenge. Many agencies are concerned about this extra step in the process, especially with the concept of extending and anchoring almost 20% of the statement.

After our tagging team practised applying the ESEF IFRS taxonomy to those 27 AFRs, we considered how to make this process as slick as possible for design agencies and their clients. There should be an efficient way to ensure ESEF compliance doesn't disrupt an already complex process of reporting and publishing end of year accounts.

With that in mind, we've created a 4-step process we think is the best approach to prepare for ESEF, which means the actual tagging, reviewing and returning part of annual reporting can be completed in under 24 hours:



This is what we see as the most effective way to prepare for ESEF, and ensure that the final stage of tagging is done as quickly as possible.

## 5 What's next?

The first publications under ESEF are expected in Q1 2021. Whilst that may seem like a long way off, it's important to prepare in advance to ensure the time between closing the books on 2020 and producing the ESEF compliant financial report is as swift and hassle-free as possible.

With 97% of CFO's 'losing sleep' over at least one aspect of their reporting process<sup>2</sup>, the approach to ESEF should not be seen as a standalone requirement. Instead, it's one part of a larger journey to make financial reporting more accurate and less manual than it is today.

There are a few more questions surrounding ESEF not yet clarified by ESMA, and some which can only be answered as more firms begin preparing for the mandate. A few that spring to mind include:

- How will 'block tagging' affect the ESEF process in 2023?
- When will firms need to present their iXBRL documents?
- Is there any way to auto-tag part of Primary Statements?



## This is where we want to hear from you

This is where we want to hear from you.

From our research, we've helped you identify if Primary Statements have a below or above average number of data points to tag, how many of those tags will need smart decisions around anchoring, and a step-by-step guide to tagging in 24 hours.

What do you want to know next about ESEF? Do your clients have further questions about preparation, or are you already looking ahead to 'block tagging' in 2022? Whatever your query, our tagging team of experts are here to investigate. Get in touch with Arkk using the information overleaf, and get ready for ESEF with confidence.



<sup>1</sup>FSN, Innovation in Financial Reporting, 2018

<sup>2</sup>FSN, Future of Financial Reporting, 2017



# About Arkk

Born in 2009, Arkk Solutions brought its first iXBRL tax solution to the UK market.

Fast forward ten years, and Arkk now work with the world's largest consultancies and 25% of the FTSE 250, supporting over 800 clients with reporting and filings every year. Our products and services are designed to simplify the reporting process making regulatory filings one less challenge for clients to tackle.

Recognised as one of the fastest growing RegTech firms, Arkk has enjoyed ten years of continuous growth. In addition to supporting firms in the UK and Ireland with our iXBRL tagging services, financial experts globally rely on our solutions for:

- Making Tax Digital for HMRC
- Country by Country Reporting for MNE's
- AIFMD
- COREP
- Form PF
- Solvency II

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