

ESEF, current status update from the NBA

Enrico Evink

Nederland rekent op zijn accountants.

Koninklijke Nederlandse
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NBA

Agenda

1. ESEF changes for 2024
2. Sustainability reporting & ESEF
3. Updates to the Assurance Standard
4. Lessons learned from the 2023 audits
5. Q&A



Enrico Evink
Partner EY Accountants B.V.
Board Member XBRL Netherlands,
Member NBA work group digital assurance

Polling question (1)

How far are you in preparing for CSRD as part of the ESEF annual report?

Companies & Auditors

- A. We are fully ready for drafting the CSRD information / review this
- B. We are preparing to draft / review CSRD information
- C. CSRD?

Users

- D. We are expecting to use the CSRD information
- E. We are not expecting to use the CSRD information currently

ESEF changes in 2024

Changes in 2024

The following are the main changes which are relevant for the 2024 financial statements:



ESEF Taxonomy 2022 / 2024

As indicated last year the Taxonomy of 2022 can also be used for 2024 financial statements (second year). After adoption by the EU, the 2024 taxonomy can be used (required for US FPI's). For company extensions when using the 2022 taxonomy, if the element is present in the 2024 taxonomy, the same attributes are to be used



ESMA Reporting manual 2024

Yearly, the ESMA updates its ESEF reporting manual, which provides guidance on the preparation of ESEF annual financial reports. The new reporting manual is applicable for financial statements starting on or after January 1, 2024.



AFM updates 2024

The local officially appointed mechanism can also add additional requirements, currently there are no new requirements known. From prior years the most important is the size limit of 100MB.

RTS: [EUR-Lex - 02019R0815-20230119 - EN - EUR-Lex \(europa.eu\)](#) draft RTS 2024: [Final_Report_amending_RTS_on_ESEF_-_2024.pdf](#)

Reporting Manual: [ESMA32-60-254 ESEF Reporting Manual \(europa.eu\)](#)

1 ESEF Taxonomy 2024

In the summer of 2024, the draft ESEF taxonomy 2024 was issued:

1

Mandatory for 2025 financial statements

The **2022 ESEF taxonomy** is required to be used for tagging the **2024 ESEF AFRs**. Previous taxonomies are no longer allowed to be used. The 2024 taxonomy is prepared by ESMA and currently in the endorsement process and is required for **2025** financial statements but can be used (voluntarily) after adoption and is to be used for FPI (SEC fillers).

2

New elements for the 2024 taxonomy

The 2024 ESEF taxonomy includes new elements and removes some other elements. If early adopting the 2024 ESEF taxonomy, it is good to check these as elements used to tag consolidated financial statements for 2023 might not be appropriate anymore. In addition, for extension elements always check the latest IFRS taxonomy (to match the attributes). Also, the taxonomy 2024 introduces calculations 1.1.

3

CSRD tagging

The EFRAG has released its draft taxonomy for the CSRD (and art 8 taxonomy) tagging. This is not yet included in the ESEF taxonomy 2024 and as such this cannot be referenced directly. Tagging is not mandatory for 2024. Based on the currently applicable RTS article 5 prohibits tagging other parts of the financial report (such as the board report) unless it is included in a member state taxonomy.

2 ESMA Reporting Manual 2024

Some relevant changes / highlights in ESMA reporting manual:

1

New technical requirements

Application of the report package specification 1.0 is to be used. Introducing Calculations 1.1 (note both are only compliant with taxonomy 2024)
Include a version number in submissions to OAM

2

Tagging of empty field

The recommendation from ESMA is to always tag the empty fields, zeroes or "--" when 'read' as a zero. Especially if it is a 'rounded' zero. Exception for the Equity statement if a 'row' is not present than these comparatives do not need to be tagged

3

Reenforced: Extension element

If an extension element is used corresponding to an element in the new IFRS taxonomy (or 2024 ESEF taxonomy), the characteristics of the IFRS taxonomy element should be used.
Anchoring (both wider and narrower) is done to an element with the same data type

4

Reenforced: Readability extracted information

Issuers should ensure information rendered has words and numbers in same order, including spaces and information in tables are meaningfully transcribed in extracted tagged information this can be done by including the style information.

5

Escape is true (or false)

Clarification that for all Block tags the Escape attribute must be set to 'true', and for all Strings it should be set to 'false'.

6

Include an ID attribute

The recommendation from ESMA is to always include an ID attribute to all the facts that are being reported

Sustainability reporting & ESEF

Sustainability reporting & ESEF

CSRD and impact on ESEF Annual report

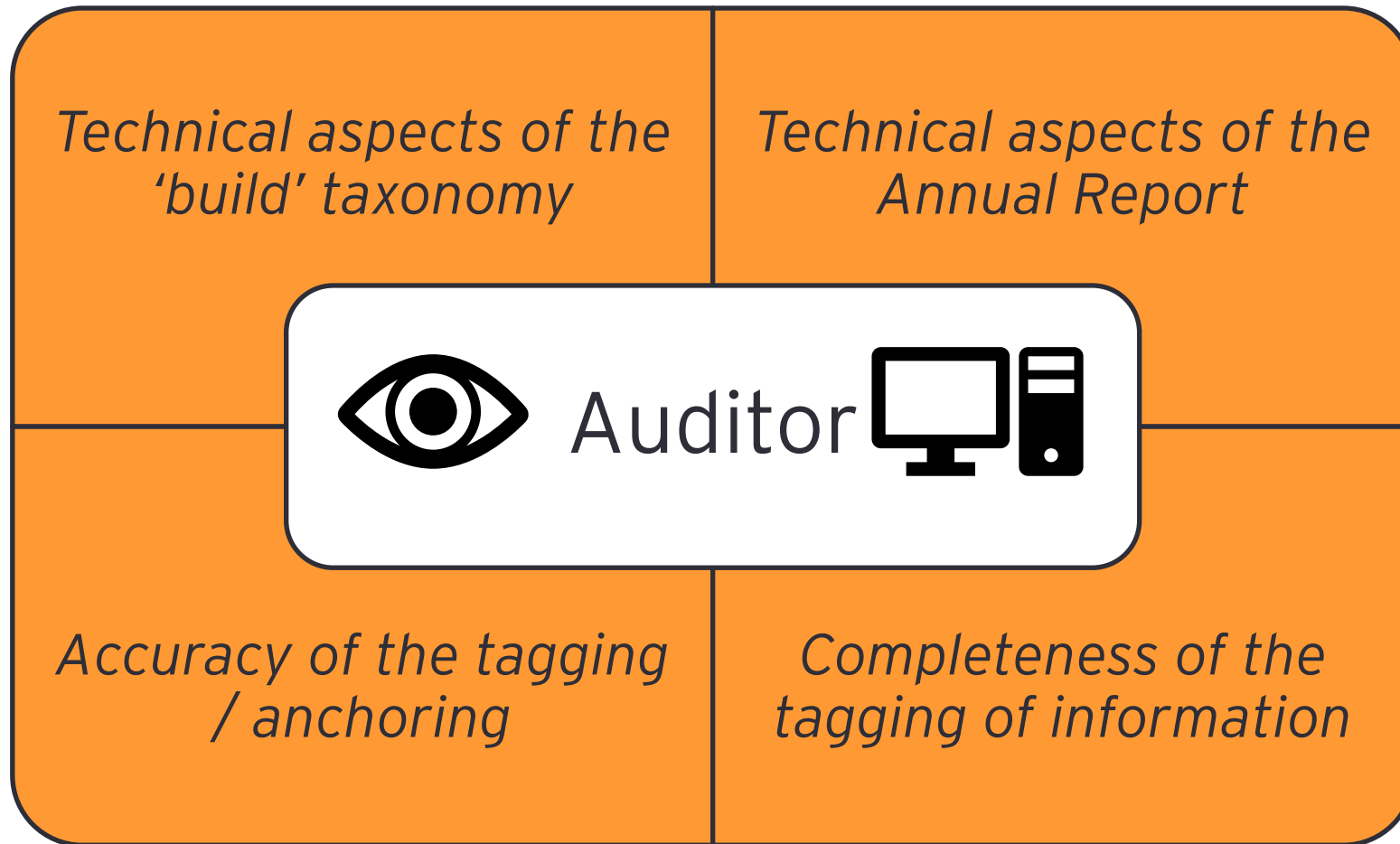
- ❖ Sustainability taxonomy is drafted by EFRAG and shared with ESMA for integration in ESEF-RTS (expected for 2025 or 2026). No tagging is required (or possible) for 2024 AFRs
- ❖ While the mandatory CSRD disclosures are still expected in 2024 annual reports (if subject to CSRD), this results in the postponement of the respective **tagging requirement**.
- ❖ Keep in mind: as the CSRD disclosures form a part of the total ESEF annual financial report (i.e. part of the reporting package, even though it remains untagged), it is key that the CSRD disclosure requirements are prepared on time, to ensure that this does not result in a delay on finalizing the audit of the financial report around reporting date. As any changes made to the ESEF annual financial report, whether it is within the tagged information or outside of it, result in a new hash total identifier and thereby result in an additional version of the ESEF annual report which needs to be assessed.

Updates to the Assurance Standard

Updates to the Assurance Standard

NBA standard 3950N - Reminder of the work to be performed by the auditor

ESEF audit work relates to:



Source: <https://www.NBA.nl>

Updates to the Assurance Standard

NBA standard 3950N - Update released October 2024

The NBA has updated the assurance standard 3950N

❖ Why the update:

- ❖ to include the option for limited assurance, as the CSRD information is for the first years only subject to limited (instead of reasonable) assurance; and
- ❖ to fix current issues/clarify wording were needed.

❖ What does this mean in practice

- ❖ With a limited assurance engagement, the auditor validates that there are no indicators that the tagging is wrong. For example the auditor will review that the used tagging is appropriate, but will not validate if there is no better (narrower) tag available
- ❖ The technical validation still is performed in full (usually as part of the ESEF financial statement audit) as an invalid file cannot be processed.

❖ What is new for ESEF financial statement audits

- ❖ No major change only some minor (wording) clarifications

Updates to the Assurance Standard

NBA standard 3950N - Update released October 2024 (2)

The NBA has updated the assurance standard 3950N

Limited Assurance

- ❖ Identify areas of possible material difference and act upon those. No relying on controls within the process
- ❖ Consider the process
- ❖ Tagging : no indications of incomplete tagging
- ❖ Tagging: correctness of the tagging is plausible
- ❖ Extensions seem to be plausible

Reasonable Assurance

- ❖ Identify risk of material misstatements and act upon those, including relying on controls
- ❖ Obtain insight in the process
- ❖ Tagging : All relevant information is tagged
- ❖ Tagging: All included tagging is done correctly
- ❖ Extensions are included based on the requirements

Auditing ESEF - Examples (1 tagged numbers?)

(44 157)	(14 998)
(13 048)	(3 487)
484	1 452
8 187	(22 565)
(159)	(118)

(44 157)	149998
(13 048)	(3 487)
484	1 452
8 187	(22 565)

(44 157)	(14 998)
(13 048)	(3 487)
484	1 452
8 187	(22 565)
(159)	(118)
-	-

```
<span id="t1f_100" class="S16AA SB4 S2">
  "(14 "
  ...
  <span style="position:absolute;z-index:1;top:0;left:0;width:100%;height:10
    0%;color:transparent">== $0
    <ix:nonFraction contextRef="C0-3000737221" name='      :OperatingProfitLossB
eforeStrategicAndRestructuringLitigationImpairmentAndDisposalOfAssetsCosts"
    unitRef="EUR" scale="3" decimals="-3" sign="-" format="ixt:num-dot-decima
    l">14998</ix:nonFraction>
  </span>
</span>
<span id="t1g_100" class="S16AB SB4 S2">998) </span>
```

```
<div style="bottom:274px;color:#000;font-family:OpenSans_s91_flce2fc93d  
cba;font-size:12px;left:76px;letter-spacing:0.12px;line-height:1.5;over  
flow:visible;position:absolute;transform-origin:bottom left;white-spac  
e:pre;word-spacing:0.84px;z-index:2">sition accounting was prepared on  
a provisional basis. During</div>
```

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Auditing ESEF - Examples (3 Tables or not)

Contract balances

The Group has recognised the following assets and liabilities relating to contracts with customers:

(EUR x 1,000)

Unbilled revenue on (completed)

Trade receivables

Advance instalments to work in

Contract balances

The Group has recognised the fo

customers:

(EUR x 1,000)

Unbilled revenue on (completed) projects

Trade receivables

Advance instalments to work in progress

```
▼<span style="position: absolute; display: inline-block; left: 0px; top: 21.6934px; width: 543.053px; white-space: pre; word-spacing: -0.108px; letter-spacing: 0.108px; margin-left: 0px; font-size: 12px; font-family: ff4; color: rgb(35, 31, 32); -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);">
  <span style="display: inline-block;">Unbilled rev</span>
  <span style="word-spacing: -0.108px; letter-spacing: 0.108px; display: inline-block; margin-left: -0.4995px; width: 0px; font-size: 12px; font-family: ff4; -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);"></span>
  <span style="display: inline-block;">enue on (</span>
  <span style="word-spacing: -0.108px; letter-spacing: 0.108px; display: inline-block; margin-left: -1.0275px; width: 0px; font-size: 12px; font-family: ff4; -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);"></span>
  <span style="display: inline-block;">completed) projec</span>
  <span style="word-spacing: -0.108px; letter-spacing: 0.108px; display: inline-block; margin-left: 0px; width: 0.58008px; font-size: 12px; font-family: ff4; -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);"></span>
  <span style="display: inline-block;">ts</span>
▼<span style="word-spacing: -0.108px; letter-spacing: 0.108px; display: inline-block; margin-left: 0px; width: 122.977px; font-size: 12px; font-family: ff4; -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);"> == $0
  <span style="display: inline-block;"></span>
  </span>
▼<span style="word-spacing: -0.1575px; letter-spacing: 0.1575px; display: inline-block; margin-left: 0px; font-size: 10.5px; font-family: ff2; color: rgb(67, 122, 164); -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);">
  <span style="display: inline-block;">23</span>
  ▼<span style="word-spacing: -0.1575px; letter-spacing: 0.1575px; display: inline-block; margin-left: 0px; width: 67.8634px; font-size: 10.5px; font-family: ff2; -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);">
    <span style="display: inline-block;"></span>
  </span>
  </span>
▼<span style="word-spacing: 0px; letter-spacing: 0px; display: inline-block; margin-left: 0px; font-size: 12px; font-family: ff4; color: rgb(35, 31, 32); -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);">
  <span style="display: inline-block;">237</span>
  <span style="word-spacing: 0px; letter-spacing: 0px; display: inline-block; margin-left: -1.0275px; width: 0px; font-size: 12px; font-family: ff4; -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);"></span>
  <span style="display: inline-block;">,815</span>
  ▼<span style="word-spacing: 0px; letter-spacing: 0px; display: inline-block; margin-left: 0px; width: 38.7011px; font-size: 12px; font-family: ff4; -webkit-text-stroke: 0.18px rgba(0, 0, 0, 0);">
    <span style="display: inline-block;"></span>
  </span>
  <span style="display: inline-block;">214,653</span>
</span>
</span>
```

Lessons learned including
those from block tagging

Lessons learned - Common Pitfalls

Avoid common pitfalls made in ESEF filings last years:



Mandatory items tagging

If a 'required if disclosed' tag is not disclosed then it should not be tagged at all (e.g. also not as N/A). The warning in your ESEF tool is just to remind you that if applicable (which it is not) it needs to be tagged.



Calculation errors & signs

All errors in calculations are shown as warnings, as such also rounding errors in primary statements, but also incorrectly linked numbers. Consider the default balance type to avoid incorrect ESEF reporting.



Primary statements - extra info

All amounts presented in the reporting currency on primary statements are to be tagged, as such also additional information disclosed and earnings-per-share amounts.



Block tagging - multi-layered

While block tagging, the block tag with a higher granularity should also be applied as well (e.g. goodwill -> intangible assets & goodwill).



Block tagging - note references

When applying block tagging, a reference to another note might indicate that there is information there that also should be tagged with the same block tag.



Readability

The tagged information must retain the same order (for each tag) and 'informational value' as the XHTML text that is tagged. Using a native XHTML table prevents a lot of these issues.

Lessons learned - Tips

Based on prior years' ESEF annual financial reports:

1

Start timely and use a Dummy ESEF file for review

Almost all companies needed multiple versions of the ESEF annual report before all material findings noted in the ESEF audit procedures were resolved. It is therefore key to start on a timely basis, have a kick-off call with the audit team early on and supply a dummy version before/during Autumn 2024.

2

Complexity of findings

The findings noted in the ESEF audit procedures varied considerably in the level of complexity, and usually required the involvement of the ESEF software supplier, auditor, the issuers and their specialists. However, it is vital for the issuer to have an adequate understanding of ESEF and the comments raised, as the issuers remain responsible for their financial statements.

3

ESEF preparation process - especially in first year of CSRD reporting

In various cases the issuer's regular financial statement close process was not adequate to ensure finalization of the ESEF annual report along regular timelines. Considering the added complexity of CSRD reporting, there will be extra pressure on the timelines, since no changes can be made to the report after the issuance of the opinion. Remember it is all about the XHTML, PDF is not the official financial statements, and preferably is not used to generate the ESEF file and is not the object of the auditor's signs-off.

Polling question (2)

What is your advice for preparing the ESEF annual Report (including CSRD)?

- A. Start timely it is more time consuming than expected
 - B. Involve the right specialist with both accounting, CSRD and ESEF technical knowledge
 - C. Rethink the closing process to start with the end (ESEF XHTML) in mind.
 - D. Use the ESRS-taxonomy as a basis to draft the disclosures (to avoid tagging issues in the future)
 - E. Other (please share in the Q&A)
 - F. Not applicable (not an auditor and not working for an issuer)
-

Recap

Key takeaway

- Start discussion between the issuers and the auditors on a timely basis to 'dry run', use the lessons learned to prepare for this year.
- Agree on a timing of the work on the ESEF annual report including the CSRD information. Take into account that the XHTML needs to be final before the auditor's opinion can be signed. Use the XHTML as basis in the process (and not another format such as PDF).
- Use the ESRS taxonomie as guidance for the CSRD disclosures to simplify the required tagging in the future.
- Approach the ESEF-Audit in line with standard 3950N as any other part of the audit and plan ahead.



Enrico Evink
Partner EY Accountants B.V.
Board Member XBRL Netherlands,
Member NBA work group digital assurance

Q&A

Appendix 1: Block tagging Disclosure notes - Reminder Suggested approach

- 1) Disclosure relates to a material accounting policy => 'Disclosure of material accounting policy information [text block]' & 'Disclosure of significant accounting policies.'
 - a) Specific accounting policy not tagged with corresponding disclosure tag if not disclosed together in the financial statements.
- 2) In principle each paragraph with its own (sub)heading would be considered as a block.
 - a) The disclosure heading and its content => appropriate element.
 - b) Other elements that have a wider or narrower scope (different granularity) => if relevant considering the context of the disclosure.
- 3) Paragraphs within a note that represents a specific topic (possible sub-heading)
 - a) also tag paragraphs individually with the heading of that note