
EU ESEF MANDATE AND THE RISK OF COMPARABILITY: THE CASE OF THE ITALIAN BANKING INDUSTRY

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Abstract

Starting from financial years beginning on or after January 1, 2020 (eventually postponed by the member states to January 1, 2021), Regulation (EU) 2019/815 of December 17, 2018 (Regulation) requires all listed companies on European Union regulated markets to prepare their annual financial reports in the European Single Electronic Format (ESEF). The new format combines human and machine readability: it requires issuers to prepare their annual financial reports in the Extensible HyperText Markup Language (XHTML), so that users can easily read them via a web browser, allowing their content to be marked up by means of the eXtensible Business Reporting Language (XBRL), and so that electronic devices may easily process it, embedding its code into XHTML complying with the Inline XBRL (iXBRL) specification.

According to Article 4 of the Regulation, the mandatory XBRL markup only concerns the consolidated financial statements prepared under IFRS. Specifically, Annex II of the Regulation contains the elements that have to be marked when they are reported, whilst Annex VI offers the schema of the core taxonomy (ESEF taxonomy) to be used, derived from the IFRS taxonomy created by the IFRS Foundation. If the concepts in the ESEF taxonomy are not adequate and/or sufficient to exactly report a specific item included in the statement, then preparers have to create an extended taxonomy: this represents, despite

the anchoring adjusting mechanism (see Annex IV), a potential threat to the comparability of preparers' annual financial reports.

This research focuses on the banking industry, given both the importance of banks for the global financial stability (especially in the context of the recovery actions in the aftermath of the pandemic crisis) and its specific national and international industry regulations. Specifically, it investigates the nuances of the Italian banking industries, with its very specific regulations.

The research question for this paper focuses on how the EU ESEF mandate can affect the comparability of the consolidated financial statements prepared under IFRS of the Italian listed banks, considering that financial statements layouts and items of Italian banks are strictly set by the national supervisory authority provisions (Bank of Italy) via the Circular No. 262 of December 22, 2005.

In other words, our primary goal is to investigate the suitability of the existing ESEF taxonomy to the needs of the Italian listed banks: to achieve this goal, we used the data of a preliminary field test started in 2019 by the Italian XBRL jurisdiction (XBRL Italy) together with 6 of the largest Italian banks.

Given that the lower is the suitability of the ESEF taxonomy, the greater is the need for creation of extended taxonomies at an issuer level. However, the proliferation of taxonomy extensions raises two critical questions.

First of all, from the issuers' standpoint, who is going to decide and control the extended taxonomy? And, above all, what is the impact going to be on the comparability of marked items? The risk of single-concept multiple-extension tagging appeared quite clearly, with obvious consequences on the purpose of improving transparency and usability of financial information and facilitating analyses and comparability of consolidated entity performance. While conducting the analysis, as matter of fact, we found the need for large use of extensions by Italian banks in order to adequately tag their financial statements. If unregulated, it will surely create a negative impact on the quality of banks' communication to the market and to supervisory authorities and, what matters most, may be misleading for international investors that seek investment opportunities in Europe.

In order to try and find a solution to such a problem, the Italian way to mitigate this risk has been the launch by XBRL Italy of a fully-fledged standardized extensions setting project together with the Italian Bankers' Association (ABI), under the supervision of the Bank of Italy and the cooperation of the 16 largest Italian significant¹ listed banks, representing 85% of the total assets of all Italian listed banks. The final goal of the project has been to develop guidelines and a proper number of

¹ The term significant indicates banks with total assets in excess of €30 bn, as per EU Regulation No. 468/2014 of the European Central Bank.

supervisory-approved extended taxonomies in order for all Italian banks to uniquely mark up and anchor their extensions in the consolidated financial statements under IFRS.

In the end, the effort led to the achievement of some sort of standardization in the use of extensions and anchoring. The exercise was also a way to improve the governance of data and communication between Italian banks and supervisors. On the other hand, however, gave rise to another number of issues, such as: does this sort of standardization really suit the needs of international stakeholders? In other words, if the Italian effort successfully manages to effectively preserve comparability of financial statements at least for banks operating on the Italian territory, what happens to the comparison between European banks' statements? Will international investors be able to compare banks' financial statements across the European Union if the same effort is not conducted elsewhere in Europe?

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