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Why iXBRL Reporting Requirements Should be Removed

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Removing the iXBRL reporting for financial and sustainability reporting

European listed companies are currently required to prepare their annual financial reports in the European Single Electronic Format (ESEF). This obligation is based on Article 4(7) of the EU Transparency Directive (2013/50/EU) which was specified in Delegated Regulation (EU) 2019/815 (ESEF Regulation). Reports must be filed in XHTML format, with consolidated financial statements marked up electronically using the inline XBRL (iXBRL) language (known as 'tagging') in order to make them machine readable in addition to already existing proven formats, e.g. Excel.

The iXBRL requirement will in future also apply to sustainability reporting according to Art. 29d Corporate Sustainability Reporting Directive (CSRD), if the Omnibus I-Package will remain unchanged.

Experiences gained during more than two decades shows that the iXBRL tagging exercise is complex and time-consuming, draws significantly on corporates' and auditors' resources and entails legal risks for listed companies. There is also no genuine investor demand for iXBRL reports, as issuers observe that investors clearly prefer PDF reports. There is no added value for iXBRL reporting for investors. Furthermore, Artificial Intelligence (AI) makes fast and significant progress and already now offers automated analysis of structured and non-structured data.

As the cost-benefit-balance of iXBRL reporting is significantly negative we advocate for:

- removing the obligation to tag sustainability information from the CSRD and
- removing the existing iXBRL requirement for financial information

Overall, abolishing the iXBRL requirement would not only meaningfully reduce bureaucratic burden for companies, but would also keep market transparency intact. Companies will still be obliged to publish material information according to the European Sustainability Reporting Standards (ESRS) and International Financial Reporting Standards (IFRS).

In detail, the following reasons justify the removal of the iXBRL tagging requirement:

- **High costs and high resource commitment:** iXBRL implementation and maintenance are costly and draw on scarce resources during the critical time of preparing and auditing the annual report. Expenses go far beyond software costs and arise from implementation, education, regular adjustments to revised base taxonomies issued by ESMA, coordination with service providers, and auditing. Cost estimates provided by ESMA and others are unrealistically low against this background as they systematically miss important cost elements (such as audit requirements) and/or underestimate the time to be committed per tag[1]. Companies report that tagging of financial information alone requires an average of 50 person-days annually on a recurring basis. Even greater effort is expected for tagging sustainability information, given the increased complexity and volume of the disclosure requirements.

- **Error proneness leads to addition legal risks:** The ESEF regulation spans over 1,000 pages which underlines the immense complexity of the task. As companies cannot avoid technical errors (e.g. wrong scaling, sign errors) completely due to this complexity, additional compliance and legal risks for issuers are created even though the information content of reports is fully compliant with IFRS. Extending the requirements to sustainability information according to ESRS will increase the existing complexity. The same likely applies to the detailed tagging of the notes, as discussed in a recent ESMA consultation document dating from 13 December 2024.

- **No loss of material information:** dropping the iXBRL tagging requirement will not change material information content as it only relates to the format of the filing of reports. Thus, abolishing the iXBRL requirement will not harm investors and other stakeholders as they will still receive all the information required under IFRS and ESRS.

- **iXBRL tagging is not comparable and therefore of no use to investors:** iXBRL taxonomy elements often use terms, which allow for deviating interpretations, resulting in inconsistent markups among companies. Based on experience, even audit firms interpret iXBRL tags and tagging requirements differently. Also, a stand-alone tagged number is lacking its essential explanatory disclosure context, which could result in misinterpretations.

- **No genuine investor demand:** For years, issuers have experienced that investors do not request iXBRL reports but prefer PDF reports. PDF is universal, user-friendly, software-independent, and serves the needs of all investors – unlike iXBRL, which requires specific tools to access the data. Furthermore, the key data relevant for investors' decision making is regularly communicated right before the formal filing of the yearly report in the officially appointed mechanisms, e.g. by using earnings releases,

[1] In its Consultation Paper on the RTS on the ESEF and on the amendments to the RTS on the EEAP (December 2024), ESMA estimates the average client's effort to produce its first XBRL report at 6.29 man-days and for each subsequent filing at 2.5 man-days.

investor presentations, press and investor conferences. Thus, iXBRL reports do not offer a faster access to information. In fact, time consuming and resource intensive tagging exercises incur the risk of slowing down the regular process of consolidating and auditing information, thus rather creating the risk of delaying disclosures. The process of preparing and disclosing the financial statement is already being extended by the auditor’s review of the ESEF financial statements, and would increase significantly if the auditing of the tagging of sustainability information were added.

- **AI makes iXBRL reporting increasingly obsolete:** ESEF/iXBRL is defined as “machine readable”. Though “machine readable” sounds advanced, iXBRL is an outdated technology of the 1990s which is no longer needed to extract financial data. Already now, modern AI tools analyse and process both structured and unstructured information, including qualitative disclosures. Introducing new and additional ESEF/iXBRL requirements for sustainability reporting would thus create the risk of making a mislead regulatory development irreversable. Given the significant costs and risks for issuers and the lack of added value for investors the only meaningful consequence would be to abolish ESEF/iXBRL reporting requirements entirely.

- **No legal necessity for iXBRL format:** The tagging obligation rests on a narrow reading of the EU Transparency Directive in assuming that the Directive requires iXBRL as a “structured electronic data format”. This is not true (and could anyway be changed if there is a respective political decision). The Transparency Directive requires a “harmonised electronic format”, which should “make reporting easier and facilitate accessibility, analysis and comparability of financial reports”. It is evident that XBRL fails to meet these requirements, as it complicates reporting instead of simplifying it.

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