

# Upstream effects and opportunities of digitalisation on underlying report quality

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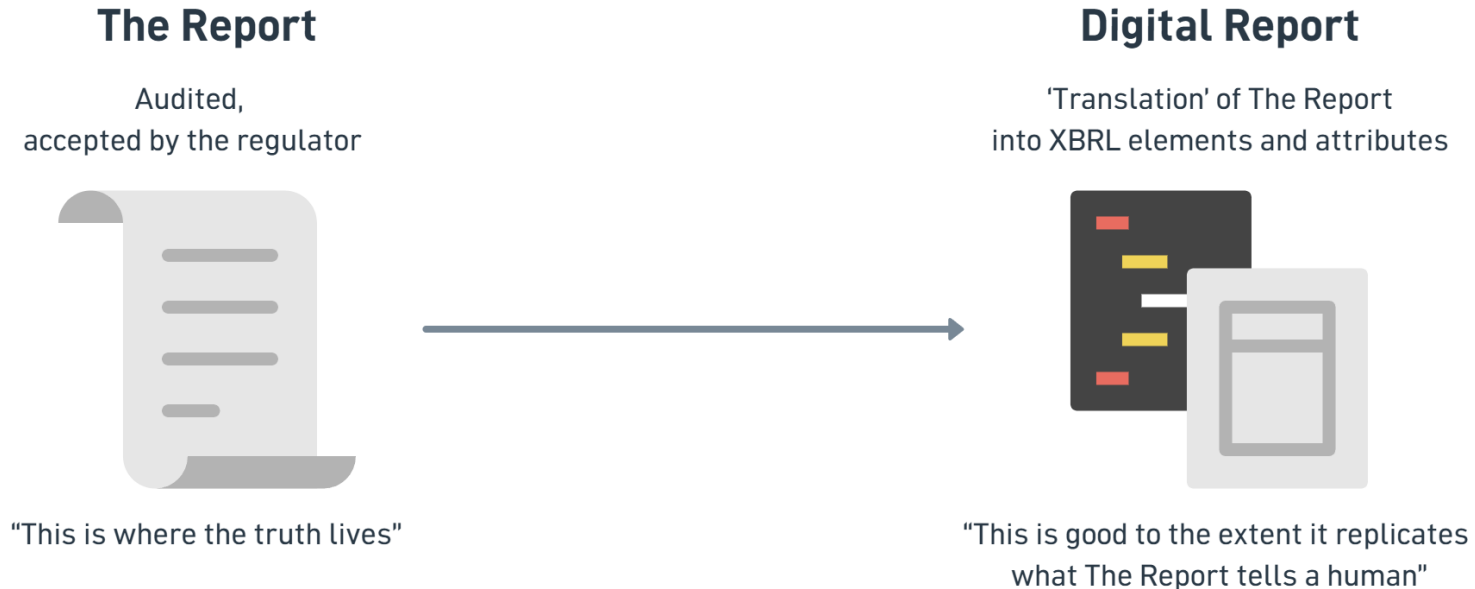


- Marc Houllier
- XBRL France

The status quo



# A common representation of digitalisation



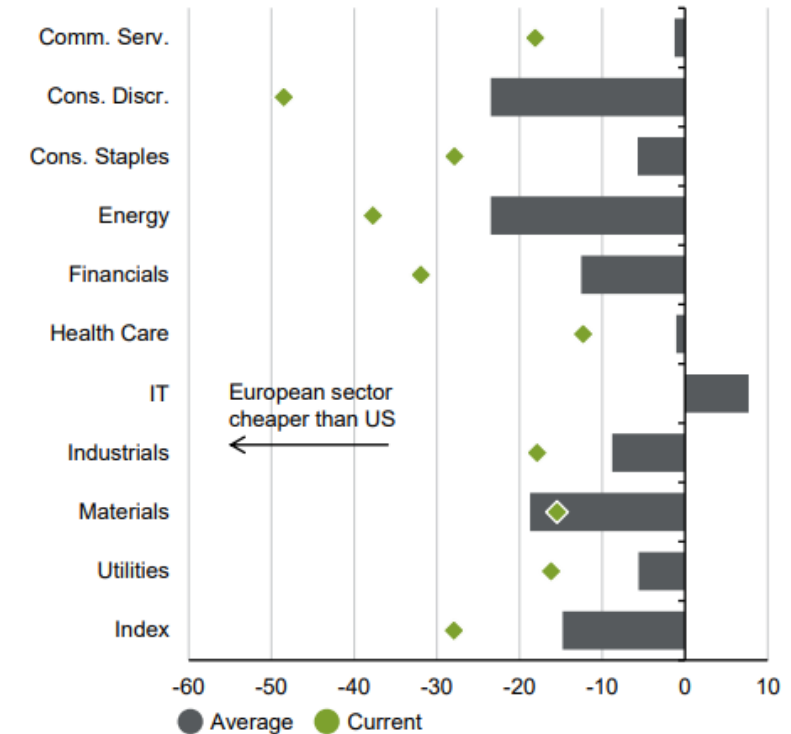
- Pre-digital production process responsible for the quality of the underlying data, and
  - The only quality that matters for digitalisation is the degree to which it faithfully replicates the non-digital document.
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# A questionable premise

(26) A harmonised electronic format for reporting would be very beneficial for issuers, investors and competent authorities, since it would make reporting easier and facilitate accessibility, analysis and comparability of annual financial reports. Therefore, the preparation of annual financial reports in a single electronic reporting format should be mandatory with effect from 1 January 2020,

## MSCI Europe relative valuation vs. the US

%, relative discount/premium based on 12-month forward P/E ratios



- Having data into a digital format, easier for consumption is not the only reason for digitalisation

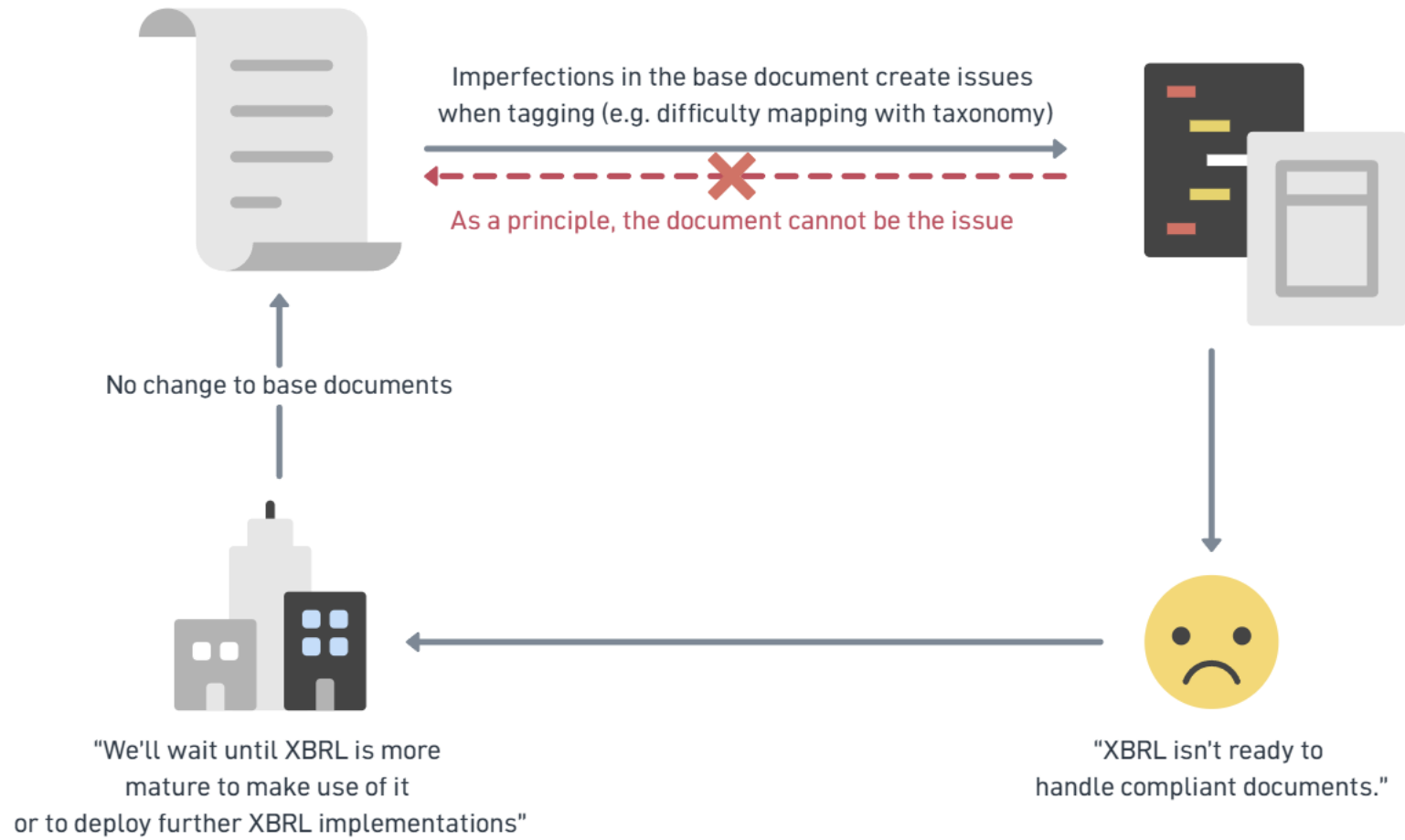
# A questionable premise

environments are comparable. We examined the effects of differences in the legal enforcement of jurisdictions on comparability. We assessed comparability using an output-based method on a sample of CBL firms domiciled in 42 countries. The results do not provide evidence of comparability in the IFRS-based financial reports of different legal environments. The results also indicate that differences in legal enforcement are negatively associated with comparability. We also find evidence that the use of Big Four (Big 4) auditing services by CBL firms provides better comparability than the use of non-Big 4 services. These results suggest that CBL firms supplement country-level deficiencies

financial accounting information around the world. Using two comparability proxies based on De Franco et al. [2011], our results suggest that the overall comparability effect of mandatory IFRS adoption is marginal at best. To investigate the reasons for this finding, we first hand-collect data on IFRS compliance for a sample of German and Italian firms and find that firm-, region-, and country-level incentives systematically shape accounting compliance. We then use the identified compliance incentives to explain the variance in the comparability effect of mandatory IFRS adoption and find it to vary systematically with firm-level incentives, suggesting that only firms with high compliance incentives experience substantial increases in comparability.

- Academic research suggests that adoption of IFRS also requires unified legal enforcement (and actual enforcement) to achieve desirable levels of comparability
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# An (undue) reputational concern for XBRL in Europe



# An (undue) reputational concern for XBRL in Europe

Due to the technical limitations inherent to the block-tagging of the consolidated financial statements according to the European single electronic format, the content of certain tags of the notes may not be rendered identically to the accompanying consolidated financial statements.

[We strongly disagree with the proposals made. Before the introduction of ESEF in 2017, we had already highlighted that XBRL is completely unsuitable for meeting the requirements of the Transparency Directive 2013/50/EU. These requirements aim to make reporting easier, facilitate accessibility, analysis, and comparability. It is not surprising that neither recipients nor preparers use this format. Extending the obligations will not change this outcome. Both, preparers and recipients, expect a PDF file with low technical barriers for reporting.]

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# Upstream opportunities



# Common language ambiguity

## French issuer (anonymised)

|                      |              |
|----------------------|--------------|
| Capitaux propres     | 1 240        |
| Passifs non courants | 2 100        |
| Passifs courants     | 1 660        |
| <b>Total passif</b>  | <b>5 000</b> |

Tagged as `ifrs:Liabilities`

The bottom line of the balance sheet should be **Equity and liabilities**, yet a handful of French companies keep tagging it as **Liabilities**. We can just fix the tagging...

... or recognize that having the same name for « Equity and liabilities » and « Liabilities » in French is a problem and **the presentation practice** must be fixed.

# Regulation translation

## Swedish issuer (anonymised)

|                                    |              |
|------------------------------------|--------------|
| Kundfordringar                     | 820          |
| Likvida medel                      | 460          |
| <b>Summa omsättningstillgångar</b> | <b>1 280</b> |

Companies must disclose their **cash and cash equivalents** on their balance sheet. This is very often a mix of **cash** and of **cash equivalents**.

Yet, a surprising amount of Swedish companies tag this line as **Cash equivalents** only. We can just fix the tagging...

... or identify that the translation in the RTS of **Cash equivalents** and **Cash and cash equivalents** is the same and this is what should be fixed.

# Domain-specific rules

IAS 33.41-43 → **Basic EPS** from continuing activities > **Diluted EPS** from continuing activities

| CONSOLIDATED FINANCIAL STATEMENTS 2025 |    |        |      |
|--|----|--------|------|
| <b>Earnings per share</b>              |    |        |      |
| <b>From continuing operations</b>      |    |        |      |
| Basic profit / (loss) per share        | 10 | (0.21) | 0.22 |
| Diluted profit / (loss) per share      | 10 | (0.20) | 0.21 |

In **2024**, when Basic EPS differed from Diluted EPS in XBRL, in **87.9%** of the cases, **Diluted EPS** was greater than **Basic EPS**.

**10%** of issues found from the digital reports were from tagging issues.

**90%** of issues were from accounting issues.

# Data consistency

## Statement of comprehensive income

|                                   |            |
|-----------------------------------|------------|
| Profit for the year               | 312        |
| <b>Other comprehensive income</b> | <b>124</b> |
| <b>Total comprehensive income</b> | <b>436</b> |

## Statement of changes in equity

|                                   |              |
|-----------------------------------|--------------|
| Opening equity                    | 4 820        |
| Profit for the year               | 312          |
| <b>Other comprehensive income</b> | <b>127</b>   |
| <b>Other changes in equity</b>    | <b>-3</b>    |
| <b>Closing equity</b>             | <b>5 259</b> |

XBRL “cannot” tag both **Other comprehensive income** values with the same element and context.

An extension is often created (with complaints !).

# Relation to standards

| EURm  | Note | 2025         | 2024         |
|---|------|--------------|--------------|
| <b>Net operating revenues</b>   | 2.1  | <b>838.4</b> | <b>811.7</b> |
| Cost of sales   |      | (43.2)       | (37.6)       |
| External expenses   |      | (206.1)      | (204.3)      |
| Personnel expenses  | 2.3  | (227.9)      | (246.8)      |
| Special items   | 2.2  | (59.9)       | (94.8)       |
| Amortisation of business combination intangibles, customer agreements & impairment losses | 4.1  | (141.6)      | (142.7)      |
| Depreciation and amortisation   | 4.2  | (46.8)       | (46.0)       |
| Profit (loss) from equity investments and disposals of investments                        | 4.4  | (0.7)        | (3.4)        |
| <b>Operating result (EBIT)</b>  |      | <b>112.2</b> | <b>36.1</b>  |

The amount presented as **Cost of sales** does not match the definition of **Cost of sales**. This is tagged as **Cost of merchandise sold**.

... But shouldn't we also fix what is presented to human readers ?

# Benefits even before digitalisation

## ESRS E1 – Climate Change – Energy consumption

Disclosure in accordance with ESRS E1-6 – Energy consumption and energy mix.  
All figures in MWh.

| Energy consumption                                | 2024          | 2023          |
|---|---------------|---------------|
| <b>Consumption of renewable energy</b>            |               |               |
| Consumption of fuel from renewable sources        | 18,456        | 16,732        |
| Consumption of electricity from nuclear sources   | 7,892         | 7,680         |
| Consumption of electricity from renewable sources | 41,257        | 38,104        |
| <b>Consumption of renewable energy (subtotal)</b> | <b>67,605</b> | <b>62,516</b> |

## ESRS E1 – Climate Change – Energy consumption

Disclosure in accordance with ESRS E1-6 – Energy consumption and energy mix.  
All figures in MWh.

| Energy consumption                                    | 2025          | 2024          |
|---|---------------|---------------|
| <b>Consumption of renewable energy</b>                |               |               |
| Consumption of fuel from renewable sources            | 19,842        | 18,456        |
| Consumption of electricity from nuclear sources       | 8,102         | 7,892         |
| Consumption of electricity from renewable sources     | 44,873        | 41,257        |
| <b>Consumption of renewable and low-carbon energy</b> | <b>72,817</b> | <b>67,605</b> |

The definition of renewables sources in the ESRS excludes **nuclear energy**. The pre-study of the application of the ESRS taxonomy to the report made us question how the subtotal should be tagged.

... but we also made the feedback on the presentation of the subtotal itself.



# General patterns



# Local understandability

## French issuer (anonymised)

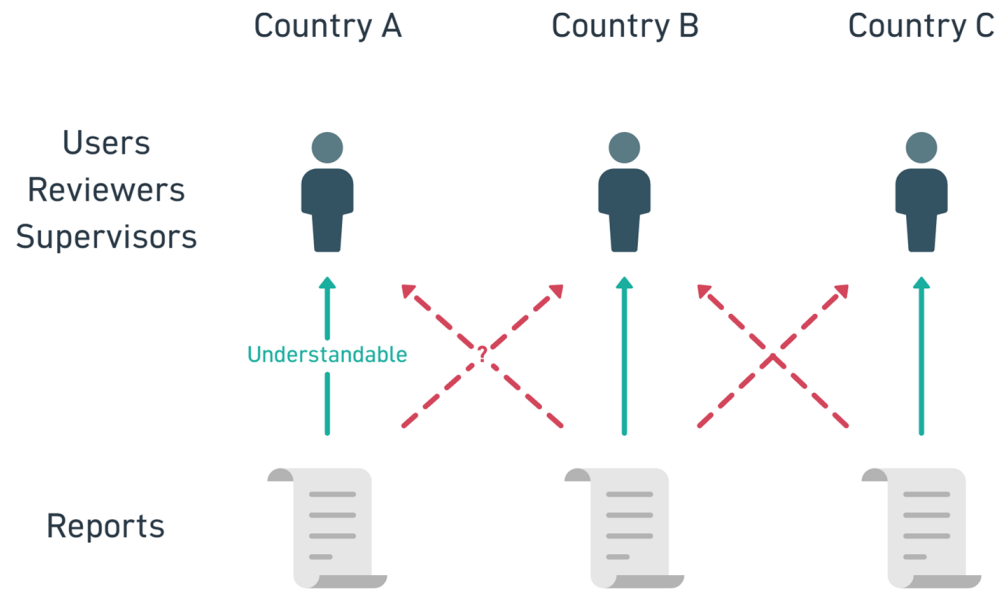
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Tagged as `ifrs:Liabilities`

To a French practitioner, that **Equity and Liabilities** and **total Liabilities** have identical names is not an issue, and any reader would *obviously* understand what this means.

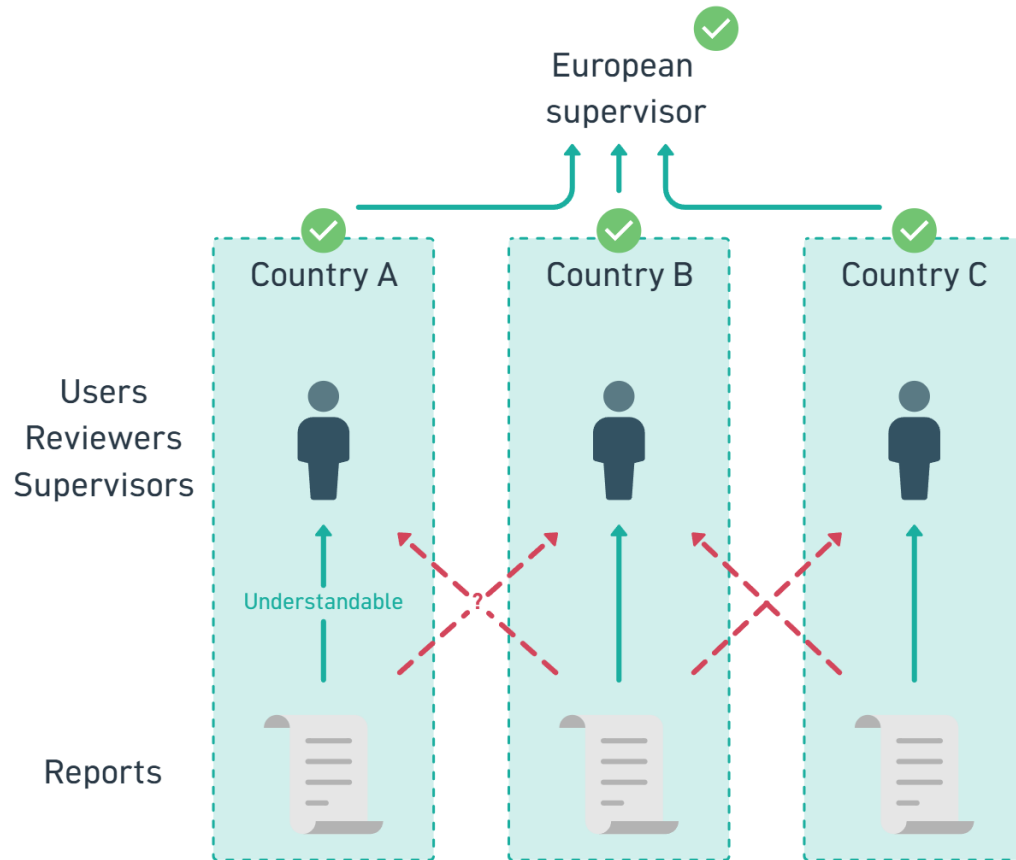
To a French practitioner, this has been the common practice for decades, so changing it could even be *detrimental*.

# Local understandability



For instance, the **Savings and Investments Union** plan intends to solve the situation where there is too little investment cross-Member State, and one barrier is accessibility and understandability across borders.

# Local understandability



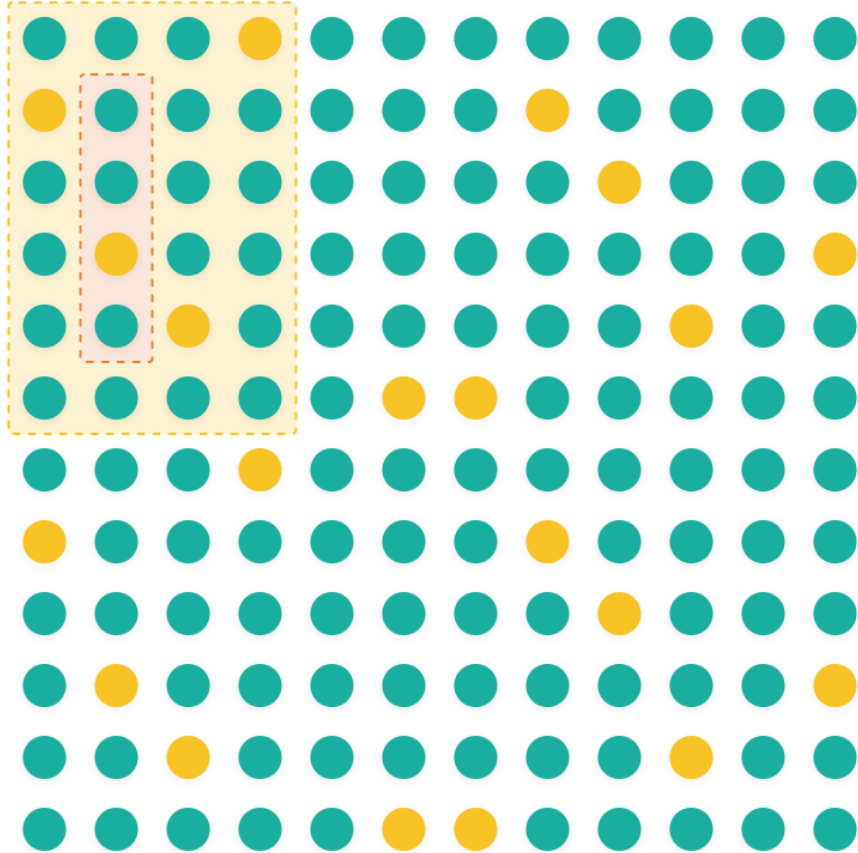
Reports of Country A are reviewed by experts from Country A.

Reports of Country A are supervised by an authority comprised of experts from Country A.

Consultations about reports of Country A are led by the supervisor of Country A with users from Country A.

The European supervisor's information about the quality of reports in Country A is limited to an assessment by Country A's supervisor.

# Sampling and scale



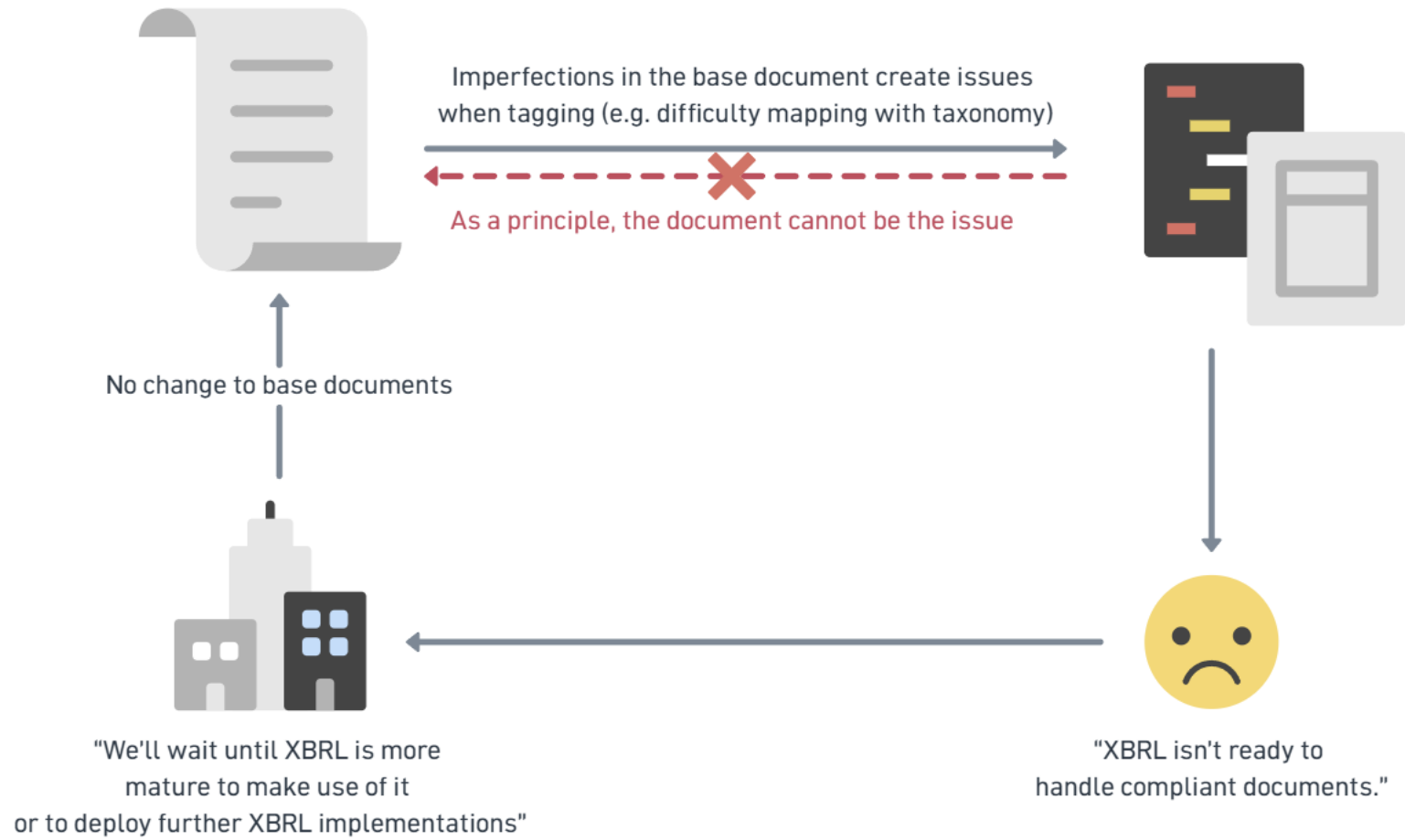
For issues unrelated to locality, detection of issues may be related to **sample size**. Supervisors are only responsible for a fraction of European reports, and since they don't rely on digital means, only inspect a fraction of reports.

With:

- 3000 issuers
- An accounting issue occurring in 3% of reports
- A country responsible for 10% of reports
- A supervisor sampling 15% of the country's reports

A supervisor would probably encounter the issue in 0-2 reports, which may not be enough to investigate the reason.

# Production process



Call to action



# Let's not look away

Digitalisation is a chance to see what was always there.

## I. State it publicly

Findings derived from XBRL data **are valid signals about the base report**, not just about the quality of tagging.

Public statements shape policy.

## II. Accept the upstream fix

An objective of digitalisation is to improve quality of reports through **new analysis capabilities** and **increased scope**.

It is **normal** to find issues previously undiscovered.

## III. Supervise dataset-wide

Move from "was this tagged correctly?" to "does this tagged document deliver the promised value?".

This **cannot** be assessed by someone who did not need a digital report.

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Thank you!

