CFA Institute

292 Madison Avenue, 2nd Floor | New York, NY 10017
https://rpc.cfainstitute.org

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Verena Ross
Chair
European Securities Markets Authority
201-203 rue de Bercy
CS 80910
75589 Paris Cedex 12
FRANCE

RE: **Consultation Paper on the Regulatory Technical Standards (RTS) on the European Single Electronic Format (ESEF)**[1]

Dear Ms. Ross:

CFA Institute[2], in consultation with its Corporate Disclosure Policy Council ("CDPC") [3], appreciates this opportunity to comment and provide our perspectives on the European Securities and Markets Association's (ESMA's) *Consultation Paper on the Regulatory Technical Standards (RTS) on the European Single Electronic Format (ESEF)* (the "Consultation") which seeks to define and refine the digital reporting standards for sustainability disclosures and financial statement footnotes.

CFA Institute has a long history of promoting fair and transparent global capital markets and advocating for strong investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial and sustainability reporting and disclosures and the related audits provided to investors and other end users are of high quality. Our advocacy position is informed by our global membership who invest both locally and globally.

## *CFA Institute Has a Long History of Supporting Data Tagging to Digitize Disclosures*

***Why We Support Data Tagging: Criticisms Once Made in US are Emerging in Europe*** – Consistent and comparable information is the lifeblood of investment analysis. Publicly available, readily accessible information is the oil that makes the engine of capital markets run. Tagging the data and making it more comparable and accessible to investors was the central reason for our support for U.S. Securities and Exchange Commission's effort to tag data some 20 years ago.  We were questioned and criticized for well over a decade regarding

[1] Submitted electronically at: https://www.esma.europa.eu/press-news/consultations/consultation-esef-rts-sustainability-reporting-and-amendments-eeap-rts

[2] With offices in Charlottesville, VA; New York; Washington, DC; Brussels; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit www.cfainstitute.org or follow us on LinkedIn and X.

[3] The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

our support for such eXtensible Business Reporting Language (XBRL) data tagging until the vision we saw 20 years ago began to become more obvious to preparers and auditors as they saw and understood the greater electronic delivery and usage of data by investors – and even preparers and auditors themselves.

With the move toward the European Single Electronic Format (ESEF) and the European Single Electronic Access Point (ESAP), we have begun, in recent years, to hear some of the same criticisms regarding the structuring of data emerge in Europe which existed in the US a decade ago. We have written previously[4] regarding our support for both. Our letters go back nearly 10 years on this issue[5].

In response, we prepared the video, *Why XBRL Data Matters for Investors*, in late 2023 explaining our history in support of the structuring of corporate disclosures with XBRL. In the video, we highlight our historical support, the extensive writing we have done on the advantages of XBRL[6], the criticisms we faced in the U.S., and how these criticisms have all but disappeared in recent years in the U.S.

Much of the objection to data tagging in Europe is comprised of the same narratives we heard in the 2010s in the US.

***Our Use of Tagged Data: Illustration of the Challenge to Investors of the Lack of Tagged Data in a Central Repository in Europe*** – We have not only advocated for, but we have used, XBRL tagged data. In a 2021 paper, *Investor Perspectives: Goodwill*, we used XBRL data compiled by Calcbench to demonstrate the dramatic impact a switch to amortization of goodwill by the Financial Accounting Standards Board would have on the equity of America's largest corporations. Because we wanted to demonstrate the impact of such a change globally – because comparability is essential – we had to purchase a subscription to a much more expensive data provider (FactSet) to source the information for European companies. The required structuring of data in the U.S. capital markets makes the data easier to analyze and more accurate. European companies suffer from the lack of such cheaper accessible data because of the lack of tagged data in a single repository. Said more obviously, European companies are harder to analyze, which makes investing decisions across borders more challenging. This lack of data tagging has had the effect of benefitting data providers such as FactSet and those who can afford subscriptions at the expense of those who can't (i.e. smaller investors). Corporates, regulators and standard setters[7] use XBRL-enabled data sources such as Calcbench because they now see the benefit of the quantitative and qualitative data.

***The Mistaken Belief that Artificial Intelligence Can Replace Data Tagging*** – Some suggest that with the advent of Artificial Intelligence (AI) that the structuring of data is no longer necessary. This is a logical fallacy. It is akin to saying that accounting standards will no longer be needed with AI. The XBRL taxonomy is maintained for financial reporting by the

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4 CFA Institute Research and Policy Center: Citations Reference ESEF and ESAP
5 https://rpc.cfainstitute.org/sites/default/files/-/media/documents/comment-letter/2015-2019/20160216.pdf
6 CFA Institute Research and Policy Center: XBRL Citations
7 See footnote 3 to the Financial Accounting Standards Board (FASB)'s Financial Key Performance Indicators for Business Entities Invitation to Comment.

FASB, IASB and EFRAG because it is so connected to the creation of disclosure standards. Just as without accounting standards, AI could read financial statements; however, the information would not be prepared in a consistent and comparable manner so the information being read would not be prepared using the same definitions and with similar disclosures. Accounting standards are one taxonomy, but XBRL is a taxonomy layered on top of the information. Without the same definitions the data will not be consistent. The use of extensions and the data quality checking are necessary to ensure the machines are reading information consistently and learning the appropriate information.

Consider the following article/blog: *Why Structured Data and Definitions Vastly Outperform Unstructured PDFs in LLM Analysis*.

***Appreciate Consultation, Concerned the Proposals Lack Urgency & Discipline*** – We appreciate ESMA's commitment through this consultation process to enhancing corporate transparency and ensuring the accessibility of financial and sustainability disclosures in a digital format. That said, we are concerned that the current proposals lack the necessary urgency and discipline to improve the decision-usefulness and utility of public company disclosures and strengthen the attractiveness of capital markets within the European Union.

Timely, relevant, comparable and transparent disclosures are fundamental to well-functioning capital markets. However, the effectiveness of these disclosures depends on their usability for investors, analysts, and other stakeholders. Increasingly, coverage and depth of analysis is dependent on the availability of digital disclosures, whether consumed by an intermediate information provider, or a specialist asset owner or prospective owner. The proposed regulatory technical standards in the Consultation risk delaying digital sustainability reporting unnecessarily, diminishing the comparability and accessibility of critical corporate information.

***Important to Align Digital Reporting Implementation with CSRD Framework*** – We urge ESMA to align the digital reporting implementation timeline with the Corporate Sustainability Reporting Directive ("CSRD") framework rather than creating additional delays. As we know, the Omnibus Amendments package will likely simplify and further phase sustainability disclosures, to reduce burden on many – in particular, private companies – and to provide those that are reporting with additional time to prepare. In our view the additional phase-in time is more than enough time to prepare for digital disclosure as well. Phased approaches that extend digital reporting obligations beyond the CSRD implementation timeline risk impairing investor and lender confidence, increasing reporting burdens through redundant transitions, and reducing the visibility of smaller issuers and the ability of investors to observe the performance of corporates in smaller Member States.

***Digital Reporting is Not Supplemental, It is Essential for European Capital Markets*** – Digital disclosures are no longer a supplementary tool. They are an essential component of market infrastructure. Investors and analysts increasingly rely on structured, machine-readable data to make informed decisions. CFA Institute strongly supports a digital-first approach, where structured data is the primary means of corporate disclosure rather than an afterthought to traditional document-based reporting.

The current timeline, which delays full structured data implementation over multiple years, puts the EU at a competitive disadvantage relative to jurisdictions such as the United States and Japan, which have had structured data frameworks in place for well over a decade. For Europe's capital markets to remain globally attractive, ESMA should accelerate the transition to a fully digital-first reporting regime.

***Regulatory Technical Standards Should Reinforce Primacy of Digital Disclosures: Benefits Outweigh Costs*** – The regulatory technical standards (RTS) should reinforce the primacy of digital disclosures by ensuring that sustainability and financial reporting are fully tagged in structured formats from the outset. AI and machine-learning technologies depend on high-quality, structured data to generate meaningful insights and these technologies are extraordinarily relevant in financial markets. The absence of fully structured sustainability disclosures will result in fragmented, inconsistent, and difficult-to-compare datasets with different interpretations about company performance in the "raw" data sets available from different commercial providers, impeding the effectiveness of both financial and sustainability analysis.

While we acknowledge that tagging and structuring reports require investment, the burden of digital reporting should not be overstated. In an increasingly digital age, the costs in terms of both market friction and corporate (in)visibility created by unstructured, difficult-to-use disclosures far outweighs the incremental costs of structured reporting to issuers. European market competitiveness is clearly impacted by fragmented, analog disclosure.

***Effective Implementation of Artificial Intelligence Depends Upon Structured Data: Eliminating Digitally Structured Data Reduces Efficacy of AI*** – We note that some issuer and audit organizations appear to be urging ESMA and the European Commission (EC) to delay or discard digital disclosures altogether, mistakenly arguing that "AI can do it instead". While an attractive idea, in our view, this remains a hopeful delusion, simply not based on the evidence.

All AI requires high quality training data – a point we highlight in the opening section of this letter. AI-assisted financial analytics systems that can consume pre-structured data and metadata of the sort that Inline XBRL provides are vastly better informed than those that must structure PDFs probabilistically. AI in "co-pilot" mode can and will make the process of tagging simpler for corporates and mean that the 20% or so of every corporate report that tends to be unique will be under the direct control of management. Regulators should, as a matter of policy, always aim to ensure that management is accountable for a single version of a digital disclosure that can be relied upon and is accessible to all market participants.

***Improvements Necessary in European Digital Disclosure Regime*** – In our view, the European digital disclosure regime needs several improvements:

- ***Engage in Field Tests*** – ESMA should make heavy use of field tests, either directly, or in collaboration with the IFRS Foundation and EFRAG in ensuring that the digital twins of disclosure obligations – the XBRL taxonomies – are an accurate representation of the relevant requirements and that both the underlying standards and their digital taxonomies can straightforwardly be implemented by corporates.

- ***Collaboration with Data Providers & Investors*** – Similarly, ESMA should work with information providers and investors to ensure that the digital disclosures can be accurately consumed.
- ***Actively Work on Data Quality Rules*** – ESMA should actively work with national competent authorities (NCAs) (e.g., securities regulators), the audit profession and relevant issuer service and software providers to monitor and improve data quality, by way of data quality rules, improved issuer and assurance guidelines and targeted enforcement. Issuers need to gain confidence that they are moving into a digital age and that digital disclosure will very shortly be business-as-usual.
- ***Enhance Timeliness & Clarity of Disclosures*** – Finally, we would encourage ESMA to work with NCAs and the EC to help clarify and enhance the timeliness and clarity of disclosures, by ensuring that "dual" disclosure of PDF and Inline XBRL are removed or simplified. In particular it should not be necessary for investors to first consult a PDF disclosure because it becomes available before a digital representation of the same report.

***Encourage Simplification and Streamlining of Digital Tagging Requirements*** – We encourage ESMA to simplify and streamline the proposed digital tagging requirements by:

- ***Eliminating Overly Complex Phase-In Provisions*** – Instead of multi-year staggered implementation, issuers should align with the CSRD timeline, ensuring investors receive structured data at the same time as sustainability reports are published.
- ***Prioritizing Numeric and Quantitative Data*** – Key financial and sustainability figures should be digitally tagged from the beginning, ensuring that critical information is immediately comparable across issuers. As you know, today's ESEF financial disclosures are of limited utility thanks to the lack of detailed tagging in the notes to the accounts. The financial details contained in numerous notes are a critical aspect of analytical models, whether these are constructed by hand, or with ML and AI assistance. Europe lags behind not just the US, Japan and China in this area, but a number of rapidly growing markets including India and Korea.

  We are also strongly of the view that reasonably fine-grained tagging of narrative disclosure is vital to understanding corporate performance. Whether a user is leveraging straight forward filtering or screening tools to line up similar disclosures across a set of competitors, or more advanced AI or ML-driven tools, the traceable, fine-grained tagging of narrative is more useful than large chunks of text. That said, we would prioritize the digitization of quantitative and monetary disclosures.
- ***Leveraging AI And Automation*** – Advances in AI-assisted tagging significantly reduce the compliance burden while maintaining accuracy. ESMA should acknowledge that digital reporting technology is evolving rapidly and ensure that its approach does not artificially limit automation efficiencies.

***Support Efforts to Improve Digital Reporting: Need Accelerated and Streamlined Approach*** – CFA Institute strongly supports ESMA's efforts to improve digital reporting but urges an accelerated and streamlined approach. A fully digital, structured, and machine-readable reporting environment will enhance the efficiency, transparency, and global competitiveness of European capital markets. We encourage ESMA to accelerate implementation, simplify requirements, and ensure that structured data is treated as the primary format for corporate disclosure.

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We appreciate the opportunity to contribute our views in response to this Consultation and would welcome further dialogue on how best to ensure Europe's disclosures can better inform markets and investors. If you have any questions or seek further elaboration of our views, please contact Sandra J. Peters at sandra.peters@cfainstitute.org. Thank you for your consideration of our views and perspectives.

Sincerely,

*/s/ Sandra J. Peters*

Sandra J. Peters, CPA, CFA
Senior Head
Global Financial and Sustainability Reporting Policy Advocacy
CFA Institute