

## Companies Reporting in IFRS Must Meet XBRL Requirements Starting in 2018

March 6, 2017

On March 1, the SEC **announced** that foreign private issuers (FPIs) that prepare financial statements under International Financial Reporting Standards (IFRS) must file using eXtensible Business Reporting Language (XBRL), beginning no later than the filing of Form 20-F or 40-F for the fiscal year ending on or after December 15, 2017. Prior to the March 1 announcement, FPIs that use IFRS were exempt from the XBRL requirements that have applied to U.S. domestic companies since 2009.

Set out below is an overview of current XBRL reporting requirements. As noted below, the SEC has a pending rule proposal to change the format for XBRL submissions to a new format, Inline XBRL.

### What is XBRL?

XBRL is a technology for tagging data to identify and describe information in a company's financial statements. The data is machine-readable and can be searched, downloaded into spreadsheets or reorganized for analytical purposes. Today, XBRL is used primarily by financial analysts to rapidly analyze a company's financial reporting in order to compare it to data provided by other companies, industry trends and other benchmarks and to update their financial models, and by regulators, including the SEC, to look for statistical anomalies that may raise questions about the company's accounting practices, among other purposes.

### What are the XBRL requirements?

In 2009, the SEC required all companies that report under US GAAP or IFRS to submit financial statements, financial statement schedules and footnotes in XBRL format. However, FPIs that report under IFRS were effectively excused from this requirement because before March 1, 2017, the SEC had not specified the taxonomy (i.e., the electronic dictionary of business reporting data used for XBRL reporting) applicable to IFRS. (See our client memo discussing the SEC guidance previously exempting FPIs that use IFRS [here](#).) Now that the taxonomy has been completed, FPIs that use IFRS are subject to the SEC's XBRL filing requirements, however, the SEC will allow a company to make its initial XBRL submission starting with the company's first annual report on Form 20-F or 40-F for the fiscal year ending on or after December 15, 2017.

Under the SEC rules, an XBRL exhibit must be submitted with the following filings:

- Annual reports and transition reports on Form 20-F or Form 40-F
- Reports on Form 6-K, but only to the extent the Form 6-K contains interim financial statements included pursuant to the nine-month updating requirement of Item 8.A.5 of Form 20-F or a revised version of financial statements that were previously filed with the SEC.
- Certain Securities Act registration statements. A company conducting an initial public offering (IPO) is not required to include XBRL data in its IPO registration statement. For subsequent registered offerings, XBRL data is only required in a Securities Act registration statement that includes (rather than incorporates by reference) financial statements and contains a price or a price range, and at any later time when the financial statements are changed (rather than in each filing or amendment). In the context of a business combination, XBRL financial information will be required for the filer (the acquiring company) but not for the company being acquired.

A company that maintains a public website is also required to post the XBRL data to its public website by the end of the day on which the registration statement or periodic report was filed with the SEC or was required to be filed (whichever is earlier). The XBRL data must remain on the company's website for 12 months. Companies should accomplish this by posting the relevant SEC filing to their website – merely providing a hyperlink to the SEC's website will not be sufficient for this purpose.

A company that does not provide required XBRL data to the SEC or post it on its website by the required date will lose Form F-3 eligibility and, until it has provided and posted the required data, will not be considered to have adequate public information available for purposes of the Rule 144 safe harbor for resales.

XBRL data is excluded from the scope of the officer certifications provided in connection with an annual report and companies are also not required to obtain auditor assurance on their XBRL exhibits.

### **How can companies implement XBRL requirements?**

Technical requirements for XBRL submissions are provided in the EDGAR Filer Manual. A company can convert its financial statements to XBRL in-house by using commercial software, or by working with an XBRL service provider, such as a financial printer.

The preparation of a company's first set of XBRL financial statements will likely be very time-intensive because each financial statement item must be defined, or "tagged." Companies may wish to create an "XBRL team" with representatives from accounting, information technology and management to conduct this project. While the technology team members are best positioned to handle the mechanics of tagging, accounting personnel should review all of the tagging and confirm that it is correct. The preparation of subsequent sets of XBRL financial statements, while still somewhat time-intensive, is typically less onerous because companies generally will be able to utilize the data tags put in place for the previous set of financial statements.

### **Inline XBRL proposal**

Also on March 1, the SEC proposed to change XBRL data formatting to Inline XBRL. Inline XBRL allows tagging information within an HTML document rather than in a separate document file. Under the proposed rules, the taxonomy and substantive content requirements of information to be submitted in XBRL would not change. The proposal is intended to decrease XBRL preparation costs and improve the quality and usefulness of XBRL data.

The **proposed rules** would also eliminate the requirement to post separate XBRL data files on a company's public website.

The SEC already allows companies to use Inline XBRL on a voluntary basis through March 2020 under conditions outlined in a June 2016 **exemptive order**. The technical requirements for Inline XBRL can be found in the EDGAR Filer Manual.

The SEC is soliciting comment on the proposal until early May 2017 (60 days after the proposal appears in the Federal Register).

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If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.

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