

Benefits of ESG reporting with XBRL

Environmental, social and governance (ESG) reporting is gaining relevance worldwide. Climate reporting will, as part of the non-financial report, be mandatory in Switzerland for large organizations as of January 2024. The mandate specifies that climate reports must be published in a human- and machine-readable format which is used in an international setting.

A suitable format that fulfills these requirements is XBRL.

By Björn Fastabend

Why digital business reporting?

Why is digital business reporting of such importance in the financial sector? Over the past decades, companies have been involved in an increasingly global setting, with a global stakeholder base. Providing relevant information in a comparable and instantaneously available format is essential. Ease of transmission, ease of consumption and automation of the overall process are key. Machine-readability is becoming the norm and internationally operating companies are expected to provide information in a format that can be digitally analyzed.

What is XBRL?

XBRL (Extensible Business Reporting Language) is an international standard for digital business reporting. Governed by the non-profit organization XBRL International, XBRL has seen worldwide use since its inception in the early 2000s. XBRL enables widespread automation in creating and consuming financial reports. XBRL files are created based on a taxonomy, which defines their structure and validation rules to assess data quality. XBRL files are highly comparable while improving data quality. Being a machine-readable format, the complete process of creating, validating, and analyzing XBRL data is automatable.

Benefits of standardization

Prior to the inception of XBRL, financial reports were commonly published as PDFs, which made automated analysis difficult. Transferring the data into third-party systems (e.g.: a regulator's database) required manual data entry. XBRL increasingly standardized business reporting. Standardization offers potential for automation, which in turn simplifies and speeds up the reporting process while reducing human errors. XBRL is an open standard and taxonomies are publicly available, therefore providing stakeholders easy access to data aggregation and analytics. Utilizing standards leads to more clarity and reduces complexity—an especially relevant aspect when reporting financial data.

Why XBRL for ESG reporting?

As XBRL has proven very useful for financial reporting, it is expanded to non-financial reporting, both in the EU (CSRD) and in Switzerland (climate reporting). XBRL is a strong contender for ESG reporting due to its improved ease of reporting, improved data quality, and the availability of software solutions.

Ease of reporting

The Swiss climate-reporting mandate requires the publication of a human- and machine-readable reporting format. While it is possible to publish a PDF along with an XBRL document, there is an alternative where only a single document would need to be published: iXBRL, an innovative XBRL format, combining both

attributes of human and machine readability in a single document. The document consists of a human readable section, while the (non-)financial data is stored in machine-readable XBRL. Various international financial reporting mandates (e.g.: ESMA's ESEF, SEC's US-GAAP) already make use of iXBRL.

Data quality

The European Insurance and Occupational Pensions Authority (EIOPA) published statistics of how data quality using XBRL has improved for Solvency II reporting from 82% in 2016 to 94% valid filings in 2022. This improvement can be attributed to the built-in validation rules of the taxonomy. Both filers and regulator are using the same taxonomy to validate the filings, enabling the filer to address any validation issues prior to submitting the XBRL document to the regulator and thus increase the quality of the data received. Filers also benefit from this, since having the validation rules at hand reduces the attempts to file correctly.

Wide range of software solutions

Being an established international standard, software solutions to prepare XBRL-based reports are readily available for financial and ESG reporting. XBRL International provides an overview of various software solutions for both creators and consumers of XBRL filings at xbrl.org/view/tools-and-services/.

Challenges

The main challenge that remains for ESG reporting with XBRL is that currently no taxonomy is available. The Task Force on Climate-related Financial Disclosures (TCFD) has given recommendations for climate reporting, however, does not provide an XBRL taxonomy. XBRL Switzerland has shown interest in creating a taxonomy, however further clarifications of requirements (e.g.: national or extension of an international taxonomy) are required. To uphold the deadline for utilizing XBRL in climate reporting, it is crucial to have a taxonomy available well before the deadline, since both report-preparers as well as consumers require it for climate report processing.

Conclusion

Using XBRL for ESG reporting is a good choice, as the standard is well-established in financial reporting. Based on the requirements laid out for Swiss climate reporting, iXBRL is a strong contender, since a single iXBRL file is both machine- and human-readable and is based on an internationally used format. ESG reporting in XBRL can provide companies the peace of mind that their information is provided in a consistent and compliant format, which improves transparency in reporting. Downstream stakeholders such as investors will benefit from its ease of consumption and automated analytics.



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Already mandatory in Europe through ESEF, still uncharted territory for most companies in Switzerland: XBRL. Not just another standard with a strange acronym – but a commitment to take seriously! A new regulation by the Federal Council that will take effect on January 1, 2024, requires a company's climate report to be both human- (e.g. PDF) and machine-readable, as well as published in an internationally accepted electronic format (e.g. XBRL).

Based on the transitional provision, first machine-readable climate reports need to be published in early 2026, covering the year 2025.

Do you draw a blank when it comes to XBRL? In an overview curated by the CCR, you will find tips on where to learn more about the topic.

