

FINANCIAL ANALYSTS, THEIR PROFESSIONAL SITUATION AND STRUCTURED DATA

June 2019



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Who is EFFAS?

EFFAS is a non-for-profit organisation set up in 1962. Its mission is being a standard setter for investment professionals' requirements, a think tank and centre of discussion and a European referent in Training & Qualification.

EFFAS is the umbrella organisation of 21 national local societies of investment professionals in Europe, representing more than 18.000 Financial Analysts, Asset Managers, Pensions Funds Managers, Corporate Finance specialists, Risk Managers, Treasurers and other professional profiles of the investment profession.

EFFAS promotes the development and dissemination of a European Code of Ethics and a Code of Professional Conduct.

EFFAS recognises and respects regional and local market characteristics.

Who is EFFAS?

*Centre for reflexion
and think tank*

Encouraging the economic and financial research and the independent opinion with the ultimate goal of setting necessary standards for the finance industry.

*Working and
Discussion Forum*

For qualified professionals & researchers in those fields.

With the economic and financial authorities in order to facilitate the modernisation and best knowledge of capital markets.

*International
referent in Training
& Qualification*

Design of new professional certifications

Promoting the recognition among regulators and third parties of the EFFAS Diplomas.

Ensuring professional development through seminars, conferences, professional meetings, etc.

Who is EFFAS?

Commissions: supporting the development of financial services regulation by incorporating the practical knowledge of professionals.

- Capital Market Commission ([CMC](#))
 - Capital Market standards and monitoring throughout Europe
- Commission on Environmental, Social & Governance Issues ([CESG](#))
 - ESG reporting, measurement and valuation
- Financial Accounting Commission ([FAC](#))
 - Accounting standards, guidance on analytical methods
- Training and Qualification Commission ([TQC](#))
 - Standards on education and examinations

EFFAS training and qualification including EFFAS Summer School.



Actually EFFAS offers:

- I. The Certified European Financial Analyst ([CEFA](#)[®]) (>15.000 graduates)
- II. The Certified International Investment Analyst ([CIIA](#)[®]) (> 1.000 graduates)
- III. The Certified European Risk Management ([CRM](#)[®])
- IV. The Certified European Environmental, Social and Governance Analyst ([ESG](#))
- V. iXBRL training

EFFAS International Relationships

EFFAS contributes in various working groups and councils of European and global bodies. These activities are important for the national societies and its members, as well as for their relations to the domestic regulatory organisations and contributes to supporting the development of financial services regulation by incorporating the practical knowledge of the professionals in the decision making of such bodies and institutions.

- ✓ **ACIIA** Association of Certified International Investment Analysts
- ✓ **EFRAG** European Financial Reporting Advisory Group
- ✓ **WICI** World Intellectual Capital Initiative
- ✓ **GIPS** Global Investment Performance Standards
- ✓ **IASB** International Accounting Standards Board
- ✓ **IIRC** International Integrated Reporting Council
- ✓ **XBRL** eXtensible Business Reporting Language

Note: Click [here](#) to read more about it

	Austria, ÖFVA		Hungary, HCMPS
	Belgium, ABAF		Italy, AIAF
	Bosnia, JAFIS		Lithuania, FAA
	Bulgaria, BIMA		Malta, IFS
	Croatia, HUFA		Norway, NFF
	Finland, FSFA		Portugal, APAF
	France, SFAF		Romania, AABR
	Germany, DVFA		Spain, IEAF
	Greece, HACSA		Sweden, SFF

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How is investment and financial analysis changing?

How is the analyst and investor role changing given **market and regulatory changes**?

- MiFID: we see a shift to buy side and proprietary research, a reduction in sell side coverage overall, an increase in independent research
- Impact of Passive Investment in stock crowding, and reduction in coverage and liquidity for stocks
- Importance of ratings agencies in asset allocation is increasing.
- Impact of ESG and Impact Investment Mandates on portfolio selection. Slow but growing?

How is analyst and investor role changing given **technological changes**?

- Structured data and its use. Examples UCB and Ambev
- Impact of HFT/Hedge fund matching algorithms on liquidity
- Impact of AI (not much yet, but growing!)
- Growth in *availability of structured data*

Survey and Fact Sheet

For the gathering of information a quantitative methodology has been used through the application of an online survey.

Universe & Scope

IEA Associates, Europe

Sample

288 surveys: European countries.

Type of survey

Online survey, semi structured.

Fieldwork

Information gathered over 2 months, in 2018

EUROPE : 288 cases

Spain	29,9%
France	17,7%
Italy	17,7%
Sweden	9,0%
Hungary	6,3%
Portugal	5,9%
Finland	5,2%
Austria	2,8%
Germany	2,4%
Switzerland	1,4%
United Kingdom	1,0%
Malta	0,3%
Poland	0,3%

Sample characterization

Base: 288 cases

PROFESSIONAL CERTIFICATION	Aggregate sample
Owns a certification	45,1%
Does not own a certification	6,3%
NA	48,6

EDUCATION LEVEL	Aggregate sample
Degree	4,2%
Bachelor	13,5%
Master / postgraduate/ MBA/ Bussines School	40,3%
Klaurea / PhD	6,6%
Civil service exam	0,3%
Other	0,3%
NA	34,7%

WORKING INSTITUTION	Aggregate sample
Financial Institution	23,3%
Independent	17,0%
Companies	6,3%
ESIs /EAFI	3,5%
Insurance company	2,4%
IEAF	0,3%
Educational institution/ University	0,3%
SGIIC	0,3%
Other	3,8%
NA	43,1%

ACTIVITY	Aggregate sample
Asset Management	19,8%
Research	13,2%
Corporate	4,2%
Financial advisor	3,5%
Brokerage	3,1%
Risk Management	2,4%
M&A	1,7%
Investment Mgnt	1,4%
Portfolio Manager	1,4%
Wealth Management	1,0%
Training / Academic	1,0%
Trading	0,3%
Treasury Management	0,3%
Others	3,1%
NA	43,4%

How is the analyst and investor role changing given market and regulatory changes?

Slightly over half of the respondents (54,9%) know the legislation applicable to them as financial analysts. In contrast, the 38,2% of the sample only know the legislation applicable to their professional practice partially. Finally, a minority admits not knowing the legislation at all (6,9%).

Regarding the need for more specific regulation, the distribution of the answers appears split into three different opinions:

- 36,5% consider that more specific regulation is needed,
- 33,0% believe it is unnecessary and
- 30,6% argue that it is only partly necessary.

Do we need a change in the legislation applicable to Financial Analysts?

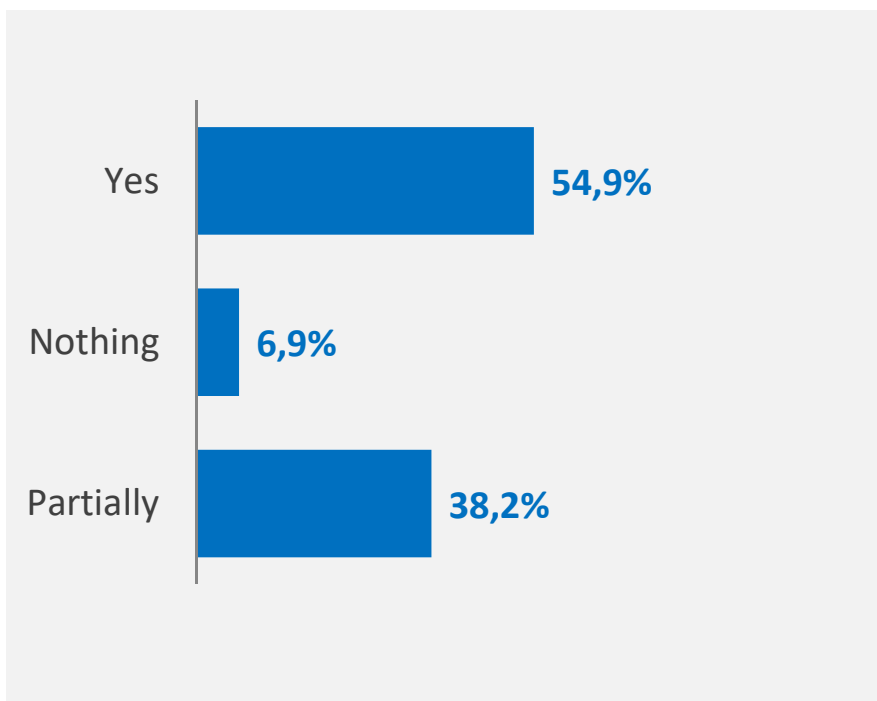
When asked about the legislative MiFID burden, the opinion appears fragmented:

- In the first place, for the 27,8% of the sample, MiFID II would be the appropriate regulation to incorporate further regulatory aspects.
- For a second group, that represents 19,8% of the respondents, this legislation would not be the appropriate vehicle to collect regulatory aspects on financial analysis
- Finally, 8,1% argue that this norm does not sufficiently address regulatory issues as for today.

It is also worth highlighting that 44,4% of the sample believe that the current legislation is already extensive enough and that there is no need to extend it any further.

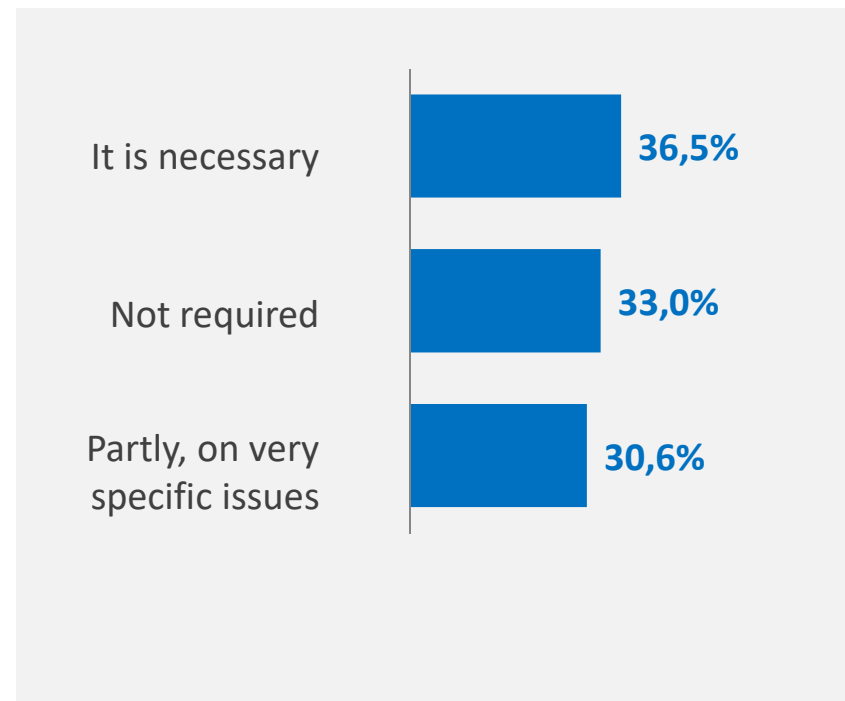
Knowledge and need of legislation?

Q1 Are you familiar with the legislation applicable to you as a financial analyst?



Base: 288 cases

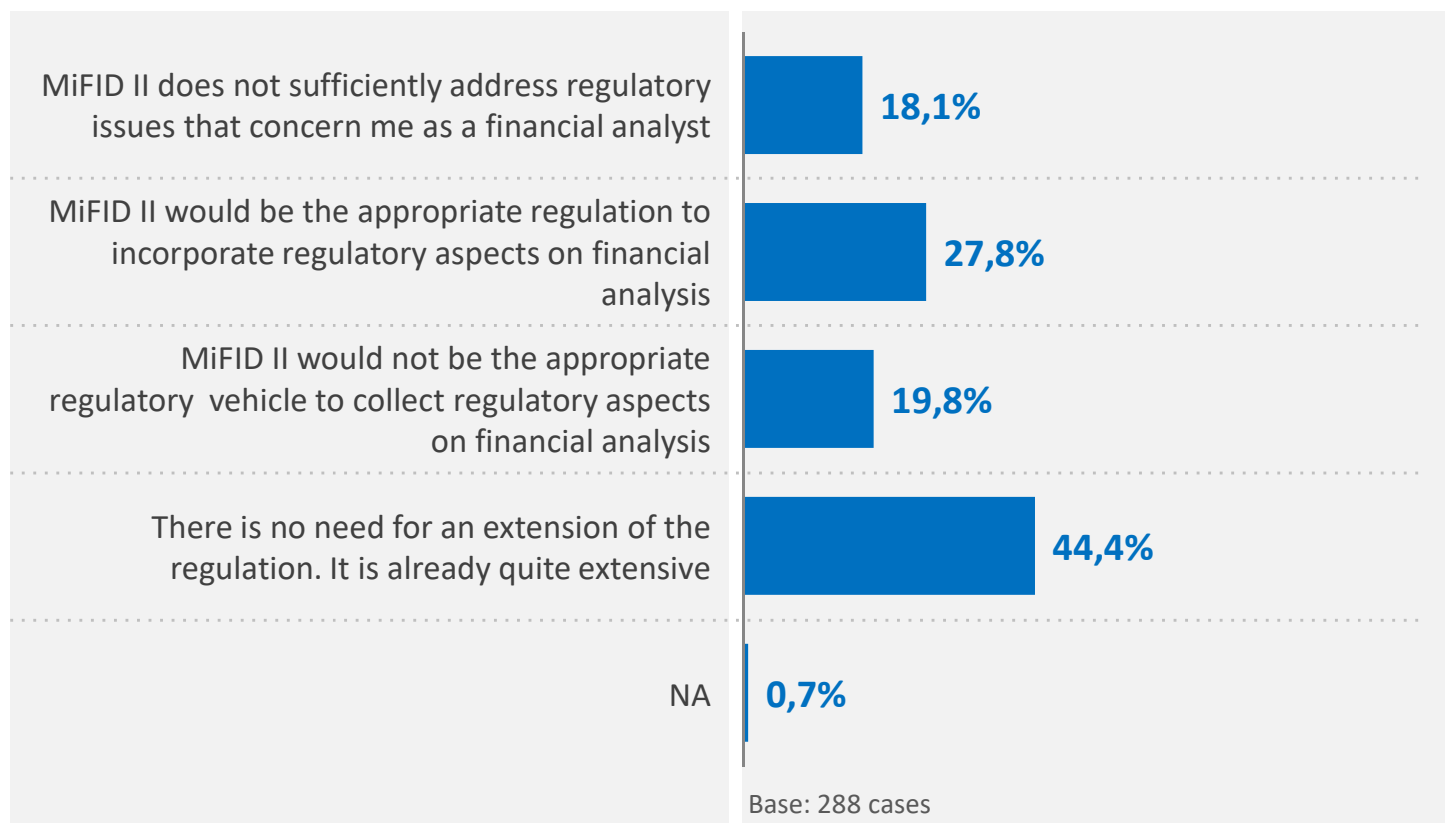
Q2 Do you think more specific regulation defining the field of action is required?



Base: 288 cases

Need for specific regulation applicable to financial analysts?

Q3 MiFid II incorporates a significant legislative burden to financial advisors. Some analysts agree that: (choose all that apply)



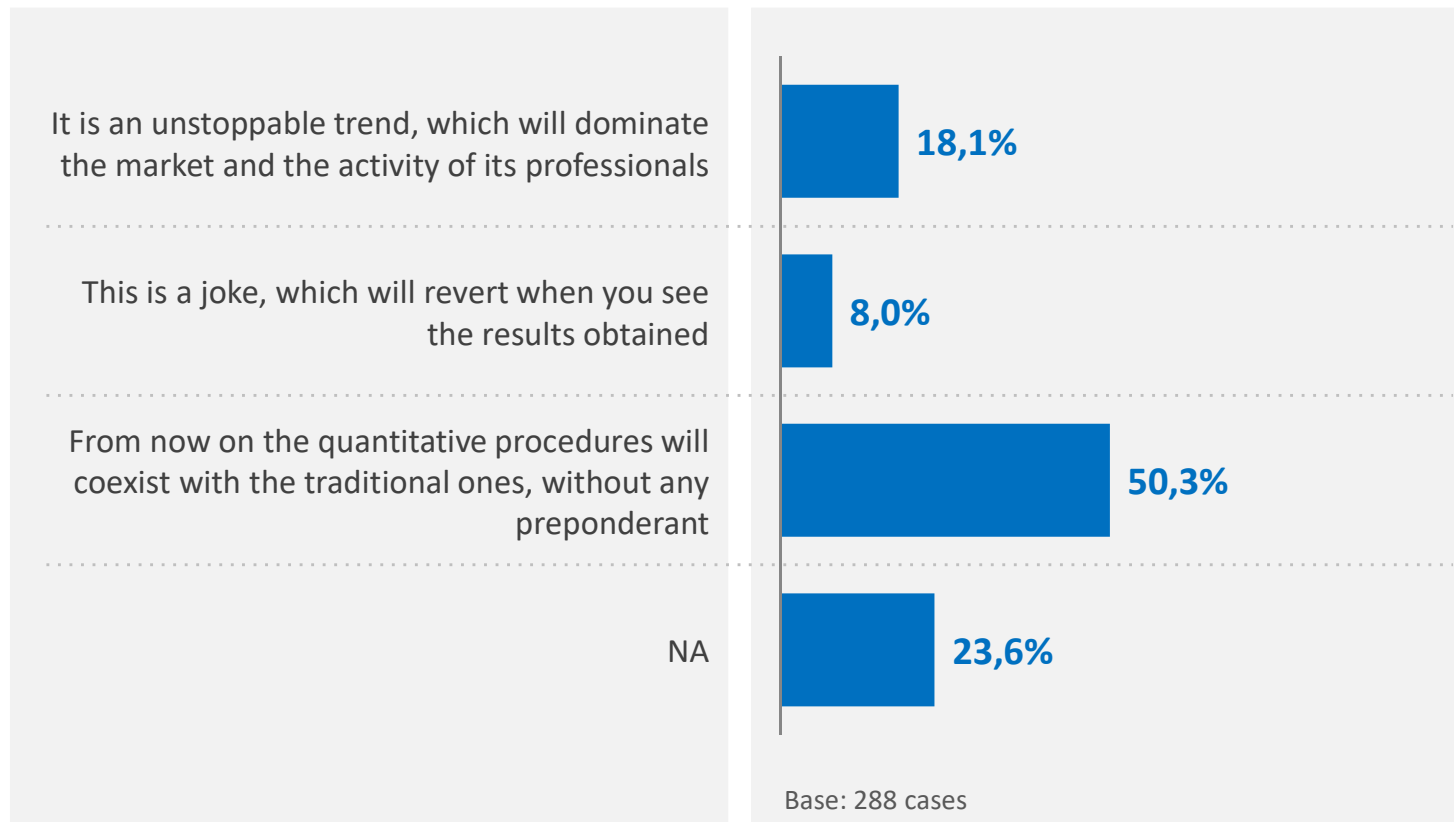
How is analyst and investor role changing given technological changes?

Market automation processes (40,3%) and the trend of restructuring financial markets (39,6%) appear as the two main factors behind the adjustment of research staff. To a lesser extent, the lack of confidence in the effectiveness of the financial analysis in the investment process (19,1%) and the lack of clarity in value propositions (14,9%) also come up as reasons that explain such adjustments.

Independent analysis is seen as bound to play a relevant role in the future by the majority of respondents (45,1%), for whom the market tends to independent analysis not linked to the interest of financial institution.

Perception of quantitative and automated techniques in the professional activity

Q4 How much impact do you expect from the quantitative and robotic techniques (artificial intelligence & big data)



Perception of quantitative and automated techniques in the professional activity

Q5 Should the quantitative and robotic techniques be subject to some type of official control or oversight?

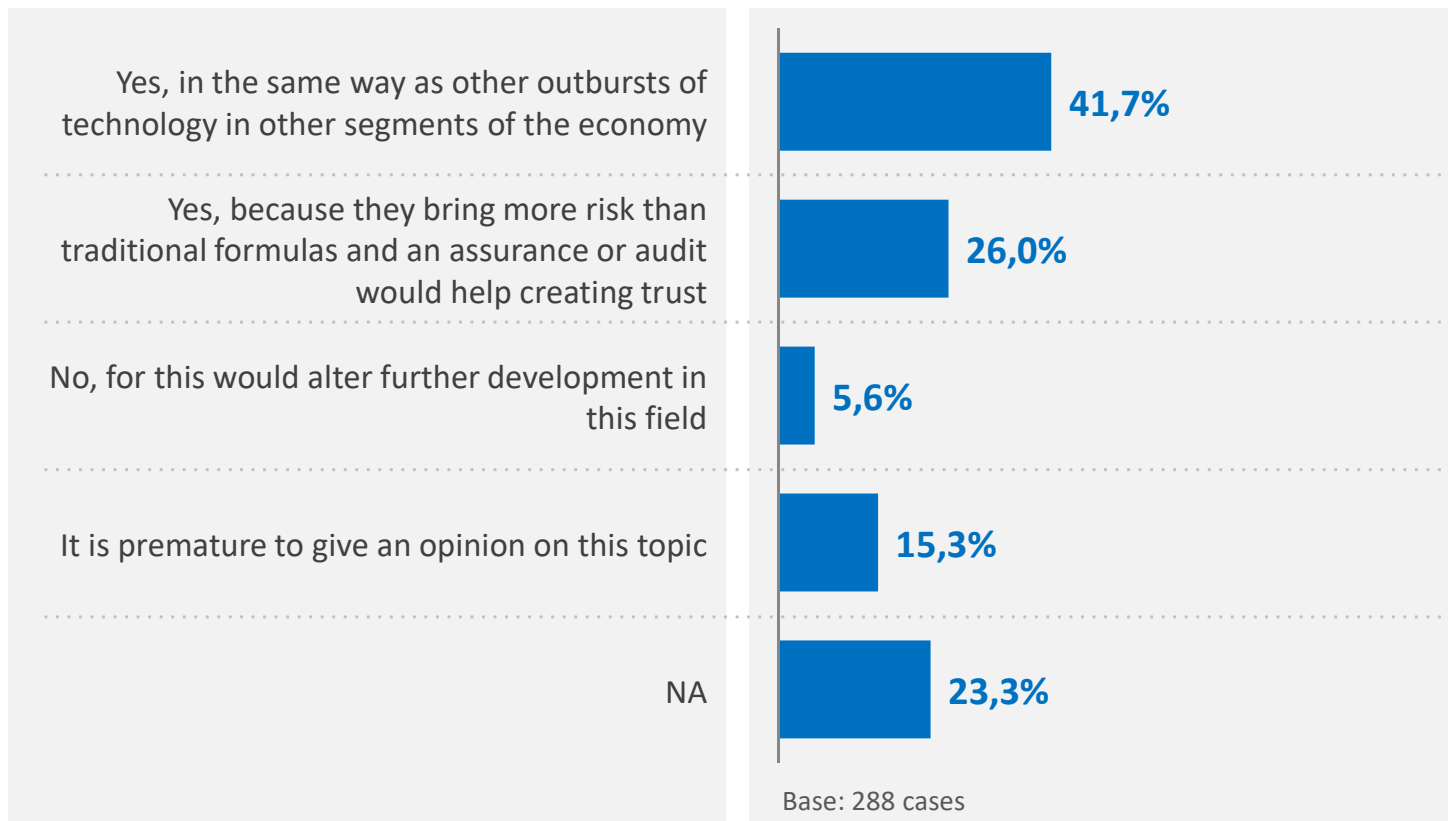


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Financial Statements and ESEF? Analyst expectation

Special role of **financial statements** in analysis

- It is a key part of trust
- A relatively small amount of information is needed but it should be high quality and independently reviewed
- It should be more to the point, it is what everything else gets correlated with (price, volume of traded securities, huge range of non-financial data, huge range of alternative data, comparison with other stocks)

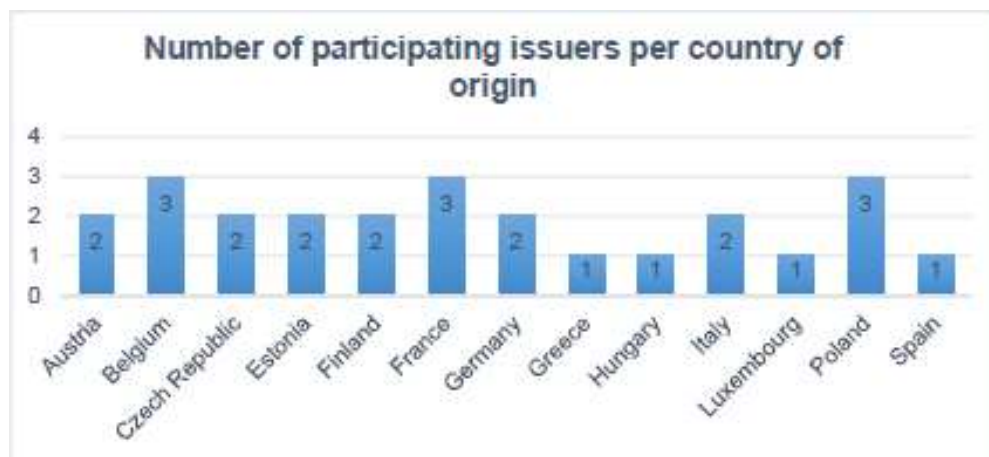
Access to financial statement data today, pre-ESEF

- Screens/feeds from Bloomberg, Refinitiv, ... are sometimes slow, inaccurate, lots of data but accuracy issues, especially where financials are not published in English. Only face financials and a very small amount of data from notes. Explanation is lacking.
- Reading and re-keying overcomes the problems associated with quality and notes, creates other quality issues associated with re-keying.

UCB ESEF field tests organized by ESMA

25 participants: maximum variety in terms of size, sector & location

- Objective: **Transform** IFRS consolidated financial statement to **Inline XBRL** and test
 - The software tools available on the market
 - The core taxonomy files prepared by ESMA through a hands-on exercise of mapping of financial statements
 - The practicality
- Participants*
 - Sufficient comparable outcome?
 - Burden for companies?
 - Correct figures at last



Industry	Number of participants
Banking	5
Energy/renewable energy	2
Insurance	2
Airlines	1
Bio and Forest	1
Biotechnology	1
Consumer goods	1
Infrastructure operator and service provider	1
IT	1
Manufacturing and sale of industrial machinery	1
Medical Diagnostic Technologies	1
Oil&Gas	1
Pharmaceutical	1
Railways	1
Technology	1
Telecom	1
Water supply and wastewater collection and treatment services	1
Metals, Mining and Minerals	1
Steel	1
Total	25

* ESMA report 18 December 2017

To be or not to be prepared for ESEF?

Professional prospective and training need of financial analysts

User requirements vs ESMA Policy Objectives:

- Structured data reporting must be easier for issuers compared to current practices
- Electronic reporting must facilitate accessibility to investors
- Electronic reporting must facilitate analysis for investors and competent authorities
- Electronic reporting must facilitate comparability of AFR
- Structured data reporting for banks, financial intermediaries and insurers must take specifics into account

User position



- Fully agreed with those findings and added:
- Electronic reporting should save costs
- Electronic Reporting must serve as a basis for audits. Electronic assurance is logical and a must
- Though user views were not the same everywhere, large user organisations shared common view.

Please Take Away These Three Points

1. The **opportunities** that ESEF represents for enhanced market access and capital formation across Europe are both **large and important**.
2. Although digital reporting data is just “**plumbing**”, this is vital infrastructure for improved market functioning, to risk management and to wider business and government interactions, as well as for corporate reporting.
3. ESEF gives analysts a feed of structured data that comes directly from the company. Core information that forms the foundation of almost every investment thesis and supports the decisions made by analysts and investors alike.
4. Europe can create a lasting **competitive advantage** if the **shift to digital reporting is smooth**. This is more than a compliance exercise. It is a direct line to the investment community. Issuers and users need to collaborate to enhance financial markets.

AB InBev testimonial about XBRL filings in the US

ESEF, inline XBRL, roadmap 2020
10 October 2018

AB InBev

Our advices after two XBRL filings

- Engage in adequate training: review the rules as well as educational and supporting materials well in advance, including the IFRS taxonomy.
- Make clear assignment of responsibilities: assemble an XBRL reporting team.
- Establish process and ownership, and communicate with all stakeholders on the new XBRL requirements.
- Consider whether the process will be internally managed or outsourced.
- Have more than one internal expert involved in the mapping and review processes.
- Do not rely solely on software validation.
- Start early and consider tagging a mock filing as practice before the requirements are effective.
- Prepare a detailed plan and establish controls at key stages of the process, create a formal mapping review process, e.g. progressive review by peers, IFRS and XBRL experts.
- Document the XBRL process & choices, especially the basis for mapping specific accounting concepts to particular elements.
- Allow adequate time for final changes and reviews.
- Reduce as much as possible the use of custom tags (i.e. tags not coming from the taxonomy).
- Engage and communicate with all stakeholders on the new XBRL requirements.
- Try to integrate as much as possible the XBRL process to the reporting process.
- Keep in mind that the XBRL tagging is a recurring process, i.e. it does not stop once you filed for the first time.
- Exercise the same diligence with XBRL filings that you would with other filings.

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What do analysts expect?

Analyst expectations at start

- This is a significant change and that there will be teething issues, especially in first year or so.
- NCAs will follow up on problems in order to minimise the length of the teething period.
- Data providers will consume the ESEF filings and that will improve their quality and timelines.
- EFFAS will do its part and help educate its members in the use and exploitation of ESEF data.

Analyst expectations when operational

- to be able to consume data from Inline XBRL/ESEF marked up data directly into their models - both directly into Excel and via APIs.
- there will still be data quality issues, but we learn quickly:
 - **Automated Data Quality rules** that are used consistently across ESEF and that catch the normal mistakes that people make in their accounts creation.
 - **Independent Audit.** Analysts agree with the EC that since ESEF documents are both human and machine readable, the entire document needs to be reviewed as part of the audit.

Boards need clarity

DC&P

Inline documents are key part of disclosure.

Audit engagements explicitly exclude review of Inline.

Internal Audit are not exposed to multiple disclosing entities and therefore *not* the right source of independent advice to Boards on this subject.



CFR 240.13a-14

Inline documents *are* the filing and no longer exhibits. The SEC has eliminated dual filing. It has eliminated automated rendering. It has eliminated timing differences (modulo transition issues).

Inline documents are highly amenable to automated data quality checks. But tag selection and extension decisions in particular involve judgement.

Analysts Expect

- The smart money is using this data.
- Vast majority of CFA charterholders are of the view that Inline XBRL data needs to be audited.... Although a significant proportion *believe that it already is*.
- Today, with the publication of Inline 10Ks and 20Fs you have investors with two different levels of investor protection. Those using the machine readable data are explicitly excluded from seeking redress from auditors.



What do analysts expect?

Analysts understand that there are still issues associated with simplifying access to and discover of the ESEF reports and look forward to this being resolved by ESMA in time for the early 2021 reporting season.

Analyst expectations further down the road

- Analysts expect to rely on structured data more and more. Therefore, there is a need to expand, over time, access to structured data.
- Europe needs to catch up to Japan and the United States and ensure that the ESEF rules also cover:
 - interim reports
 - granular tagging of notes to the accounts that are significant to decision makers — this might differ from industry to industry

What do analysts expect?

Analyst expectations further down the road

- Europe will need to look at ways to stay ahead of, or in line with, the rest of the world, so should in particular consider expanding ESEF to cover:
 - Aspects of ESG
 - Aspects of Non-financial disclosures
 - starting with the TCFD carbon related disclosures that companies are set to make as part of the Non Financial reporting regime in Europe.
 - With the end goal being full Integrated Reporting

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Conclusion

- The world is changing and digitisation is impacting every part of the financial world.
- ESEF is an important initiative for analysts, investors and other users
- National supervisors and European regulators need to work together to help ensure that digital corporate reports under ESEF are easy to access and that both data quality checks and independent audit help ensure the quality and comparability of this information
- ESEF must develop at least in line with other key markets
- EFFAS looks forward to assisting with this process where necessary
- All of these efforts are a small but important aspect of the EU's Digitisation strategy and the users of corporate reporting are very much looking forward to the opportunities that more transparent, more accessible, more accurate and more closely connected digital reporting brings.
- Digital Financial Statements Should be Audited



Members of the Executive Management Committee

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