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IFRS Taxonomy Consultative Group (ITCG) meeting

Date	**28 February 2023**
Project	**Review of common reporting practice**
Topic	**IFRS 7 & 9—financial instruments**
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Objective of this paper

- To provide a summary of the initial findings on the common practice review and possible modelling options to introduce elements relating to the presentation of financial instruments in the statement of financial position; and

- To seek feedback from the ITCG on these initial findings and possible modelling options.

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Agenda & summary of questions

1   Background & scope

Question 1—Do you have any comments/suggestions on the recommended scope of this common practice review? Specifically, do you have any comments on the phased approach and suggestions on possible improvements to be included in the IFRS Accounting Taxonomy 2024?

2   Sample selection—banking institutions

Question 2—Do you have any comments/suggestions on the sample for our common practice review of financial instruments in banking institutions?

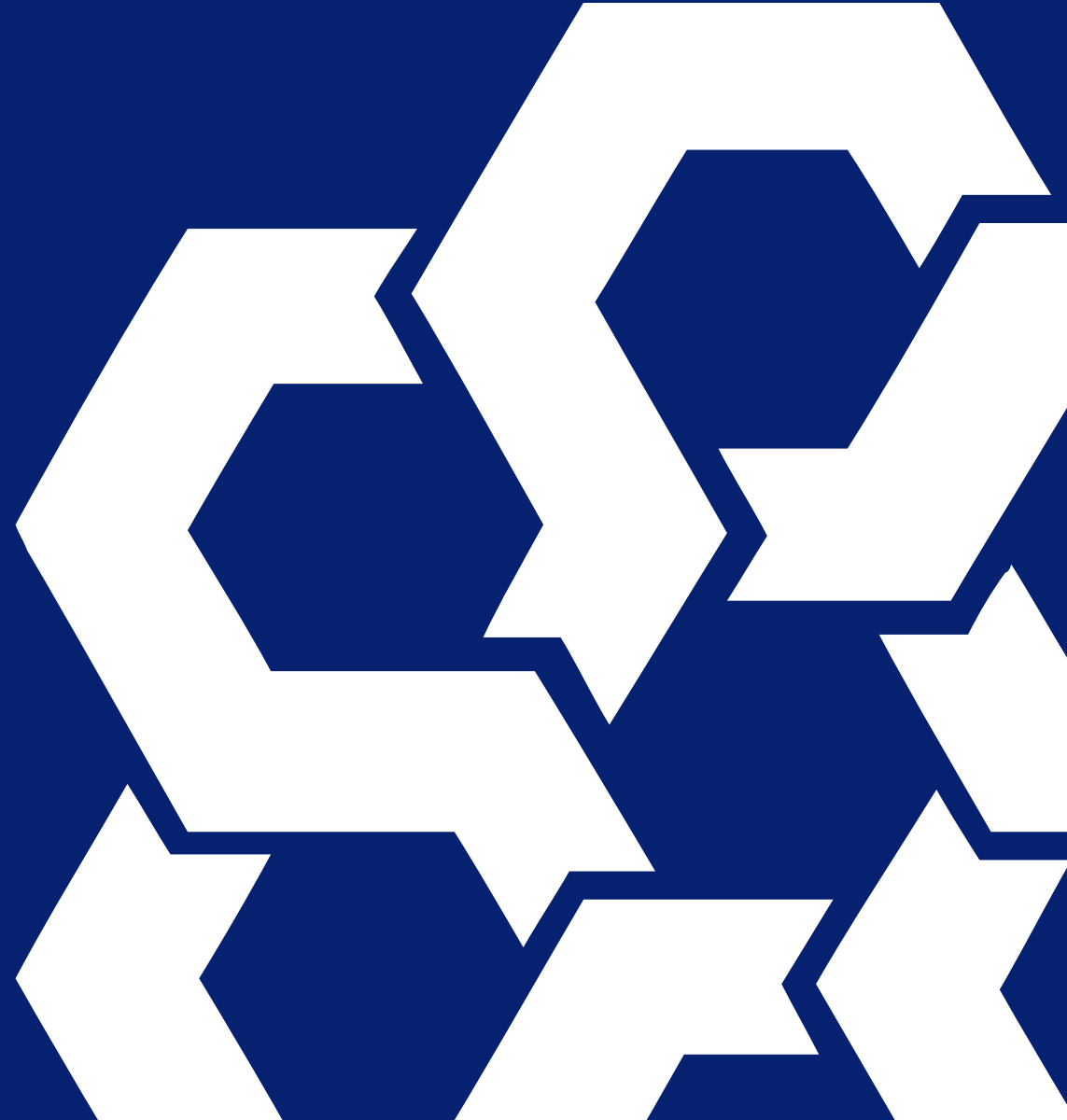### 3   Initial insights from analysis of statement of financial position

Question 3—Do you have any comments/suggestions on the initial insights from our analysis of financial instruments presented in the statement of financial position for banking institutions? Specifically:

- Are there any other considerations in deciding which modelling approach we should use for financial instruments presented in the statement of financial position?
- Do you have any additional suggestions on how to improve the instances of preparers using the wrong elements or creating unnecessary extensions?
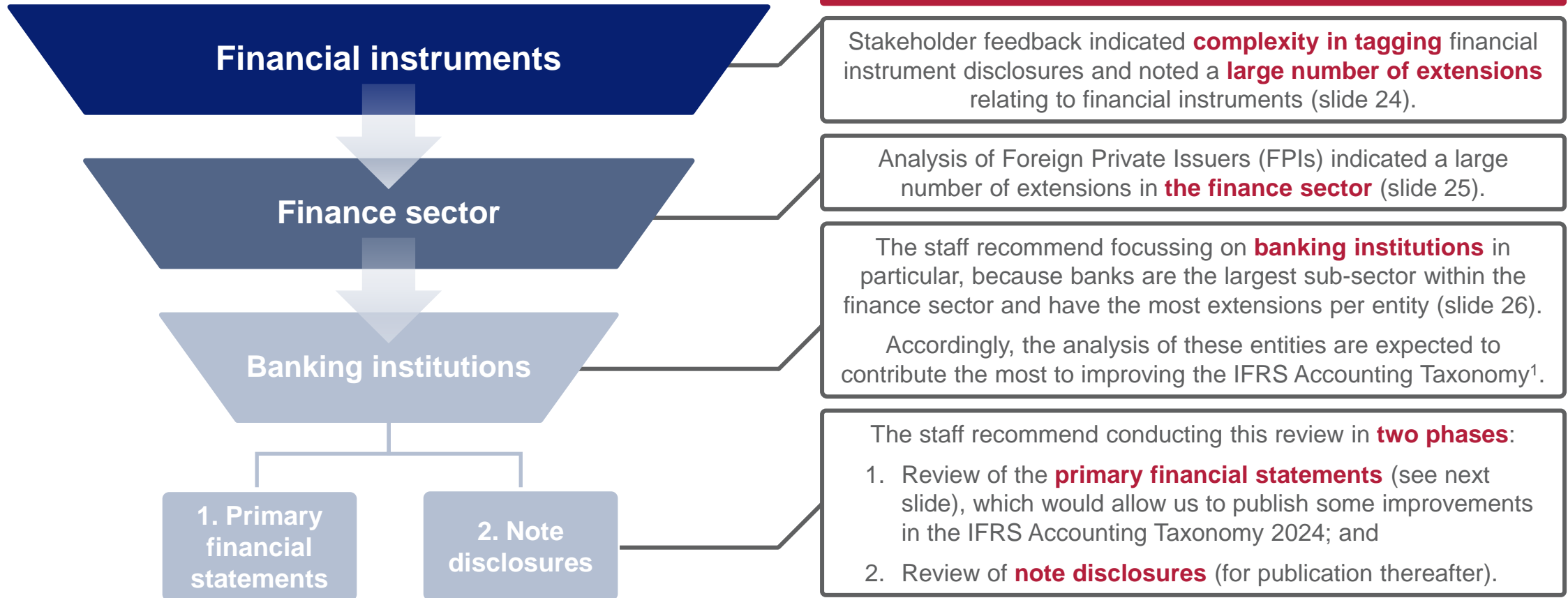
1. Background & scope

Scope of IFRS 7&9 common practice review

Refer to Appendix (slides 23-27) for further detail

Financial instruments

Stakeholder feedback indicated **complexity in tagging** financial instrument disclosures and noted a **large number of extensions** relating to financial instruments (slide 24).

Finance sector

Analysis of Foreign Private Issuers (FPIs) indicated a large number of extensions in **the finance sector** (slide 25).

Banking institutions

The staff recommend focussing on **banking institutions** in particular, because banks are the largest sub-sector within the finance sector and have the most extensions per entity (slide 26).

Accordingly, the analysis of these entities are expected to contribute the most to improving the IFRS Accounting Taxonomy[1].

1. Primary financial statements

2. Note disclosures

The staff recommend conducting this review in **two phases**:

1. Review of the **primary financial statements** (see next slide), which would allow us to publish some improvements in the IFRS Accounting Taxonomy 2024; and

2. Review of **note disclosures** (for publication thereafter).

[1] The intention of this common practice review is **not to eliminate the use of extensions in banking institutions entirely**. Given regulatory reporting requirements (such as Basel III) and complexity within banking institutions, some **entity-specific elements are expected** and cannot be improved through our common practice review process.

Scope of Phase 1 of IFRS 7&9 common practice review

SFP ✓

The staff recommend to **include** an analysis of the statement of financial position in this common practice review.

The staff aim to publish improvements arising from common practice in the **IFRS Accounting Taxonomy 2024**.

Some preliminary analysis is included in slides 13-21.

SOCI ✗

The staff recommend to **exclude** the statement of comprehensive income from the common practice review because common reporting practice identified in this review **may become redundant** as a result of the finalisation of **the Primary Financial Statements project**.

(refer to AP2 of this meeting)

SCF ?

The staff **plan to conduct an analysis** on the statement of cash flows and will address any common reporting practice along with common reporting practice in the statement of financial position or in a later Taxonomy Update.

? Question 1—Do you have any comments/suggestions on the recommended scope of this common practice review? Specifically, do you have any comments on the phased approach and suggestions on possible improvements to be included in the IFRS Accounting Taxonomy 2024?

2. Sample selection—banking institutions

Guidance on sample selection

According to *Guide to Common Practice* the sample for analysis of common reporting practice should be representative of a population either **geographically** or **activity-based**.

Since this common practice review is focussed on banking institutions, the staff recommend to ensure the sample is geographically representative.

This common practice review will focus on banking institutions for which **XBRL tagged information is readily available** (see slide 9).

In certain cases, the staff will **top up** the sample by manually analysing a set of financial statements to **achieve sufficient geographic coverage**.

Availability of XBRL tagged information

XBRL tagged information will be extracted from Calcbench for both FPIs and ESMA filers.

FPIs

- XBRL data available for **PFS** and **monetary items in note disclosures**.
- Sample size: **42** banking institutions

ESMA

- XBRL data available for **PFS**.[1]
- Sample size: **104** banking institutions

The staff recommends to use XBRL tagged information as follows:

Phase 1—**To use both FPIs and ESMA filers** to analyse extensions in the primary financial statements; and

Phase 2—**To use FPIs only** to analysis extensions in the note disclosures.

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[1] ESMA filers will be required to apply text block tagging of note disclosures for financial years 2022-23 and onwards and individual monetary items need not be tagged (prior to that tagging of note disclosures was not required). This limits the availability of detailed XBRL tagged information for note disclosures in ESMA filers.

Geographical spread—FPIs

Europe, 9, 21%

Oceania, 1, 2%

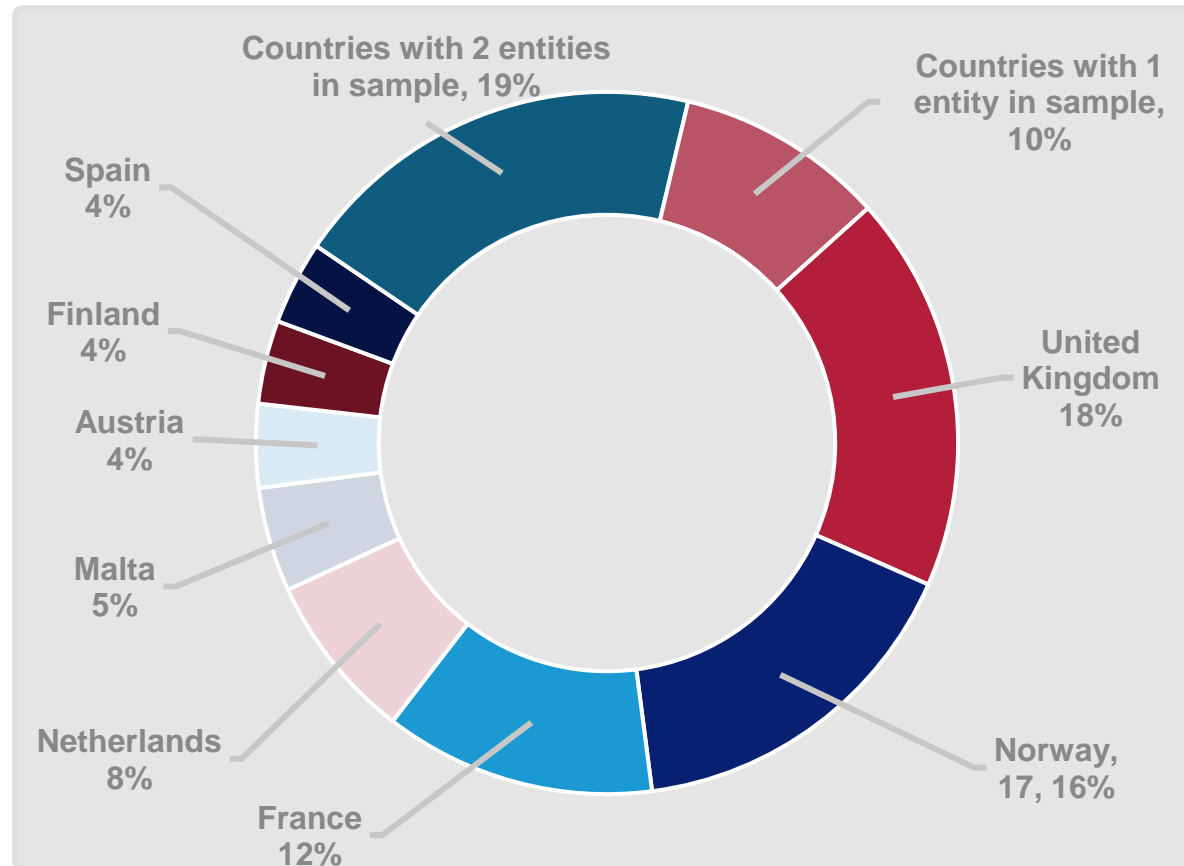Asia, 7, 17%

North America, 7, 17%

Latin America, 18, 43%
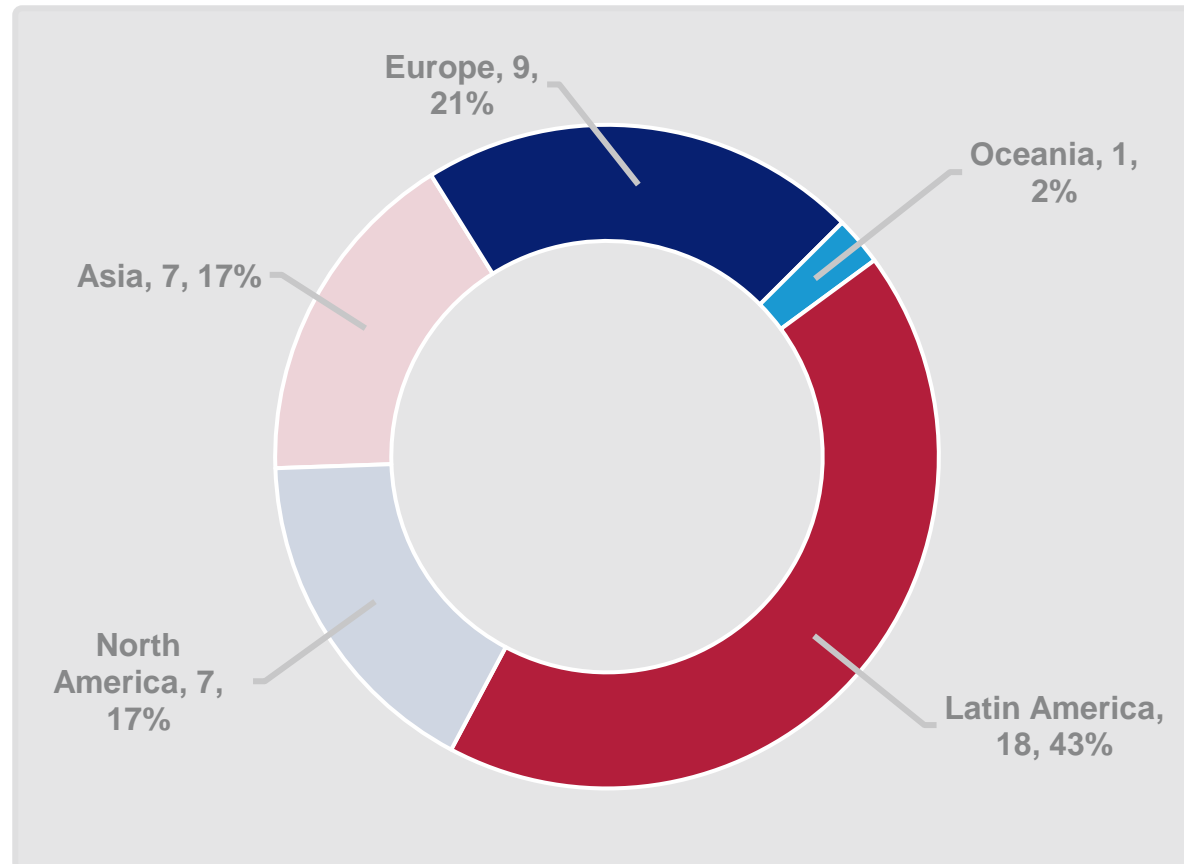
FPIs broken down by region

42 entities, obtained through Calcbench

The sample appears to have a **reasonable geographical spread**, but appears under-represented in Asia and Africa.

The staff recommend to **manually analyse 8 additional entities** from China, Japan, India and South Africa; bringing the total sample to **50 entities.**

Geographical spread—ESMA filers

Countries with 2 entities in sample, 19%

Countries with 1 entity in sample, 10%

Spain 4%

Finland 4%

Austria 4%

Malta 5%

Netherlands 8%

France 12%

United Kingdom 18%

Norway, 17, 16%

ESMA filers broken down by country

104 entities, obtained through Calcbench

Entities in certain countries (e.g. France and Spain) use **jurisdictional templates** to prepare their financial statements.

The use of these templates are localised to a few countries and **may not be representative** of disclosures that are common across jurisdictions.

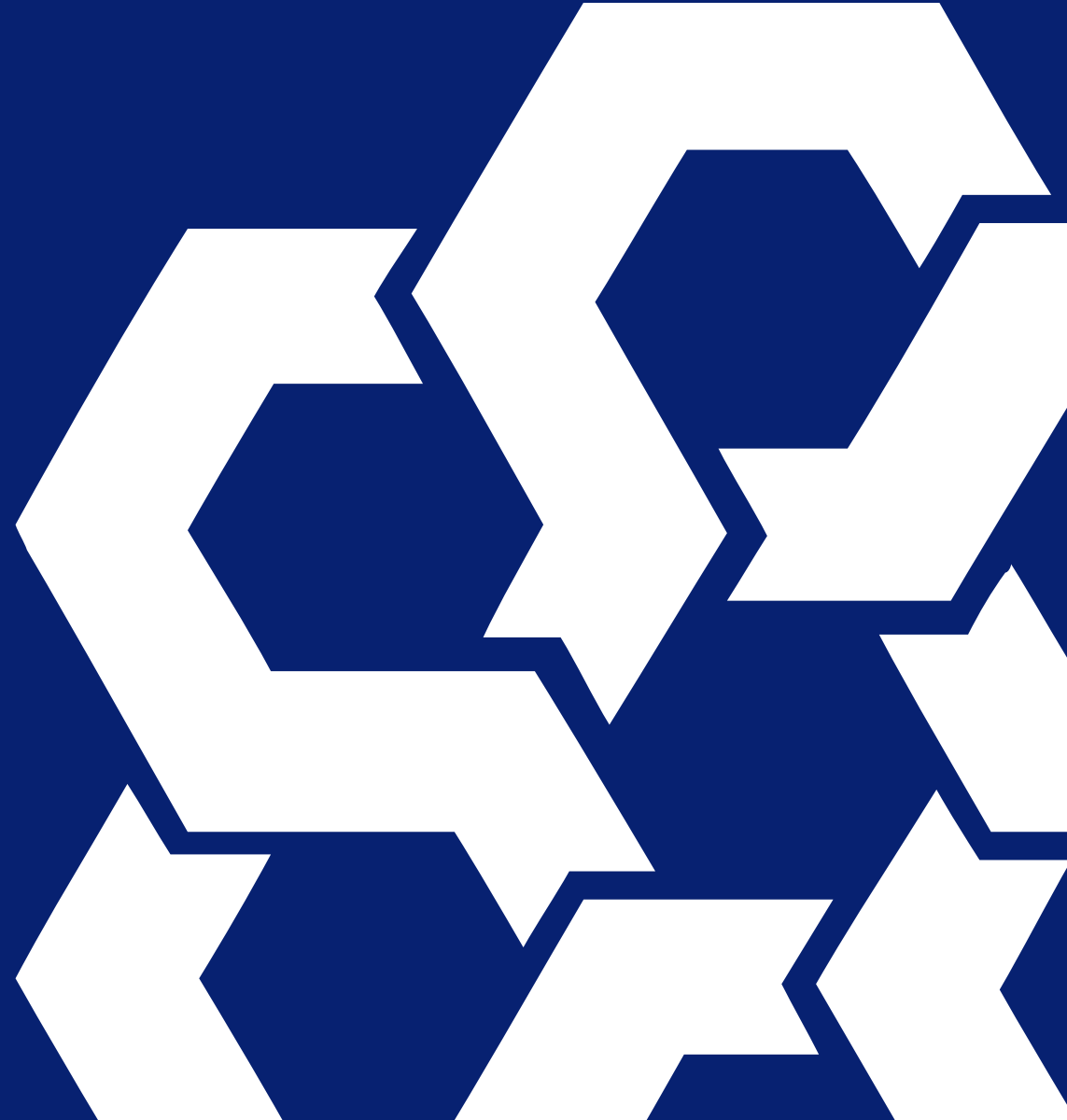The staff's view is to **include** these entities in the sample.

Question

? Question 2—Do you have any comments/suggestions on the sample for our common practice review of financial instruments in banking institutions?
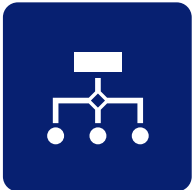
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3. Initial insights from analysis of statement of financial position

# Initial insights from analysis of statement of financial position

Staff observations	Implications

1. Financial instruments disaggregated by characteristics

Banking institutions **disaggregate** financial instruments by various **characteristics** (e.g. by measurement method, nature, function, or relationship with counterparty etc.), and often present a combination of these characteristics in a single line item.

Current taxonomy design is not well placed to address this disaggregation because elements relating to presentation of financial instruments on the face of the primary financial statements usually **communicate information relating to a single characteristic** (e.g. "loans and advances" or "financial asset measured at amortised cost").
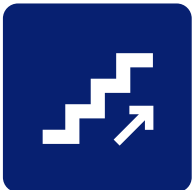
2. Use of unnecessary extensions and incorrect use of elements

Preparers:

- **create unnecessary extensions** for concepts which are already in the IFRS Accounting Taxonomy; and/or
- **use the incorrect element** to tag concepts on the statement of financial position (e.g. using a "total" element to tag an amount that is not a total).

Opportunities for general improvements; including:

- **re-grouping** financial instruments elements within the presentation group to make it easier for preparers to access the correct element; and
- **clarifying documentation labels/adding guidance labels** to guide preparers to the correct element.

1. Financial instruments disaggregated by characteristics

Commonly reported characteristics[1] of financial instruments in the statement of financial position				
	Measurement method	**Nature of instrument**	**Function of instrument**	**Relationship of counterparty**
Financial assets	• Amortised cost • Fair value through profit or loss • Fair value through other comprehensive income	• Loans and advances • Investment/debt securities • Bonds/certificates • Derivatives • Equity instruments • Other	• Held for trading • Not held for trading	• Central banks • Banks/financial institutions • Customers • Non-financial public/private sector
Financial liabilities	• Amortised cost • Fair value through profit or loss	• Deposit liabilities • Securities/debt securities • Derivatives • Subordinated liabilities • Other	• Held for trading • Not held for trading	• Central banks • Banks/financial institutions • Customers

[1] The staff noted various permutations of characteristics in the common practice sample. In many cases, specific permutations of characteristics may not have been commonly reported, however the **individual characteristics would have been commonly reported**. The lists above summarise the **characteristics that were, themselves, commonly reported**, irrespective of other characteristics with which they may have been grouped to tag a concept.

Examples of extensions with multiple characteristics

Example A—Entities reported versions of the following extension: "**Loans and advances to customers measured at amortised cost**".

The IFRS Accounting Taxonomy has two elements—"**Loans and advances to customers** common practice" and "**Financial assets at amortised cost** disclosure" but no single element that fully captures the information the preparers are trying to communicate.

Example B—In some cases, entities have used elements relating to financial instrument note disclosures, **including the use of dimensions**, to tag concepts in the statement of financial position: "**FinancialAssetsAtFairValueThroughProfitOrLossExcludingFinancialAssetsDesignatedUponInitialRecognitionOrSubsequently:DerivativesAssetTradingMember**".

There is no single element for tagging line items presented in the statement of financial position that could completely capture this concept. The preparer appears to have used a combination of a member and line item to communicate the accounting meaning behind the concept.

Staff observations	Elements in the IFRS Accounting Taxonomy **do not fully capture** the information preparers are communicating.	Preparers often create extensions which are **some combination of elements/concepts** already existing in the Taxonomy.	Some preparers (FPIs) **use dimensions** to communicate information presented in the statement of financial position.

Possible modelling solution 1: Line item modelling

Identify **only commonly reported permutations** of the presentation of financial instruments and model these as separate **line items**.

Example of modelling[1]
Financial assets at **fair value through profit or loss**
Financial assets at fair value through profit or loss, classified as **held for trading**
Loans and advances to customers measured at fair value through profit or loss, classified as held for trading
Debt instruments measured at fair value through profit or loss, classified as held for trading
Equity instruments measured at fair value through profit or loss, classified as held for trading
Other financial assets measured at fair value through profit or loss, classified as held for trading
Financial assets at fair value through profit or loss, **other than those classified as held for trading**
Financial assets at fair value through profit or loss, designated as such on initial recognition
Financial assets at fair value through profit or loss, mandatorily measured at fair value
Equity instruments measured at fair value through profit or loss, mandatorily measured at fair value
Other financial assets measured at fair value through profit or loss, mandatorily measured at fair value

Advantages

✓ **Consistent with current modelling approach** for the primary financial statements.

Disadvantages

x Would **not cover all permutations** of extensions and may still result in a high extension rate. The proposed common reporting elements **may address some characteristics and not others**, which may appear to be confusing to preparers and users.

x Would result in a **cluttered Taxonomy** with a high number of seemingly repetitive elements.

[1] Similar structures would need to be created for **all commonly reported permutations** of measurement method, nature and function of the instrument and relationship (where relevant), leading to a **long list** of common practice elements and **potentially excessive repetition**.

Possible modelling solution 2: Dimensional modelling

Identify **commonly reported characteristics** and model these characteristics using **dimensional modelling**. Preparers would tag each financial instrument with the **dimensions relating to the characteristics presented**.

Example of modelling

Categories of financial assets [axis]

Financial assets, category [member]

Financial assets at **fair value through profit or loss** [member]

Financial assets at fair value through profit or loss, classified as **held for trading** [member]

Financial assets at fair value through profit or loss, designated as such on initial recognition [member]

Financial assets at fair value through profit or loss, mandatorily measured at fair value [member]

…

Classes of financial assets [axis]

Financial assets, class [member]

Loans and advances [member]

Loans and advances **to customers** [member]

Loans and advances **to banks** [member]

Debt instruments [member]

Equity instruments [member]

Other financial assets [member]

…

…

Advantages

✓ **Aligns** with the modelling approach for **financial instrument note disclosures**.

✓ **Fewer new elements** would be introduced to the Taxonomy.

✓ Would **resolve more extensions** observed practice compared to line item modelling.

Disadvantages

x May result in **calculation issues**[1] for line items presented in the face of the statement of financial position (refer AP2 of this meeting).

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[1] Currently **XBRL calculations can't cross dimensions**. It would be difficult for users to identify the components of sub-totals/totals on a statement of financial position that contains multiple dimensions.

Staff considerations in determining a modelling approach
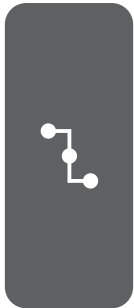
- Some entities choose to disaggregate information relating to financial instruments **in the notes** (for which dimensions are applied), or **in the primary financial statements** (for which dimensions are not applied).

- Applying a dimensional modelling approach may allow for **greater consistency** between information presented in the primary financial statements and note disclosures.

- The staff are also considering dimensional modelling for **presentation requirements arising from the PFS project** (AP2 of this meeting). The staff are considering whether a similar modelling approach could be taken in that project and in this common practice review.

- For a dimensional modelling approach to work **XBRL calculation relationships would need to work across dimensions**.

- Line item modelling may allow for users to build an adjusted statement of financial position, since calculation relationships **would work across all line items**.

2. Use of unnecessary extensions and incorrect use of elements

- As noted in slide 14, the staff observed some preparers use the incorrect element to tag a concept and created extensions for elements that already exist in the Taxonomy.

- Examples of unnecessary extensions created include:

Preparers reported the following extensions for derivatives:

FinancialAssetsMeasuredAtFairValueThroughProfitOrLossHeldForTrading**TradingDerivatives**
FinancialLiabilitiesMeasuredAtFairValueThroughProfitOrLossHeldForTrading**TradingDerivatives**

Elements in the IFRS Accounting Taxonomy that could be used:

DerivativeFinancialAssetsHeldForTrading
DerivativeFinancialLiabilitiesHeldForTrading

The staff recommends implementing some general improvements, such as:

- **Clarifying documentation labels and/or adding guidance labels** to guide preparers to the correct element—this may reduce the risk of preparers selecting the wrong element to tag an accounting concept.

- **Re-grouping financial instruments** elements to make it easier for preparers to access the correct element—this may reduce the risk of a preparer creating an extension for an element that already exists in the Taxonomy.

Question

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- Are there any other considerations in deciding which modelling approach we should use for financial instruments presented in the statement of financial position?

- Do you have any additional suggestions on how to improve the instances of preparers using the wrong elements or creating unnecessary extensions?

Questions?

4. Appendix: recap of the previous discussions

Findings from initial analysis (January 2020)

Complexity of tagging

Entities may disaggregate disclosures by **type of instrument**, whereas the presentation structure in the IFRS Accounting Taxonomy organises disclosures **by type of information**, making it difficult to find the correct element.

Financial instrument disclosures include **interrelated information** that needs to be tagged and modelled consistently.

Large number of extensions

Analysis on Foreign Private Issuers indicated a **large number of extensions** relating to financial instruments; particularly in financial institutions.
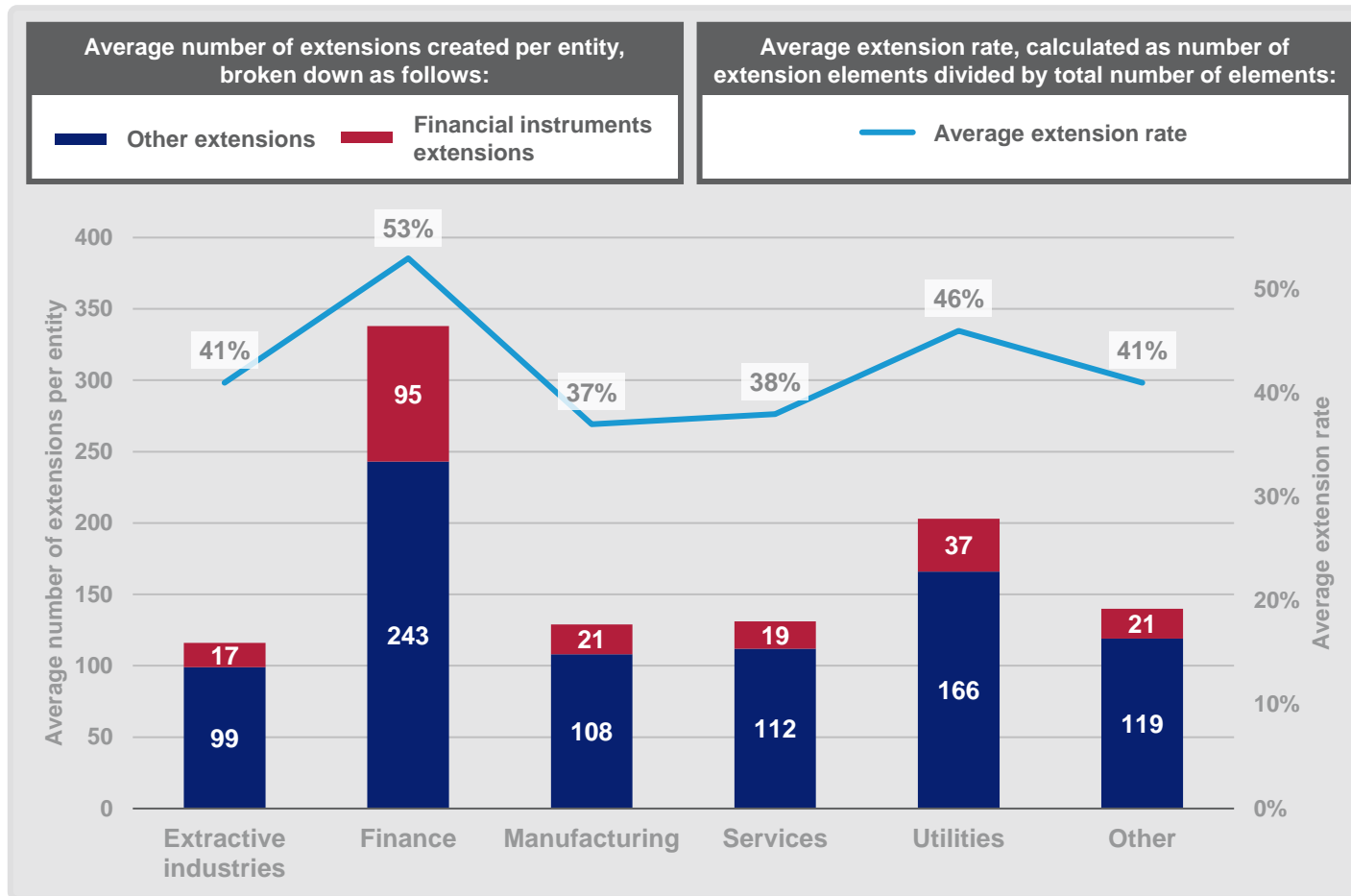
Financial institutions **combine fulfilment of obligations under regulatory requirements** with disclosure requirements in IFRS Accounting Standards.

Feedback indicates that there is a notably higher number of extensions created for **capital and market risk disclosures**.

Findings from initial analysis (January 2020)

Average number of extensions created per entity, broken down as follows:
- Other extensions
- Financial instruments extensions

Average extension rate, calculated as number of extension elements divided by total number of elements:
- Average extension rate

Key findings

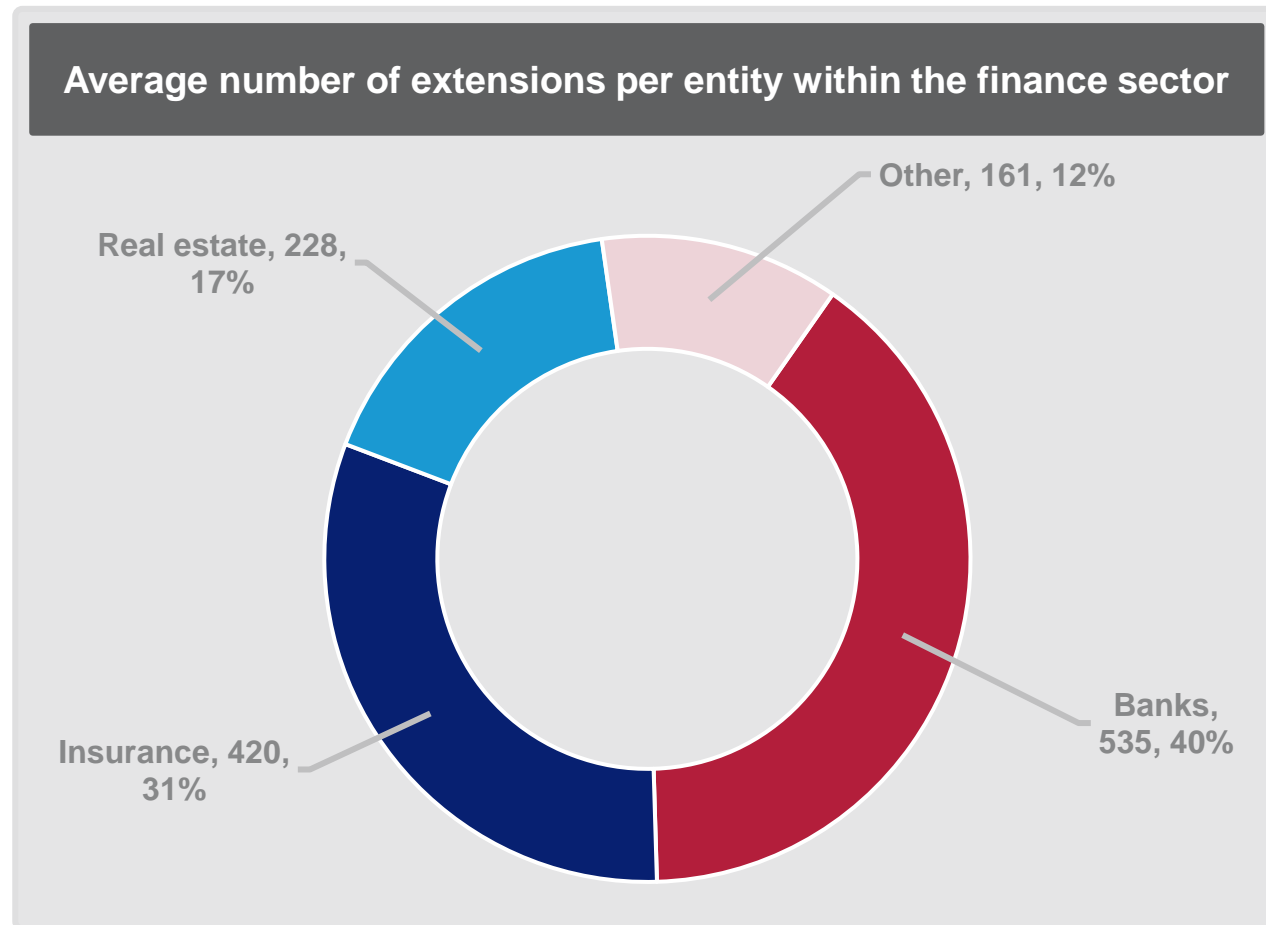Approx. **20% of all extensions** relate to financial instruments.

Finance sector (focus on finance activities involving financial instruments) evidenced the **highest extension rate**.

Finance sector evidenced **highest average number of financial instruments extensions** created per entity.

Findings from initial analysis (January 2020)

Average number of extensions per entity within the finance sector

Other, 161, 12%

Real estate, 228, 17%

Banks, 535, 40%

Insurance, 420, 31%

Key findings

Within the finance sector, the largest number of extensions per entity are created for **banks and insurance companies.**

However, the staff recommended to focus on **banking institutions only**, because certain insurance companies applying IFRS 4 up to 1 Jan 2023 were permitted to delay implementation of IFRS 9.

Financial instruments within the IFRS Accounting Taxonomy 2022

Other taxonomy elements; 5,823

Financial instruments elements; 1,124
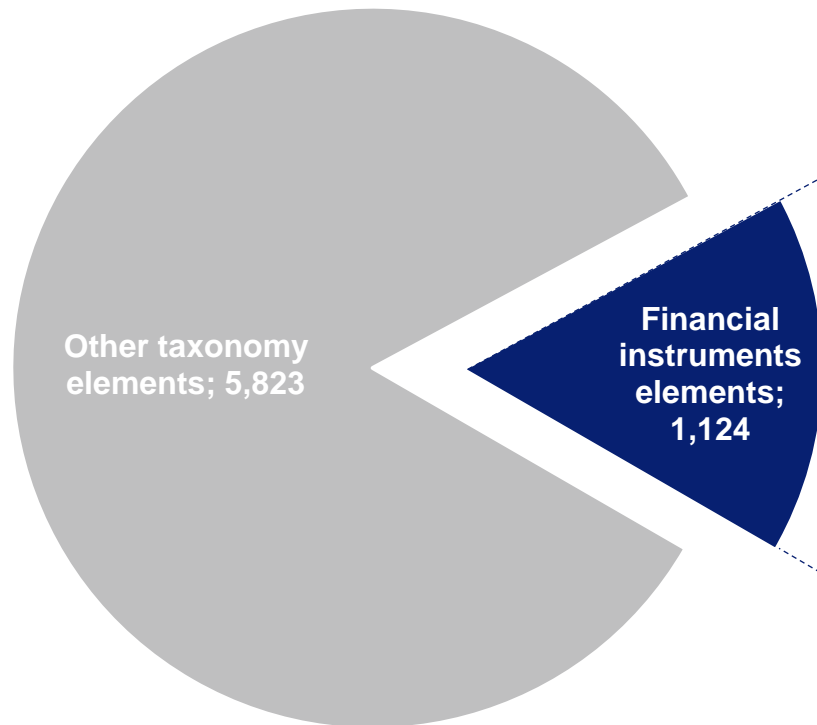
Elements relating to financial instruments make up a **comparatively large proportion (16%)** of the Taxonomy.

These elements are broken down as follows:

	Primary financial statements	Note disclosures
Disclosure & examples	175	865
Common practice	43	41
TOTAL	218	906

Given the size of the financial instruments, the staff recommend to focus on **extensions relating to the primary financial statements first**, to allow some improvements to be published in the 2024 IFRS Accounting Taxonomy.

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