STAFF PAPER

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IASB Meeting

Project	**Disclosure Initiative: Principles of Disclosure**		
Paper topic	Technology and digital reporting considerations		
CONTACTS	Aishat Akinwale	aakinwale@ifrs.org	+44 (0) 20 7246 6910
	Kathryn Donkersley	kdonkersley@ifrs.org	+44 (0) 20 7246 6970

Objective

1. The objective of this paper is to present staff analysis and recommendations to the Board about next steps in the Principles of Disclosure project. Specifically, this paper discusses whether, and how, the Board should consider the effect of technology and digital reporting within the scope of the project.

Overview

2. This paper is structured as follows:
   (a) Background (paragraphs 3-5);
   (b) Summary of the approach to staff analysis and recommendations (paragraphs 6-8);
   (c) Outreach and consultation (paragraphs 9-21):
      (i) Accounting Standards Advisory Forum (paragraphs 9-12);
      (ii) IFRS Taxonomy Consultative Group (paragraphs 13-21)
   (d) IFRS Foundation's Technology Initiative (paragraph 22-23);
   (e) Considerations for the Board's Disclosure Initiative projects (paragraphs 24-45):
      (i) Overarching staff analysis (paragraphs 24-32);

(ii) Targeted Standards-level review of Disclosures (paragraphs 33-35);

(iii) Principles of Disclosure (paragraphs 36-45); and

(f) Overall summary and questions for the Board (paragraph 46-47).

Background

3. In March 2017, the Board published the *Disclosure Initiative—Principles of Disclosure* Discussion Paper (Discussion Paper). The Discussion Paper identified three factors that contribute to the disclosure problem:

   (a) not enough relevant information;

   (b) irrelevant information; and

   (c) ineffective communication of the information provided.

4. The Discussion Paper did not include any direct discussion of the effect of technology and digital reporting on the disclosure problem. However, many respondents expressed concerns that the Discussion Paper was based on an assumption that users consume financial information in a paper-based format. Respondents observed that technology is providing new ways for entities to communicate information to users of financial statements. Consequently, many respondents thought the Board should consider issues around better communication in the context of digital reporting as part of the project (see ***February 2018 Agenda Paper 11D)***.

5. In its March 2018 meeting, the Board decided that the staff should perform further analysis about whether and how to consider the effect of technology and digital reporting within the scope of the project. Specifically, the Board asked the staff to:

   (a) liaise with other project teams, including the IFRS Taxonomy team; and

   (b) discuss the feedback received with the Board's IFRS Taxonomy Consultative Group.

Summary of the approach to staff analysis and recommendation

6. The staff performed outreach with the IFRS Taxonomy Consultative Group (ITCG) and the Accounting Standards Advisory Forum (ASAF). Furthermore, we analysed feedback received through comment letters on the Discussion Paper.

7. The staff also considered the planned activities of the IFRS Foundation's Technology Initiative and recent decisions made by the Board as part of its Targeted Standards-level Review of Disclosures project.

8. The staff recommend that the Board:

   (a) responds to feedback received about technology and digital reporting in the context of the Disclosure Initiative by including relevant considerations in the Guidance for the Board to use when developing and drafting disclosure objectives and requirements (see ***Agenda Paper 11B*** for this meeting);

   (b) does not take any further action to consider the effect of technology and digital reporting at this time in respect of the following topics within the Principles of Disclosure project:

      (i) which accounting policies to disclose (see ***Agenda Paper 11E*** for this meeting); and

      (ii) location of information, i.e. IFRS information outside the financial statements and non-IFRS information inside the financial statements (see ***Agenda Paper 11F*** for this meeting); and

   (c) consider those issues relating to the broader implications of technology on financial reporting as part of the IFRS Foundation's Technology Initiative.

Outreach and consultation

Accounting Standards Advisorys Forum (ASAF)

9. At the December 2017 ASAF meeting, Board members and staff discussed the feedback received from respondents to the Discussion Paper about the effect of technology and digital reporting on the disclosure problem.

10. Some ASAF members said that technology may contribute to an increase in the provision of irrelevant information (i.e. increase in disclosure overload). This is because, in their view, technology will allow preparers to provide, and users to sift through and consume, more information.

11. Conversely, a few ASAF members thought that advances in technology could lead to more information becoming material to users. This is because, in their view, the ability to effectively consume and understand high volumes of detailed information could make that detailed information become useful.

12. One ASAF member said that the Board should address the disclosure problem in a way that would work for both digitally sophisticated stakeholders and other stakeholders.

IFRS Taxonomy Consultative Group (ITCG)

13. Board members and staff discussed the effect of technology on financial reporting with the ITCG at its April 2018 face-to-face meeting. We asked ITCG members:

    (a) how they expect users of financial statements to consume financial information in the future (paragraphs 14-15);

    (b) whether traditional financial statements will continue to have a useful role as the use of technology and digital reporting increases (paragraphs 16-18);

    (c) how the IFRS Taxonomy and the use of structured data can contribute to improving the effectiveness of disclosures in the financial statements (paragraphs 19-20); and

    (d) whether the greater use of technology and digital reporting will change the nature of the disclosure problem. In particular, whether there are any specific disclosure issues in a digital reporting environment (paragraph 21).

Consumption of financial information

14. Many ITCG members said that they expect users of financial statements to increasingly use technology in consuming financial information. Examples provided included XBRL, Inline XBRL[1], artificial intelligence and block-chain technology. Members highlighted that a lot of users are already using some form of technology in analysing financial information today, for example through data aggregators.

15. ITCG members said that they expect increased use of technology in financial reporting because technology will:

    (a) increase the speed at which information can be analysed. These members said that those users who are consuming data in an electronic format today can process information faster;

    (b) allow users to process an unlimited amount of information, including both raw data and structured data;

    (c) enable the consumption of information in multiple ways, for example tools and software that will allow users to interact with information electronically while being able to download for use in traditional formats, including PDF; and

    (d) reduce information asymmetry by enabling a *wider range* of users to access and process similar amounts of financial information.

Continuing role of traditional financial statements

16. While most ITCG members acknowledged that there will be a move away from traditional financial statements, such as paper or PDF, they expressed mixed views about the extent to which such statements will continue to have a useful role in the long term.

[1] Inline XBRL (iXBRL) provides a mechanism for embedding XBRL tags in a single document. This allows the XBRL benefits of tagged data to be combined with a human-readable presentation of a report.

17. Some ITCG members said that because technology will provide better ways of accessing and analysing information, in their view, traditional financial statements will not remain useful in the long term. However, other ITCG members said that traditional financial statements will continue to remain useful to some groups of users even as the use of technology and digital reporting increases. This is because traditional financial statements meet the needs of those users today (see paragraph 24).

18. Consequently, some ITCG members said that the Board would need to consider two types of users when developing Standards; that is, users who consume information through traditional formats such as paper and PDF and digitally sophisticated users.

Impact on the IFRS Taxonomy

19. Many ITCG members said that the provision of structured data, for example electronically tagged financial information, supports the use of new technologies such as artificial intelligence and block chain.

20. Consequently, they suggested that, to improve the effectiveness of disclosures provided to users of financial statements, the Board should further encourage the use of the IFRS Taxonomy. Some of these members also noted that the IFRS Taxonomy provides context for financial information provided in an electronic format because it indicates whether a disclosed information is required by the IFRS Standards.

Issues specific to technology and digital reporting

21. Some ITCG members highlighted issues that would affect the extent to which the benefits of technology are maximised for financial reporting purposes. These comments specifically related to the use of structured data. The issues identified included:

    (a) whether it would be possible for auditors to provide assurance over information provided in electronic formats. Specifically, whether assurance could be given over whether the appropriate element(s) have been used to represent the tagged information. Members thought such assurance would make electronically reported information more reliable for users;

(b) the extent to which the information in an XBRL format should be tagged. For example, whether there should be detailed tagging of information provided in the notes to the financial statements. Members thought that more detailed tagging would make digital reporting more useful for users. Conversely, one member noted that detailed tagging can create complexities for taxonomies and users of the data; and

(c) the use of extensions, i.e. company-specific taxonomy elements. Members thought that excessive use of such extensions might be unhelpful because they might reduce comparability.

IFRS Foundation's Technology Initiative

22. Following feedback received from stakeholders, including responses to the Discussion Paper as summarised in paragraph 4, the IFRS Foundation is developing a broader strategy on the implications of advances in technology for financial reporting and standard-setting.

23. This initiative is still in the early stages of development. As a first step, the IFRS Foundation is recruiting an individual to lead the efforts of its Technology Initiative and performing research into the possible effects of new and emerging technologies on the delivery and consumption of financial information. Based on the information gathered during the first step, a digital strategy will then be developed. We will share all the feedback received and research undertaken on this topic within the Disclosure Initiative with the Technology Initiative lead, once appointed.

Considerations for the Board's Disclosure Initiative Projects

Overarching staff analysis

Role of traditional financial statements

24. A report[2] by the Financial Reporting Lab of UK Financial Reporting Council (FRC) in May 2017, said that:

> '… In the report [UK FRC's 2015 report on *Digital Present*], the Lab considered the optimal way for companies to use digital media to communicate with investors and sought to understand which mediums investors found the most useful and why. The report showed that, while many of the mediums used for reporting under-delivered, PDF encapsulated a series of beneficial features and attributes. **The report concluded that if new mediums and technologies are to be successful, they should focus on providing benefits that match or exceed those that investors currently receive**.'

25. The staff agree with those respondents to the Discussion Paper who say that technology is providing new ways for companies to interact and communicate with users of financial statements. However, the staff think that advances in technology are unlikely to eliminate the need to access information contained in financial statements through traditional sources such as paper or PDF, at least in the near term; rather, we think that it will *expand* the range of possible mediums through which financial information can be produced and consumed. In other words, it is possible that traditional financial statements, such as paper or PDF may no longer continue to be the *predominant* means of providing and analysing financial information.

26. Consequently, the staff agree with ITCG members who said that the Board would need to consider the needs of two broad types of users—traditional users who prefer to access financial information through paper/PDF and digitally sophisticated users who leverage the benefits of new and emerging technologies. Some users might use a combination of traditional and digital mediums in

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[2] UK Financial Reporting Council, (2017), *Digital Future: A framework for future digital reporting*, Retrieved from https://www.frc.org.uk/getattachment/fd3054ee-b0f3-4968-8b20-d5bb262c4c54/Digital-Future_final.pdf

analysing financial information. For example, some users are consuming financial statements and other information via electronically tagged documents. Those users are able to get the benefits of traditional financial information from reading the document (for example, by providing a clear and defined set of audited financial information), and the benefits of digital reporting (for example, by making use of the tagged information).

Content versus delivery

27. The staff thinks that both views expressed by ASAF members in paragraphs 10-11 have merit. However, we think that users are primarily concerned with useful content amongst all the information that is available. We think it is too early to judge the full effect of users' potential ability to consume a greater level of information at this time. Consequently, we think the Board should focus on content rather than delivery in the Disclosure Initiative projects at this time. The broader considerations of its effect should be considered as part of the IFRS Foundation's Technology Initiative.

28. Furthermore, a report[3] by the Federation of European Accountants on the future of corporate reporting in October 2015, said that 'the use of technology allows messages to be communicated faster and be delivered to a wider audience. But to use new communication channels effectively, *a company needs to produce information that is relevant to stakeholders*'.

29. Consequently, the staff thinks that from a disclosure perspective, it is appropriate that the focus should still be in ensuring that the disclosure requirements in IFRS Standards provide information that is useful to users of financial statements. We think that most elements of the Disclosure Initiative are primarily related to the *content* of information rather than the process by which that information is delivered and consumed.

[3] Federation of European Accountants, (2015), *Cognito Series: The Future of Corporate Reporting—creating the dynamics for change*, Retrieved from https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-_TheFutureofCorporateReporting.pdf

Board next steps

30. Based on the feedback received, we think that consideration of the effects of new technologies is still at a relatively early stage, both within the IFRS Foundation and the financial reporting ecosystem at large. Consequently, the staff think that, at this time, the Board should respond to feedback about advances in technology within the context of the Disclosure Initiative projects by taking steps to ensure that disclosure requirements are developed in a 'technology neutral' way. That is, the disclosures in IFRS Standards should be capable of being applied in a traditional paper-based format and a digital reporting format.

31. The staff thinks this can be achieved in two main ways:

    (a) by leveraging the knowledge and expertise of the IFRS Taxonomy team when developing the content of disclosure objectives and requirements (see paragraph 33 and ***June 2018 Agenda Paper 11C***); and

    (b) by avoiding the use of prescriptive language if the Board makes any reference to formatting in the disclosure section of a Standard (see paragraph 34 and ***Agenda Paper 11C*** for this meeting).

32. Furthermore, the staff thinks that other considerations, such as those described in paragraphs 10-11 and 21, should be considered more holistically as part of the IFRS Foundation's Technology Initiative. This is because we think that discussions on these issues should be broader than financial statement disclosures.

Targeted Standards-level Review of Disclosures

33. At its June 2018 meeting, the Board tentatively decided that, when developing disclosure objectives and requirements in future, a member of the IFRS Taxonomy team will be assigned in an advisory capacity to each of the Board's active projects. This tentative decision leverages the expertise of the IFRS Taxonomy team to provide insights into whether disclosure proposals can be effectively implemented in both paper-based and digital reporting environments (i.e. whether disclosure proposals are 'technology neutral') (see ***June 2018 Agenda Paper 11C***).

34. Furthermore, in ***Agenda Paper 11C*** for this meeting, we have recommended that the Board avoids using prescriptive language if and when it makes any reference to formatting considerations within disclosure sections of Standards. This is because we think that any prescriptive language used in respect of formatting considerations may not work well in a digital reporting environment in future—that is, prescriptive language about formatting might fail to be 'technology neutral' in some circumstances.

35. These tentative decisions will form part of the draft Guidance for the Board and will be tested as part of the Board's targeted review of disclosure requirements on one or two Standards(s).

Principles of Disclosure

36. In considering what, if any response the Board could take to address the feedback about technology and digital reporting within the Principles of Disclosure project, the staff considered the remaining specific topics within the project individually. In light of decisions made in the March 2018 Board Meeting—most notably that elements of the Discussion Paper would be addressed in the Targeted Standards-level Review of Disclosures project—the remaining topics within Principles of Disclosure are:

    (a) which accounting policies to disclose (paragraphs 37-39); and

    (b) location of information (paragraphs 40-45).

Which accounting policies to disclose

37. One of the issues with accounting policy disclosures relates to the inclusion of boilerplate, and irrelevant information in the financial statements. The staff observes that if users become able to effectively process an unlimited amount of information and easily identify the information they want, the inclusion of irrelevant information might cease to be a problem.

38. However, as described in ***Agenda Paper 11E*** for this meeting, both users and other stakeholders would welcome guidance from the Board that encourages entities to focus on relevance, usefulness and materiality when deciding which

accounting policies to disclose. In other words, these stakeholders want to see the content of accounting policy disclosures improve.

39. Considering the analysis in paragraphs 27-29, the staff thinks that the Board's considerations about the *content* of accounting policy disclosures should not be affected by advances in technology at this time. We think that feedback received from users support this view. Consequently, we do not think that technology and digital reporting should have an impact on deciding whether to develop guidance to assist entities in determining which accounting policies to disclose.

Location of information

40. In this topic, the Board is considering whether to develop any requirements relating to entities providing:

(a) information that is necessary to comply with IFRS Standards ('IFRS information') outside the financial statements; and

(b) information that is not necessary to comply with IFRS Standards ('non-IFRS information') inside the financial statements.

41. In the Discussion Paper, the Board noted that technology might create further ways in which to present and disclose information in financial statements. For example, content bars and text-search functions within an online electronic report might help users find information quickly.

42. Furthermore, many respondents said that advancements in technology might ultimately make any guidance or requirements developed by the Board about where to locate information obsolete (see ***February 2018 Agenda Paper 11D*** and ***Agenda Paper 11F*** for this meeting). This is because, in their view, the boundary between financial statements and other forms of financial reporting could become increasingly blurred as technology advances.

43. While the staff thinks that the observations made by those respondents in paragraph 42 are fair, we think that there needs to be a broader consideration about the impact of technology on financial reporting, in particular, the effects it might have on distinguishing between information inside and outside the financial statements. The staff thinks that this consideration would be more appropriately

covered as part of the IFRS Foundation's Technology Initiative. This is because we think such discussions should be broader than financial statement disclosures.

44. In light of the above, we think that a risk exists that developing any guidance on location of information at this time to address the perceived issue in a digital reporting environment might:

(a) not be sufficiently flexible to be implemented in such environments; or

(b) become obsolete in the future.

45. The analysis described above is one of the factors that contributes to the staff recommendation in ***Agenda Paper 11F*** for this meeting, that the Board should not develop guidance or requirements about the location of information at this time. Instead, we think that a more in-depth discussion on this topic should be considered as part of the IFRS Foundation's Technology Initiative.

Overall summary and questions for the Board

46. In summary, we think that the most effective way the Board can incorporate considerations about technology and digital reporting into the Disclosure Initiative is by developing relevant considerations in the Guidance for the Board. This approach is responsive to feedback received from ITCG members. Furthermore, we think that the Board's decisions in June 2018 about its process for developing disclosure objectives and requirements, and the staff recommendations in ***Agenda Paper 11C*** for this meeting, are effective because they:

(a) are responsive to concerns about how technology affects the project—by helping to ensure that, in future, the Board develops disclosure requirements that are 'technology neutral';

(b) are not so prescriptive or tightly defined that the Board could face problems in future because of changes in what is a rapidly developing area. For example, if the Board were to make specific assumptions about what the future of digital reporting would look like, it may take standard-setting actions that would become obsolete in future; and

(c) are part of an iterative process that the Board plans to continually update and improve as time goes on. We think this is essential given the fast-moving nature of digital reporting.

47. Furthermore, we think that the Board should not take any further action to consider the effect of technology and digital reporting in determining whether to provide guidance on accounting policy disclosures and location of information, within the Principles of Disclosure project. The staff will provide a detailed summary of all feedback received through the Principles of Disclosure project to the IFRS Foundation's Technology Initiative, which will further consider the broader implications of technology on financial reporting and standard-setting.

Questions for the Board

Question 1

Does the Board agree with the staff recommendation that the Board:

(a) responds to feedback received about technology and digital reporting in the context of the Disclosure Initiative by including relevant considerations in the Guidance for the Board to use when developing and drafting disclosure objectives and requirements; and

(b) does not take any further action to consider the effect of technology and digital reporting in determining whether to provide guidance on accounting policy disclosures and location of information, within the Principles of Disclosure project?

Question 2

Does the Board agree with the staff recommendation to consider those issues relating to the broader implications of technology on financial reporting as part of the IFRS Foundation's Technology Initiative (see paragraphs 32 and 43)?