

FRANKFURT 15 – 17 October 2013

**Agenda
paper** **3F**

TOPIC *XBRL*

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Introduction

1. The purpose of this paper is to update the DPOC on developments in electronic reporting, with a particular focus on the IFRS Taxonomy and XBRL.
2. The paper covers three issues:
 - (a) An update on the proposed Taxonomy update currently out for comment, including recent US SEC activity;
 - (b) A review of the XBRL due process; and
 - (c) Replacement of the XBRL Advisory Council (XAC) and XBRL Quality Review Team (XQRT).

Proposed IFRS Taxonomy update

3. On 17 September I provided you via email with an update of developments related to the IFRS Taxonomy (ie XBRL).
4. During September we released a proposed update to the IFRS Taxonomy. The changes included:
 - (a) The addition of ‘definitions’ or descriptions of the taxonomy elements. This is an optional link-base, in that it is not part of the core taxonomy.
 - (b) Moving Management Commentary and IFRS for SME elements into separate modules. This change would allow a jurisdiction to simply adopt the IFRS requirements without needing to ‘block out’ the management

commentary or IFRS for SME elements—which effectively modifies the Taxonomy.

- (c) Minor changes to the taxonomy architecture and some element attributes.
- (d) Updated, new, elements for changes to IFRS since the 2013 Taxonomy was released.

5. We have been issuing interim releases for several years. However, as you will recall from our discussion in July, my proposal is that the interim release be the main focus for public consultative, rather than the year-end ‘compilation’. Accordingly, the interim release included the following statement:

“The IASB and the Trustees’ Due Process Oversight Committee are reviewing the due process requirements for XBRL. One of the changes being considered is to make each proposed interim release the primary document for public consultation. This would replace the end of year consultation on the compiled IFRS Taxonomy. We strongly encourage you to provide us with comments on these proposed IFRS Taxonomy 2013 updates by 11 November 2013 to help us assess how effective this staggered review process is likely to be”.

6. We will collate and assess the comments we receive from comment letters related to a revised due process. In addition, due process will be discussed by the XAC and XQRT later this month. The XBRL community is well known to us, so we also plan to seek feedback directly on revised due process proposals.

US SEC

7. On 24 September the SEC staff made a public statement about the IFRS Taxonomy. The statement referred to our Taxonomy update and encouraged filers, investors, analysts, software service providers and other interested parties to participate in this public review to assist the IFRS Foundation in continuing to develop the IFRS Taxonomy. I am confident that this is a positive step by the SEC towards use of the IFRS Taxonomy.

IFRS Taxonomy Due Process Requirements

8. XBRL activities, including the role of its existing advisory bodies, are described in a specific Due Process Handbook.¹ When the IASB and IFRS Interpretations Committee due process requirements were revised the staff and DPOC decided not to revise the XBRL due process because a more fundamental strategic review was being undertaken of XBRL. However, at the time I indicated that we should revise the XBRL processes to more closely align them with how we develop Standards.
9. The current requirements seek to ensure that the IFRS Taxonomy:
 - (a) is consistent with the IFRSs and reflects them in a timely fashion;
 - (b) uses a XBRL-based taxonomy technical architecture and data model that is in accordance with current best market practices; and
 - (c) meets the business requirements of its users and stakeholders and is easily enforceable by regulators.
10. We do not propose changing these objectives. It is how we meet the objectives that we are proposing changing, in two ways:
 - (a) Timing of the public consultations; and
 - (b) Involvement of the IASB.

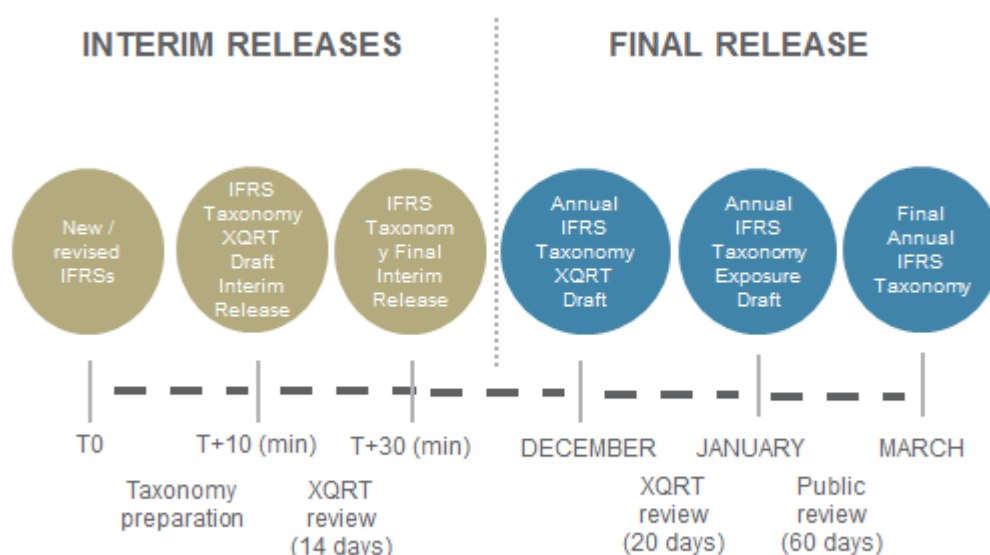
Timing of public consultation

Overview of existing Due Process for XBRL Activities

11. The existing due process is based on an annual public review and release of the IFRS Taxonomy. The IASB staff prepare a draft annual taxonomy which is reviewed by the XQRT before exposing it for public consultation. The XQRT has 20 days to review the draft taxonomy, while the public consultation of the exposure draft lasts for 60 days. The final annual taxonomy is normally released at the end of March, and includes Standards effective at 1 January of that year.

¹ The Due Process Handbook for XBRL activities can be found at <http://www.ifrs.org/The-organisation/About-XBRL/XBRL-due-process/Pages/XBRL-due-process.aspx>.

12. We also issue interim taxonomy releases to reflect final IFRSs issued by the IASB during the year, but these are optional. Interim taxonomy releases can also be issued for other content changes to the IFRS Taxonomy, but no specific reference is made in the XBRL Due Process Handbook as to the process to be followed. The only occasion on which this has been done in practice was for the 2011 Common Practice Project, at which time it was also decided to expose this taxonomy interim release for public consultation.
13. It is important that, where possible, the architecture of interim taxonomy releases should remain stable. So far technical changes have been reflected only in the annual taxonomy.
14. The diagram below summarises and illustrates the current process.



The problems we are fixing

15. There are several problems the proposed changes to due process are designed to address:
 - (a) The publication of an annual IFRS Taxonomy is not aligned with how the IASB develops Standards and Interpretations. The taxonomy therefore lags standard setting, sometimes by almost a year. The result is that information disclosed in IFRS financial statements might not have elements available

for electronic filing. If a regulator used the end of year taxonomy as its ‘required’ taxonomy for 2014 it would not include the revenue recognition tags for the new Standard that we know some entities will adopt early. And worse, the IASB would not release an approved taxonomy with these tags until early 2015, about a year after the Standard is issued.

- (b) The current taxonomy review process asks respondents to comment on the whole compilation. This would be like the IASB seeking comments on the Bound Volume compilations every year. What we are interested in is updates, or changes, to the taxonomy.
- (c) The taxonomy elements for a new Standard are only developed after a Standard is finalised. If electronic filing is important, the structured data requirements should be thought about when the disclosure requirements are developed.

16. I think these matters are fundamental to the purpose, and success, of the IFRS Taxonomy.

Proposal

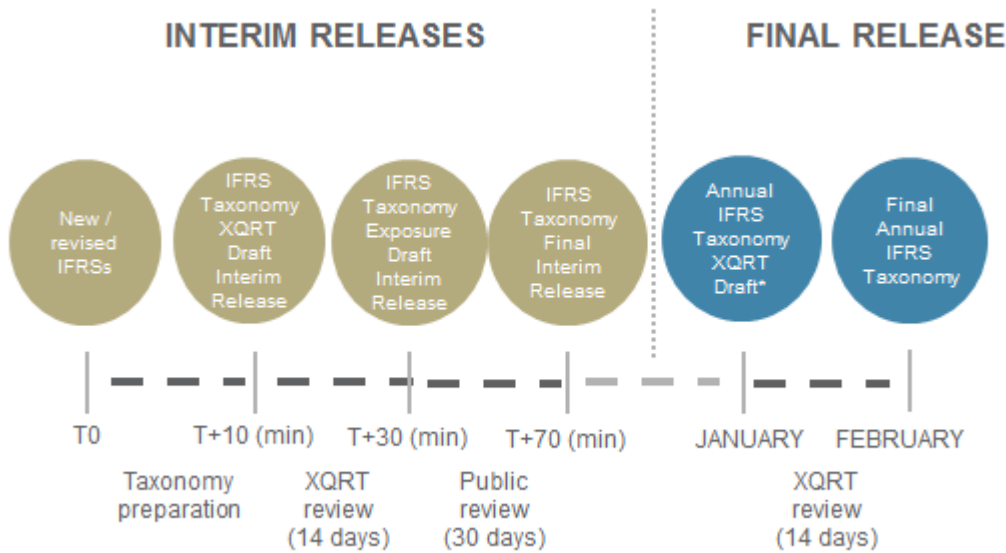
17. A preliminary debate on how to existing due process may have to change to address the above requirement took place at the October 2012 XAC and XQRT face to face meeting. The proposal outlined here reflects and is largely in line with the consensus reached at that meeting. The proposal is as follows:

- (a) interim taxonomies will be issued for all taxonomy changes including, but not limited, to architectural changes, new or amended IFRSs issued and changes to reflect common practice;
- (b) the Taxonomy would be available for use as close to the availability of the Standards that it captures; and
- (c) all interim releases (ie updates) would be exposed for public comment.

18. Under this new process, the annual taxonomy will effectively become a physical yearly compilation of all preceding interim releases similar to the compilation of the IASB Bound Volume. As such, no public review is required. A review by ITARC

(see below) is still considered necessary as a safety check that the taxonomy has been bundled correctly.

19. The diagram below summarises and illustrates the proposed new process.



Benefits

20. The IASB XBRL Team sees as main benefits the following:
- (a) meeting the immediate need of some users of the IFRS Taxonomy for a more timely publication facilitating consistent implementation and early application of IFRSs;
 - (b) acting as a first but important step towards integrating the IASB’s standard-setting and XBRL due process—this is discussed further below;
 - (c) bringing clarity to the XBRL Due Process for interim taxonomy releases;
 - (d) giving flexibility to users, enabling easier adoption and enforceability of the IFRS Taxonomy;
 - (e) potentially allowing the annual IFRS Taxonomy to be released earlier; and
 - (f) enabling a more targeted public comment process.
21. The outcome should be that:

- (a) regulators will have the option to continue applying the annual taxonomy or alternatively could pick a full version of the taxonomy as applicable at a particular moment in time;
- (b) regulators will be able to more easily build their version of the taxonomy on the basis of their own regulator's specific stance on the adoption or endorsement of IFRSs; and
- (c) users will be able to review taxonomy changes that are specific to only a particular amendment.

22. The proposal enables a more targeted public comment process. The public consultation on the Annual Taxonomy currently includes all yearly changes. The proposal would break down amendments into more manageable releases classified by taxonomy change types and would closer align the public consultation period with the issue dates of final IFRSs. We expect that as a result of these changes, some users might find it easier to comment and the IFRS XBRL Team should be able to better target its primary audience for each release. This might result in a higher number of comments, and in them being more focused. We are receiving fewer than 200 comments in any given year on the full Taxonomy, compared to many thousands on each exposure draft of an IFRS. It is possible that the size of the Taxonomy is a barrier.

2014

- 23. In normal circumstances we would change the due process requirements and apply them to future taxonomy releases. However, in July I asked the DPOC to consider a request to apply a modified due process for the preparation of the annual IFRS Taxonomy 2014. In simple terms, my proposal is to apply the proposed due process procedures now, by exposing updates to the 2013 taxonomy. This would allow regulators, including the SEC, to use an up-to-date IFRS Taxonomy at the beginning of 2014 rather than a taxonomy that is out of step with our Standards.
- 24. During its meeting in July 2013, the DPOC gave its approval in principle to the proposal. However, the support is qualified pending a more detailed plan.

25. We intend to collate views from the XAC, XQRT, comments on due process coming from the proposed update to the IFRS taxonomy and targeted outreach. These consultations will provide you with information to assess whether we can depart from the documented due process for the 2014 IFRS Taxonomy and then move to a modified due process for future releases.
26. We expect to be able to provide this assessment in December this year.

Involvement of the IASB

27. One of the longer term goals is to have the IASB (ie the Board) more closely involved with the development and approval of the Taxonomy. I envisage a process whereby we identify and present the taxonomy elements as a plain English appendix to each exposure draft of an IFRS. I think this is important in protecting the integrity of the IFRS Taxonomy.
28. However, I want to stress that we are some way off this step. The Board has yet to be involved in the development of a taxonomy. We will need to undertake education work with the Board and establish what decisions they should be involved with. Importantly, the Board will need to make its own assessment of what aspects of the IFRS Taxonomy it thinks it should approve. Any revised due process steps should anticipate Board involvement but should not impose requirements on the Board that it is not yet ready to undertake.

XAC and XQRT

29. When the development of the IFRS Taxonomy was moved back to the IFRS Foundation in 2007, it was clearly stated that the taxonomy development due process had to be as close as possible to the IFRS standard-setting process.²
30. At the time, the IFRS (then IASC) Foundation established two XBRL-related advisory bodies: the XBRL Advisory Council (XAC) and the XBRL Quality Review Team (XQRT).

² Until then, the IFRS Taxonomy was developed in a collaborative way with contribution from individuals from all over the world, raising issues of intellectual property, quality and consistency with IFRS, architecture, etc.

31. The primary objective of the XAC is to provide general strategic advice regarding the development of the IFRS Taxonomy and the XBRL activities of the IFRS Foundation.³ The XQRT provides an independent taxonomy quality review and gives expert advice on XBRL and taxonomy-related matters.⁴ Since many members were appointed at the inception of both bodies in 2008, the terms of most members will expire at the end of 2013.⁵
32. The February 2012 Trustees' Strategy Review recommended that the XBRL activities should no longer be a separate IFRS Foundation activity but should be integrated into the IASB standard-setting function. This organisational change took place in early 2012 and prompted a review of the strategic direction of the IASB XBRL activities. The resulting Strategy Paper was approved by the Trustees in January 2013.
33. The main recommendation of the Strategy Paper is to further integrate IASB XBRL and standard-setting activities. This applies to all functions and processes—due process, education and communication, translations, outreach activities and adoption. The main benefits expected from closer integration are:
- (a) internal and external recognition of the importance of technology for effective and efficient dissemination of IFRS disclosures;
 - (b) impact of taxonomy data modelling is fully considered and at the earliest possible stage within standard setting; and
 - (c) improved taxonomy review process through coordination and integration of outreach activities.

³ The terms of reference and procedures of the XAC were approved by the IFRS Foundation Trustees on 29 January 2008 and revised on 7 October 2009. The XAC charter can be found at <http://www.ifrs.org/The-organisation/About-XBRL/About-XAC/Pages/About-XAC.aspx>

⁴ The terms of reference and procedures of the XQRT were approved by the IFRS Foundation Trustees on 7 October 2009. The XQRT charter can be found at <http://www.ifrs.org/The-organisation/About-XBRL/About-XQRT/Pages/About-XQRT.aspx>

⁵ When the US national standard-setter, the Financial Accounting Standards Board (FASB), took over the maintenance of the US GAAP Taxonomy (UGT), it—in a similar way to the IASB XBRL team—set up the Taxonomy Advisory Group (TAG) to provide advice to the FASB XBRL team.

Review of the XAC

34. The XAC undertook a self-assessment when it met in March 2013. The role of the XBRL advisory bodies was also discussed at the June 2013 IFRS Advisory Council meeting. The main consensus that emerged from the XAC and the IFRS Advisory Council was that we should wind down the XAC and XQRT and replace them with a new consultative group. This consensus emerged not because the XAC and XQRT are failing, but because we have reached the point where integration of electronic reporting protocols and the development of IFRS requirements can be considered together. These groups have achieved their original purpose and a new body should be established to reflect revised goals for the IFRS Taxonomy.
35. Other feedback from the IFRS Advisory Council and XAC was:
- (a) the membership composition of the IFRS Advisory Council should be reviewed to ensure that there is appropriate digital reporting-related experience; and
 - (b) XBRL-related matters that are of a strategic financial reporting nature are within the scope of activities of the IFRS Advisory Council.
36. The Taxonomy team has been considering this advice and is proposing that we establish a new consultative group, tentatively called the IFRS Taxonomy Advisory and Review Committee (ITARC). This proposal has been distributed to the current members of the XAC and XQRT and the Chair and the two Vice-Chairs of the IFRS Advisory Council. The comments received from them have been incorporated in the paper.

ITARC

37. If the ITARC was formed, some of the general strategic advisory role of the XAC would be moved to the IFRS Advisory Council, including but not limited to the impact that technology may have on financial reporting and standard-setting.
38. The ITARC would provide technical advice and specific strategic implementation advice-related to the taxonomy. This would include advice on XBRL architecture and/or taxonomy development and supporting materials including education.

Consistent with this, the XBRL team has proposed that the three primary objectives of the ITARC are:

- (a) to review in depth the IFRS Taxonomy and supporting materials prior to public consultation, ensuring its meets expected market standards or best practices from both a data content and technology perspective;
- (b) to provide technical and strategic implementation advice on matters related to the IFRS Taxonomy and IASB XBRL related activities ; and
- (c) to assist the IASB XBRL team in providing a recommendation to the IASB to approve the IFRS Taxonomy.

39. The ITARC will provide detailed technical expert advice. The role of the IFRS Advisory Council is to provide strategic oversight and steering guidance especially in those areas where XBRL and financial reporting may interact.
40. As it the case now, strategic plans to promote consistent adoption and implementation of the IFRS Taxonomy fall within the scope of the activities of the IFRS Foundation. Regular detailed updates will be provided to ITARC on the taxonomy adoption status and where present challenges faced by regulators. ITARC will provide advice to the IASB XBRL team as regards the optimal taxonomy architecture and appropriate documentation to facilitate and support market adoption and consistent implementation.

Composition & Membership

41. We think a group of around 20–24 members would give us a pool of people with sufficient depth and breadth to meet the specific technical needs of the IASB. We would invite nominations and follow the normal appointment process for consultative groups. As with any consultative group, we would appoint observers from appropriate bodies.
42. The XBRL team is also proposing that the Chair of the ITARC becomes a member of the IFRS Advisory Council. Most consultative groups are chaired by an IASB member. The exceptions are the IFRS Advisory Council, which is a constitutionally

established group, and the Capital Markets Advisory Committee and Global Preparers Forum. I do not have a strong view on this matter.

Summary

43. In January 2014, at the face to face meeting of the DPOC, we plan to bring a formal proposal to establish new procedures for the development of the IFRS Taxonomy. This will include a leave a void for a few months while we transition from the current processes, assuming the DPOC supports the proposals, because the terms of almost all XAC and XQRT members will expire on 31 December.
44. This is, in my view, an acceptable risk. If our consultations are thorough, we will be able to provide you with sufficient evidence to be able to suspend the current due process requirements and approve the 2014 IFRS Taxonomy with the full confidence of the IFRS community. If not, we have the option of undertaking a full public consultation using the old procedures. We would seek a temporary extension of the terms of XQRT members to allow them to provide the review of the taxonomy, which could involve extending some members beyond the six year maximum set out in the XQRT Charter.
45. The question for the DPOC is whether any members have concerns about the approach or have comments that we can pass to the XAC or XQRT.