

AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

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AUTHORS ALAN TEIXEIRA/RITA OGUN-CLIJMANS/KRISTY ROBINSON

PRESENTER ALAN TEIXEIRA

IFRS Taxonomy Due Process: update

Introduction

1. The purpose of this paper is to update you on the progress we have made on the IFRS Taxonomy due process since the last Due Process Oversight Committee (DPOC) meeting in April and to present our recommendations for approval by the DPOC.

Background

2. The integration of the taxonomy-related activities within the standard-setting function of the IFRS Foundation triggered a review of the IFRS Taxonomy due process. This project started in mid-2013 and we have provided you with regular updates since then.
3. In January 2014, you approved the first phase of the project, namely the creation of the IFRS Taxonomy Consultative Group (ITCG) and a change to the timing of the public consultation, which made taxonomy interim releases the publications on which public feedback is sought (refer to paper AP 3D of that meeting).
4. The staff completed the final step of the review in March 2014, proposing that:
 - (a) the IASB should approve the content of the IFRS Taxonomy. A new due process document, *The [Proposed] IFRS Taxonomy Update*, would serve as a basis to obtain that approval.
 - (b) the IFRS Taxonomy and standard-setting due process should be more closely aligned. The *[Proposed] IFRS Taxonomy Updates* reflecting content changes for new or amended IFRSs would be given the status of accompanying materials to IFRSs. They would be published at the same time as the Exposure Drafts and final Standards.
5. Subsequently, at the April 2014 Trustees meeting, we presented to the DPOC our detailed proposals ('the Proposals') for the revised IFRS Taxonomy due process

(refer to paper AP3E(i) of that meeting). At that meeting, the DPOC agreed to proceed with the next steps. The tasks for the staff were:

- (a) to inform the IASB, the IFRS Advisory Council and the ITCG of the Proposals and to seek their views;
- (b) to organise education sessions for the IASB so that it has the required knowledge to approve the content of the IFRS Taxonomy; and
- (c) to prepare a draft Invitation to Comment and a final proposed version of the IFRS Taxonomy due process for approval by the DPOC at its July meeting, with the aim of publishing them for public comment soon afterwards.

Feedback received on the Proposals

IASB

6. The staff informed the IASB of the proposed new IFRS Taxonomy due process, including the role it will play in approving the content of the IFRS Taxonomy, at an administrative session in April, following the Trustees meeting. This was followed up with two closed IASB educational sessions, in May and June. Topics presented related to the objectives and adoption of the IFRS Taxonomy as well as its content features.
7. In the June educational session, the new IFRS Taxonomy due process was discussed in more depth. Members of the IASB generally supported the proposal that the IASB should play a role in the review and approval of the content of the IFRS Taxonomy.
8. However, some members of the IASB had questions about aspects of the practical implementation of the proposed new steps. These questions and concerns mainly related to:
 - (a) the publication of *[Proposed] IFRS Taxonomy Updates* for Exposure Drafts;
 - (b) the timing of the publication of the *[Proposed] IFRS Taxonomy Updates*; and
 - (c) the approval by the IASB of IFRS Taxonomy common practice elements.¹
9. These matters are discussed next.

¹ Common practice IFRS Taxonomy elements are disclosures that entities provide when applying IFRS. They are usually identified by staff following empirical research on existing IFRS financial statements. They can be compared to additional Illustrative Examples.

Proposed Taxonomy Updates at the Exposure Draft stage

10. The Proposals recommended that the [*Proposed*] *IFRS Taxonomy Updates* should be issued at the time an Exposure Draft is published and that public consultation should be run concurrently. The staff explained that this approach has the potential benefit of being able to consider taxonomy-related comments when drafting the final Standards.
11. Some members of the IASB have reservations about this, while others support this move. Some members of the IASB believe that this step will require a significant increase in resources. They also think that changes between Exposure Drafts and final Standards will cause duplication for the Taxonomy team. Some IASB members were also unsure of the potential benefits, considering the limited number of comments we currently receive on the IFRS Taxonomy, even though we emphasised that this was one of the reasons for proposing the new timing. The idea is try to get more comments on the IFRS Taxonomy.

Publication timing

12. The Proposals recommended that the [*Proposed*] *IFRS Taxonomy Updates* should be approved by the IASB and published at the same time as an Exposure Draft and the resulting final Standard are issued and approved by the IASB.
13. Some members of the IASB thought this would delay the publication of Standards, because it adds another step to an already complex process and requires resources from the IASB at an already busy and constrained time. Those members also thought that it might overburden the consultation process.
14. These members thought that it might be better if the approval and consultation on the IFRS Taxonomy were in the form of a separate process following the publication of Standards. The staff acknowledged these risks but stated that they had confidence in the suggested approach, anticipating the following benefits:
 - (a) it involves one single integrated process instead of the IASB having to vote separately on the [*Proposed*] *IFRS Taxonomy Updates* and on an update to new or amended Standards; and
 - (b) seeing the IFRS Taxonomy may facilitate the IASB and other constituents in their review of the IFRS presentation and disclosure requirements.

Other members of the IASB supported the staff view.

Common Practice elements

15. Some IASB members asked whether the IASB should be involved with the review of common practice additions and, if so, what supporting materials will be made available so that the IASB is in a position to approve the proposed changes to the IFRS Taxonomy. The staff explained that a Staff Paper would normally

accompany the *[Proposed] IFRS Taxonomy Updates*, which would outline the methodology followed and the specific questions on which feedback is sought.

16. The staff informed the IASB of the external pressures that may exist. The IFRS Taxonomy is now a mature product. In the last 12 months, there has been an increased number of regulators who are evaluating the potential implementation of an electronic filing system for IFRS financial statements and are looking at the IFRS Taxonomy as the standard choice for marking up the electronic filings. Approval by the IASB would provide those regulators with the required assurance that the IFRS Taxonomy is a correct and optimal presentation of IFRS.

Summary

17. The IASB held the view that running a trial prior to formalising the IFRS Taxonomy due process and issuing the Invitation to Comment would allow for a better evaluation of the potential risks, resource requirements and benefits of the Proposals.

IFRS Taxonomy Consultative Group (ITCG)

18. The ITCG held its inaugural meeting on 29 May 2014. Members of the ITCG expressed broad support for the proposed IFRS Taxonomy due process. Overall, they considered the Proposals to be functional and comprehensive. Embedding the IFRS Taxonomy due process within the standard-setting process was seen as a significant positive step forward.
19. The two main areas on which members of the ITCG raised concerns or asked for clarification were as follows:
 - (a) concern that the optional publication of the IFRS Taxonomy in the XBRL technical format for proposed content changes to the IFRS Taxonomy may not be conducive to receiving feedback from stakeholders using XBRL tools to view the content of the IFRS Taxonomy; and
 - (b) a potential risk that the IFRS Taxonomy team does not have enough resources to support this new process.
20. With regard to the technical format (refer to paragraph 19(a)), the staff concurred that such a risk may indeed exist and agreed that this should be an area on which specific public feedback is sought. The ITCG also recommended that staff should include a specific question in the Invitation to Comment on the proposal to make publication of the IFRS Taxonomy in XBRL format an optional step for proposed amendments to the content of the IFRS Taxonomy. The staff agreed with this recommendation.
21. With regard to resources (refer to paragraph 19(b)), the staff acknowledged the risk but generally believe that risk to be low and also consider that the potential

benefits may outweigh the risk. This view was shared by the FASB Taxonomy team.

Consultative activities with the IFRS Advisory Council

22. Members of the IFRS Advisory Council were informed of the proposed changes to the IFRS Taxonomy due process at their June meeting. No concerns were raised at this stage. A more detailed discussion is planned for the October meeting.

Evaluation by staff and next steps

23. Although we think there is general support for the proposed changes to the due process for developing the IFRS Taxonomy, some IASB members have expressed concerns about some aspects of the changes. Those members are concerned that the new steps will delay and complicate publications of Exposure Drafts and final Standards.
24. The matters raised by IASB members were considered by the staff and the advisory bodies as we developed the Proposals. The staff remain confident that the Proposals will not cause delays or complicate the due process for Exposure Drafts and final Standards. This is based on our experience with developing Taxonomy updates using the new process, but without IASB involvement. We have been doing dry runs of the process to test its robustness. IASB members have not had the benefit of this experience.
25. We understand the concerns of those IASB members and we think it is critical that they feel comfortable with the proposed new process and do not have a process imposed on them about which they have some concerns. We are therefore recommending that we delay the public consultation on the proposed new process to give us the opportunity to work with the IASB on trial runs of an update related to a new Standard and an update for common practice. Running these trials should provide the IASB members with more robust information on which to base their assessment. It will also provide us with examples that we can use to demonstrate the process to outside parties when the final proposals are released for public comment.
26. The staff are currently evaluating how best to organise the trial and whether additional actions should be taken in parallel. The initial thinking of the staff is:
 - (a) to undertake two separate trials over the second half of 2014, focusing on the specific areas of concerns raised by the IASB;
 - (b) to continue their efforts to educate the IASB and technical staff on the content of the IFRS Taxonomy;

- (c) to maintain and possibly accelerate their efforts to demonstrate the benefits that can be achieved when considering the IFRS Taxonomy while drafting Standards; and
- (d) to undertake dedicated outreach activities with primary stakeholders of the IFRS Taxonomy, informing them of the latest developments but also seeking any comments they may have at that stage.

Trials

27. The initial view of the staff is that they should run two concurrent trials focusing respectively on common practice and taxonomy content changes reflecting new or amended Standards:

| | When | Aim of this activity |
|--|----------------------------|--|
| <p><i>Trial 1—new or amended Standards</i></p> <p>Trial review by the IASB of the <i>[Proposed] IFRS Taxonomy Updates</i> for the planned Exposure Draft relating to the reconciliation of liabilities from financing activities.²</p> | <p>July–December 2014</p> | <p>(a) to allow the IASB to evaluate the resources required; and</p> <p>(b) to evaluate the benefits of publishing <i>Proposed IFRS Taxonomy Updates</i> at the time an Exposure Draft is released.</p> |
| <p><i>Trial 2—common practice</i></p> <p>Trial review by the IASB of the <i>[Proposed] IFRS Taxonomy Updates</i> for planned 2014 common practice additions.</p> | <p>August–October 2014</p> | <p>(a) to allow the IASB to evaluate its role and resources required; and</p> <p>(b) to allow the IASB to understand and evaluate the supporting materials provided by staff for the IASB to be in a position to approve common practice taxonomy additions.</p> |

Timing of the publication of the *Invitation to Comment*

28. On the basis of the timeline outlined, the trial will not be completed until the end of December 2014. We plan to bring a proposal for review and approval by the DPOC as soon as it is practicable to do so. The timing will depend on what we learn from the trial and outreach. The staff will update the DPOC of progress made at its meetings in the intervening period.

² This Exposure Draft is still subject to approval by the IASB. It is targeted for publication in September 2014.

29. The running of the trial does not affect the amendments to the IFRS Taxonomy due process that were approved by the DPOC in January 2014. These have been successfully implemented and will remain in place during the running of the trial.
30. The staff have prepared a draft Invitation to Comment on the Proposals. However, we will revise this in the light of what we learn from the trials and additional outreach.

Summary of recommendations for your approval

The staff recommend that a further assessment of the risks and benefits of the Proposals is undertaken prior to formalising them and publishing an Invitation to Comment, including a trial with the IASB.