

STAFF PAPER

28 March 2014

DPOC Meeting

Project	IFRS Taxonomy Due Process		
Paper topic	Revised due process steps		
CONTACT(S)	Alan Teixeira	ateixeira@ifrs.org	+44 (0)20 7246 6442
	Rita Ogun-Clijmans	rogun-clijmans@ifrs.org	+44 (0)20 7246 6410
	Kristy Robinson	krobinson@ifrs.org	+44 (0)20 7246 6933

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. Entities are increasingly being required to file electronic versions of their financial statements with securities regulators. Some of these regulators upload the data and use it to help in their enforcement activities.¹ In addition, the electronic files are generally made available for investors and other users. Although these electronic versions are not yet widely used by retail investors, they are used by data aggregators.
2. The IFRS Taxonomy is a structured classification system of IFRS disclosures represented using XBRL (eXtensible Business Reporting Language). By providing the IFRS Taxonomy, the IFRS Foundation seeks to address the demand for a standard for these electronic versions of IFRS financial information. A global Taxonomy is a natural partner for global financial reporting standards.

¹ The US SEC requires domestic filers to file XBRL-tagged versions. There are also electronic filing requirements in many other countries, including Japan, Peru, Taiwan, China and Korea. The EU plans to require electronic files from 2020.

3. The IFRS Taxonomy has two important components:
 - (a) The IFRS Taxonomy **content**: this is the list of elements—including their properties and relationships—used to reflect IFRS disclosure requirements, IFRS Implementation Guidance, IFRS Illustrative Examples and items commonly disclosed in practice ('common practice') even though they are not referred to explicitly in IFRS or an illustrative example.
 - (b) The IFRS Taxonomy **technology**: this refers to taxonomy features such as the technical syntax employed to publish the IFRS Taxonomy (including, but not limited to, XBRL), the taxonomy architecture and the specific data modelling methodology or technique used.
4. Both components are important features of a high quality taxonomy. The due process requirements set out in this document are designed to protect the integrity of the content and technology. The terms '*IFRS Taxonomy*' and '*IFRS Taxonomy Files*' are used to refer to the files that have the computer instructions and syntax that allow users to view the taxonomy content and generate their tagged data.

Due process and oversight

5. In February 2013 the Trustees of the IFRS Foundation published an updated version of the IASB and *IFRS Interpretations Committee Due Process Handbook* (the Due Process Handbook). As part of the consultation to update the *Due Process Handbook*, stakeholders were advised that the DPOC planned to review the *Due Process Handbook for XBRL Activities* (the XBRL Handbook). This review could not be undertaken at that time because the IASB XBRL strategy was still being assessed.
6. The Trustees' strategy review² recommended that the XBRL activities should be integrated into the standard-setting activities. This prompted a

² The IFRS Foundation Trustees *Strategy Review 2011*.

review of the strategic direction of the XBRL activities. The resulting *XBRL Strategy Paper* was completed and approved by the Trustees in January 2013. Among other strategic objectives, it stated that the IASB should play a role in the review and approval of the content of the IFRS Taxonomy and additionally that the standard-setting and XBRL due process should be further aligned. Consequently, the DPOC asked the IASB staff to bring a proposal to review the IFRS Taxonomy due process.

7. The outcome of this process will be the withdrawal of the XBRL Handbook and an extension to the Due Process Handbook to incorporate the IFRS Taxonomy Due Process in the form of an appendix or a separate section.

Main features of the revised IFRS Taxonomy Due Process

8. The existing *XBRL Handbook* was published and approved by the Trustees in October 2009. Since then it has not been updated to reflect actual practice or the interim amendments to the IFRS Taxonomy due process which were approved by the DPOC in January 2014. The *XBRL Handbook* also considered the IFRS taxonomy as a whole and focused strongly on a detailed description of the building stages of the taxonomy project. We are now proposing that the IFRS Taxonomy due process should be more aligned to the process followed by the IASB in setting standards and that it should be applied differently to the multiple components of the IFRS Taxonomy ('separating content from technology'), with the IASB reviewing and approving the content of the IFRS Taxonomy.

Planned changes to due process

Interim changes (January 2014)

9. The changes proposed would codify the interim amendments that were approved by the DPOC in January 2014. These interim amendments include creation of the IFRS Taxonomy Consultative Group (ITCG) to replace the XBRL Advisory Council (XAC) and the XBRL Quality Review Team (XQRT).

Codification of current practice

10. Some of the changes codify, and enhance, the due process for particular steps and procedures that is already being followed in practice but that is not mentioned in the current due process requirements:
 - (a) the due process applied to identify and select ‘common practice’ elements; and
 - (b) the XBRL Board Advisory Group referenced in the XBRL Handbook no longer exists and so no reference to it is made within the [proposed] Invitation to Comment. Board Advisory Groups may be set up for new or amended IFRSs.
11. The change referred to in paragraph 10(b) is an example of a case in which the current XBRL Due Process handbook is too specific in some sections. The revised due process requirements will remove any unnecessary specificity.
 - (a) We also plan to propose changes to the Taxonomy at the same time that the IASB is exposing proposed new, or amended, IFRSs, rather than after an IFRS is completed. .

Separation of content and technology management

12. The changes also reflect the different types of steps necessary to provide assurance about the quality of the IFRS Taxonomy, depending on whether the matters relate to the **content** of the taxonomy or the **technology** used to manage it.
 - (a) The main document that is the basis of the consultation is a proposed Taxonomy Update, rather than drafts of the taxonomy files. In fact, publication of the draft computer-focused files with the XBRL syntax (computer language and coding) is optional for proposed amendments to the content of the IFRS Taxonomy. The Proposed Taxonomy Update is written for the same audience as an IFRS Exposure Draft, making it less (XBRL) technical than the current process. If a draft IFRS Taxonomy is prepared (ie the

XBRL technical files), the ITCG is the central point of consultation.

- (b) Public consultation on taxonomy amendments reflecting new or amended IFRSs will take place concurrently with the consultation on the *IFRS Exposure Draft*. Currently, public consultation on taxonomy amendments takes place only after the final Standard has been released.

13. The new due process requirements retain the following main features of the XBRL Handbook:

- (a) the important role an expert consultative group plays within the development of the IFRS Taxonomy; and
- (b) the due process followed for an amendment to the IFRS Taxonomy technology.

An effective due process is essential to developing and maintaining a high quality and easily enforceable IFRS Taxonomy.

Role of the IASB

14. The new due process requirements provide for specific roles for the IASB. Until now the IASB has had no responsibility for taxonomy-related matters.

15. The IFRS Taxonomy is not part of IFRS. In other words, the taxonomy is not a financial reporting standard and does not impose reporting requirements on entities that are required to comply with IFRS. On the other hand, the IFRS Taxonomy is a structured classification system of IFRS disclosures that is used to associate identifiers, which are recognisable by computers, to the information reported in financial statements prepared in accordance with IFRS. There is a risk that the structure necessary to have a working taxonomy will constrain or influence IFRS-based reporting in inappropriate ways. It is important that the IASB is the body to identify the tensions between an IFRS and the Taxonomy and make decisions about how to address any concerns.

16. The Taxonomy has the same status as illustrative examples, which accompany but are not an integral part of IFRS. Illustrative examples demonstrate the accounting mechanics or outputs of an IFRS, once the judgements necessary to apply the Standard have been applied. In the case of disclosure requirements, illustrative examples are ways by which an entity could portray or present the information required to be disclosed by an IFRS. By way of example, IFRS 7 *Financial Instruments: Disclosures* has two non-mandatory examples of different ways by which an entity could present information about financial assets that have been transferred from the entity and derecognised in their entirety.
17. Neither example imposes a requirement on an entity. The examples are intended to be helpful. In that case the IASB reviewed and approved their inclusion in the (non-mandatory) material accompanying IFRS 7. Although the illustrative examples should not direct financial reporting, they are nevertheless influential. The examples are often followed by reporting entities. Some commentators argue that this is helpful because the examples can enhance comparability without being prescriptive.
18. The IFRS Taxonomy is similar in nature to the illustrative examples in that it captures requirements without being prescriptive. The Taxonomy carries the same risks as illustrative examples—it might stray into interpretation—and the same opportunities—it might increase comparability. The review and approval processes that apply to illustrative examples are similar to the processes we expect to put in place for the IFRS Taxonomy. By doing so we can protect the integrity of IFRS.
19. Again, we emphasise that the IASB is not yet in a position to make that type of determination. The objective is to get the IASB into the position where it is able to decide that it wants to take responsibility for this aspect of the taxonomy. We are planning to do this before the revised Due Process Handbook is exposed for public comment.
20. It is also proposed that the IASB will approve any project to undertake a review of ‘common practice’ elements, reflecting the need to be assured that the Taxonomy does not add elements that create a conflict with IFRS and to

ensure that resources are focused on areas in which electronic filing would benefit most from common practice extensions.

The IFRS Taxonomy Consultative Group (ITCG)

21. The IASB has established a consultative group for its taxonomy-related activities.³
22. The objectives of the ITCG are:
 - (a) to review in depth the IFRS Taxonomy to ensure it meets expected market standards and best practices from both a data content and technical perspective;
 - (b) to provide technical advice and strategic implementation guidance on matters relating to the IFRS Taxonomy and IASB digital reporting; and
 - (c) provide guidance to the IASB on matters relating to financial reporting ontology.
23. Meetings of the ITCG are normally held in public. Papers that are discussed by the ITCG consultative group are publicly available. Members of the public may attend meetings to observe. Meetings are recorded and where possible, broadcast live via webcast. Recordings of the meetings are publicly available on the IFRS Foundation website.
24. The DPOC reviews the composition of the ITCG.

Updates to the IFRS Taxonomy

25. The 2014 IFRS Taxonomy is the base taxonomy to which the revised due process will apply.

³ The terms of reference and operation procedures of the IFRS Taxonomy Consultative Group is available at: <http://www.ifrs.org/The-organisation/About-XBRL/Documents/IFRS%20Taxonomy%20Consultative%20Group%20-%20Terms%20of%20reference%20and%20operating%20procedures.pdf>

26. When the IASB plans to update the IFRS Taxonomy it publishes a *[Proposed] IFRS Taxonomy Update*. The nature of the document and the steps considered necessary to enhance the integrity to the Taxonomy will depend on the nature and purpose of the proposed update.
27. For any changes being proposed to the **content** of the Taxonomy, a document describing the changes is issued for public comment. The document sets out how it is proposed that the content of the IFRS Taxonomy should be updated to reflect any new disclosure requirements in an IFRS or to make the Taxonomy more usable by adding or removing common practice elements.
28. How taxonomy elements are modelled and incorporated into the taxonomy can affect how easy it is to tag or consume the data. The proposal must identify any elements being added to or removed from the taxonomy, how they fit into the taxonomy and the element attributes. The document should be written so that it is clear how the disclosure requirements of new IFRS requirements, or new common practice items, will be reflected in the taxonomy, so that:
- (a) a preparer can anticipate how they would generate an Instance Document using the Taxonomy, including whether they are likely to need to create entity-specific extensions; and
 - (b) a user is able to anticipate how they would consume data from an Instance Document that has been prepared using the new Taxonomy.
29. The proposed update should clearly indicate that it is not intended to provide interpretative guidance for an existing or proposed Standard. The proposal must also include a question asking potential respondents to assess whether they consider that the planned update includes an unintended interpretation of an existing or proposed Standard.
30. For changes to the Taxonomy **technology**, a document describing the technology changes is issued for public comment. Because those changes affect how the taxonomy is managed, draft taxonomy files are also prepared.

Although the changes are subject to public consultation, the main review relies on the ITCG and targeted outreach. This is because of the special (XBRL) technical demands of the technology.

Content changes

New IFRS requirements

31. Proposed updates to the IFRS Taxonomy content are initiated when the IASB proposes to amend or replace an IFRS.

New common practice requirements

32. Generally, common practice elements of the IFRS Taxonomy are specific examples of more general reporting categories required by an IFRS. For example, the IFRS Taxonomy has common practice elements for some specific types of revenue, expenses and classes of property, plant and equipment. Preparers are required by IFRS to report material classes of these more general items in financial statements. To tag these specific items using the IFRS Taxonomy a company would need to create its own elements (which means that they develop extensions). The common practice items are intended to enhance comparability by providing elements for the most commonly reported items, as identified through field research.⁴
33. The due process steps are designed to ensure that common practice elements do not change or conflict with *IFRSs* or the *Conceptual Framework*. It is for this reason that they should be reviewed and approved by the IASB.
34. Initiation of a ‘common practice project’ should be with the support of the IASB. Accordingly we intend that initiation of a project should require support of a simple majority of the IASB expressed in a public meeting (attended by at least 60 per cent of the IASB members).

⁴ Common practice that can be reasonably anticipated at the time of drafting an IFRS Exposure Draft or finalising IFRSs is usually developed as additional examples within the *Draft IFRS Taxonomy Companion Document*.

35. A ‘common practice’ taxonomy project may arise from post-implementation reviews, standards development or feedback from regulators and other users of the IFRS Taxonomy. In reviewing potential common practice elements, the IASB staff usually undertake field research to identify commonly reported elements that are not part of the IFRS Taxonomy.
36. After the field research has been completed, the technical staff summarise the results and proposes the amendments to the content part of the IFRS Taxonomy.
37. How new elements (items) are captured in a taxonomy can affect how easy it is to use the taxonomy. In considering how to capture and organise elements the IASB staff consider issues such as:
- (a) Compliance—*the IFRS Taxonomy Files* should adhere to the technical standards used such as, for instance, those issued by XBRL International.
 - (b) Good practice—the IFRS Taxonomy architecture should consider best practice guidelines such as, for instance, those issued by XBRL International.
 - (c) Enforceability—the IFRS Taxonomy technology used should facilitate adoption by its users. Among other considerations, this implies that its users should be able to extend it and that it should be interoperable with other taxonomies.

Technology changes

38. An enforceable IFRS Taxonomy means that its users can assume that the IASB undertakes reasonable efforts to keep its architecture, data model methodology and syntax stable. Consequently, changes to the IFRS Taxonomy technology should be infrequent. IFRS Taxonomy technology changes may affect the way in which the IFRS Taxonomy has been implemented. Because this impact could be significant, the DPOC should be informed about the due process steps that have been undertaken prior to finalisation of the changes to the IFRS Taxonomy technology.

Initiating a technical change

39. Introduction of new XBRL technical specifications, new data modelling methodologies and/or new business requirements may necessitate a review of the technology used for the IFRS Taxonomy.
40. When the IASB staff determine that the technology of the IFRS Taxonomy needs to be updated the staff prepare a proposed Taxonomy Update. The proposed update presents an analysis of the technology changes and how it will affect the IFRS Taxonomy.
41. It is important that the proposed update is developed in consultation with the ITCG, along with targeted outreach, particularly with regulators and software vendors.

Consultation

42. Proposed Taxonomy Updates and, where relevant, proposed Taxonomy Files are the subject of public consultation. In the case of a taxonomy update related to a change in IFRS requirements, the exposure period would normally be aligned with the comment period for the related Exposure Draft. For common practice changes the comment period would normally be at least 60 days. For technology changes the comment period would also normally be at least 60 days.

Proposed IFRS Taxonomy Update

43. After the comment period ends, the IASB staff review the comment letters received, consult the ITCG where relevant and consider whether changes to the proposals are required.

Draft Taxonomy Files

44. The ITCG is provided with a draft of the IFRS Taxonomy Files reflecting the technology changes. After considering the feedback from the ITCG, the IASB staff release the *Draft IFRS Taxonomy Files*.
45. *The Draft IFRS Taxonomy Files* are published on the IFRS Foundation website. The minimum consultation period is 60 days.

46. The release of *Draft IFRS Taxonomy Files* that reflect the planned content updates is an optional step. However, if these files are being released the ITCG should be given an opportunity to comment on the files prior to their public release.

Finalising an Update

Consideration of comments received and consultations

47. All comments received and other consultations are posted on the public website. The technical staff review the comments received on a proposed taxonomy update and summarise the changes they plan to make to the taxonomy update. This summary is made available on the IFRS Foundation website.
48. In finalising the IFRS Taxonomy Update it will be necessary to reflect changes the IASB decides to make in the disclosure requirements between the IFRS Exposure Draft and the final Standard. The IASB staff might also recommend changes to how disclosure requirements are captured in the Taxonomy, in the light of comments received on the proposed Taxonomy Update. Accordingly, there are two primary causes for changes from the proposal—changes to the IFRS requirements and changes to how disclosure requirements are reflected in the Taxonomy.
49. The IASB staff need to assess whether some additional consultation, such as with regulators, one of the IASB’s specialist consultative groups or the ITCG is necessary to provide the IASB with additional assurances that the changes are appropriate.
50. The IASB approves the Taxonomy Update for release as part of the finalisation of the new, or change to an, IFRS. The clearance procedures will be aligned with those used to clear the illustrative examples.

Publication of the IFRS Taxonomy Update

51. Finalisation of an *IFRS Taxonomy Update* involves:
- (a) publishing the IFRS Taxonomy Update Document;

- (b) releasing the Taxonomy Files; and
 - (c) undertaking an appropriate level of communication and education to support the update.
52. Finalisation of a Taxonomy Update for new IFRS requirements should be aligned with the finalisation of the related changes to the IFRS. The Taxonomy Update should be published at the same time as other material accompanying a Standard.
53. Finalisation of a Taxonomy Update that relates to a separate common practice project or technology changes is independent of the development of new financial reporting requirements. Accordingly, the update should be released once the due process steps have been completed.

Release of the IFRS Taxonomy Files

54. The IFRS Taxonomy Files should be released as soon as practicable after the release of the Taxonomy Update. No public consultation on the files is required for content updates because the updated files are simply capturing the changes set out in the consultation documents.
55. The *IFRS Taxonomy Files* are published on the IFRS Foundation website.

IFRS Taxonomy compilations and translation

56. The IASB may make available compiled releases of the IFRS Taxonomy. These IFRS Taxonomy Files are compilations using elements and technology that has previously been subjected to full due process. Accordingly no public consultation is required prior to their release.
57. Translations of the IFRS Taxonomy content are initiated in response to requests from jurisdictions adopting or developing in interest in the IFRS Taxonomy. The same procedures followed for translations of IFRSs apply to translations of the IFRS Taxonomy.