

International Financial Reporting Standards

IASB Agenda ref: 13A

IFRS Taxonomy Due Process

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Purpose of this session

- to present the staff analysis of the comments received on the IFRS Taxonomy Due Process trial 1*
- to obtain the IASB's view on what should be our recommendation to the Due Process Oversight Committee (DPOC)

* Trial 1 relates to IFRS Taxonomy content reflecting the disclosure and presentation requirements of the Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7). Trial 2 relates to IFRS Taxonomy common practice content.

Scope of the trial

- At is July 2014 Education session, members of the IASB:
 - generally supported the proposal that **the IASB should approve** the IFRS Taxonomy content reflecting new or amended Standards; and
 - recommended that a trial should be undertaken **to seek evidence on the benefits, risks and costs** of the staff proposal of publishing the *Proposed IFRS Taxonomy Update* at the same time that an Exposure Draft is published.
- The Exposure Draft *Disclosure Initiative* (Proposed amendments to IAS 7) was used for this trial:
 - it incorporated the *Proposed IFRS Taxonomy Update* as accompanying material.

Current status and next steps

June 2015

The IASB reviewed the feedback summary*
ITCG** discussion

July 2015

Staff analysis and discussions with the IASB and the ASAF

Quarter 4 2015

DPOC approval of Proposal and *Invitation to Comment* followed by public consultation on the proposal

- Agenda Paper 11A (Disclosure Initiative: Proposed amendments to IAS7 – Feedback summary), IASB meeting June 2015. Extracts of that paper are provided in Agenda Paper 13B.
- ** IFRS Taxonomy Consultative group

Staff analysis of comments

Received in the context of the Exposure Draft *Disclosure Initiative* (Proposed Amendments to IAS 7)

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Analysis of comments overview

- Benefits confirmed during the trial
 - Comments received increased
 - Broader range of stakeholders
 - Other comments received on benefits of new process
- However the majority of those who responded to the due process questions did not support publishing the IFRS Taxonomy update with the Exposure Draft
- Comments in three broad areas:
 - Implications for the **integrity** of the standards and standard-setting
 - The **timing** of review and comments
 - Additional **complexity** (and therefore effort) to the review process (for both the board and reviewers)

Improved feedback

Feedback

The results of the trial confirm our thinking that concurrent public consultation encourages broader feedback.

Staff view

- higher response rate, a number of respondents provided substantive and useful comments
 - response rate under the existing IFRS Taxonomy due process has ranged between zero to two comment letters over the last year
- comments from a wider range of users including, regulators, standard-setters and accounting firms
- comments on content included identification of a possible inconsistency between taxonomy model and disclosures as described in the ED
- as electronic filing and the IFRS Taxonomy increase in use we would expect to see more comments from respondents such as preparers and investors

Integrity – benefits

- The incorporation of the *Proposed IFRS Taxonomy Update* as accompanying material:
 - places greater emphasis on disclosures and the way in which these would be reflected in a *both* a paper-based and a structured electronic report
 - may facilitate the understanding and review by some users of the IFRS disclosure and presentation requirements

Feedback

- both of these are benefits we expected to see from a concurrent public comment period
- the smaller number of respondents commenting on the benefits may reflect the time taken to learn a new requirement and document format

Staff view

- we will be working **to improve the format of the *IFRS Taxonomy Update*** (see later slides on reducing complexity)

Actions

Integrity – principles

Feedback

Integration may undermine or constrain principles-based standard-setting.

Staff view

- the trial does not seem to support this; a broader response provides greater assurance that the IFRS Taxonomy does not inadvertently interpret the Standards.
- our experience over the last two years is that closer integration and interaction with the project staff can improve the logic, clarity, consistency and accuracy of the wording of the Standards.

Actions

- risk of **constraint is more related to IFRS Taxonomy use in practice**. This is best **mitigated by providing guidance and educational materials**.

Integrity – accompanying materials

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Feedback

The IFRS Taxonomy could be perceived to be an integral part of the Standards.

Staff view

- the wording in the Exposure Draft clearly states that ‘the *Proposed IFRS Taxonomy Update* accompanies, but is not part of, the proposed amendments’

Actions

- some respondents suggested to publish the *[Proposed] IFRS Taxonomy Update* as a separate document. We agree, however, we also think that the taxonomy-related questions should remain part of the *Invitation to Comment* to encourage broad feedback

Timing – benefits

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Feedback

May encourage an early debate between accounting policy-makers and those mainly involved in the implementation of the Standards.

Staff view

- this is one of the potential benefits we hope to see resulting from the earlier consultation on the IFRS Taxonomy
- only a small number of respondents indicated that this was the case but we would expect to see this increase as electronic reporting and the IFRS Taxonomy become more relevant to preparers

Timing – no final comment period

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The *Proposed IFRS Taxonomy Update* should be based on the final Standard:

- It is inefficient to review an IFRS Taxonomy that is still subject to change
- it should still be possible to comment on the final changes

- we acknowledge this, but the same is true for the Standards
- our existing process has not succeeded in obtaining a broad response
- our experience has highlighted that some comments on the IFRS Taxonomy may relate to the clarity of the Standard. It is not possible to act on these comments after the final Standard is published

- we could open up the ITCG **fatal flaw review** of the IFRS Taxonomy to **additional parties** to gather feedback **before final publication**
- the IFRS Taxonomy **annual improvement and common practice updates** allow the consideration of comments after the final *IFRS Taxonomy Update*

Feedback

Staff view

Actions

Complexity – feedback and staff views

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Feedback

The review of the *Proposed IFRS Taxonomy Update* may divert resources and add complexity for the:

- IASB – slows down standard-setting process
- Stakeholders – diverted attention from the proposals therefore resulting in less effective responses on the ED overall

Staff view

- the trial did not provide any evidence that the incorporation of the IFRS Taxonomy resulted in fewer, or less effective, responses to the proposed accounting amendments to IAS 7. Nearly all of those commenting on the IFRS Taxonomy commented on the accounting content
- the *Invitation to Comment* makes it clear that respondents “need not respond to all of the questions”
- we acknowledge that some delays could happen. However, based on the trial and our experience, we think delays to the ED are unlikely to be significant

Complexity – actions

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Feedback

Some respondents expressed the view that the *Proposed IFRS Taxonomy Update* can be difficult to understand if readers do not possess the necessary technical knowledge.

Actions

- we concur that **some technical knowledge** may still be required therefore we will make **further improvements** to make the *IFRS Taxonomy Update* content **more accessible** to all stakeholders
- we will also make efforts to **streamline** the *IFRS Taxonomy Update* in order to **reduce the effort and complexity** involved in review

Options and staff recommendation

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1. Aligned standard-setting and IFRS Taxonomy due process (the June 2014 staff proposal)
2. Publication and IASB approval of the *Proposed IFRS Taxonomy Update* after or at the same time as the final Standard is published
3. Some respondents suggested issuing the *Proposed IFRS Taxonomy Update* **when the presentation and disclosure requirements are near-final**

Each of the options has benefits and drawbacks.

Staff recommendation

Our recommendation is to **go ahead with the June 2014 staff proposal (option 1)**.

- The *[Proposed] IFRS Taxonomy Update* is approved by the IASB and is issued at the time that the Exposure Draft or final Standard is published, ie concurrent public consultation and approval.
- The *[Proposed] IFRS Taxonomy Update* is accompanying material.

Our reasons are:

- improved feedback on the IFRS Taxonomy;
- the IFRS Taxonomy has the power to emphasise and can improve the understanding and clarity of proposed disclosure requirements;
- a concurrent review is the most efficient process to involve the IASB and external stakeholders;
- make changes to the proposal to respond to some of the concerns noted by respondents (see next slide).

- The *[Proposed] IFRS Taxonomy Update* may be issued in the form of a separate booklet, but the *Invitation to Comment* incorporates taxonomy-related questions.
- Fatal flaw review of the final *IFRS Taxonomy Update* at pre-ballot stage by members of the IFRS Taxonomy Consultative Group and other interested parties.
- Continued development of the *[Proposed] IFRS Taxonomy Update* to improve its accessibility

Note: Agenda Paper 13C provides a flow chart of the proposal.

Transitioning: staff recommendation

The transitioning applies to upcoming final **Standards that are being developed** and for which the Exposure Draft stage has been completed. We recommend that:

- the **existing public consultation process continues to apply** ie the *Proposed IFRS Taxonomy Update* is published at the time (or close after) the final Standard is published;
- the **IASB approves the [Proposed] IFRS Taxonomy Update**, this is a **new step**; and
- this arrangement is effective from the date that the DPOC has approved and published the final IFRS Taxonomy Due Process (likely to be Q1 2016).

Questions

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Questions to the IASB

- Do you support our recommendation to the DPOC? If not, what option would you recommend?
- Are there particular questions you think should be incorporated within the upcoming public consultation on the IFRS Taxonomy due process?

