

AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

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IFRS Taxonomy Due Process: Invitation to Comment

Introduction

1. The purposes of this paper are to:
 - (a) update you on the steps we have taken to finalise our proposal for the IFRS Taxonomy due process for content reflecting new or amended Standards;
 - (b) seek your views on our proposal to amend the IFRS Foundation *Due Process Handbook* (the ‘*Due Process Handbook*’) to contain the IFRS Taxonomy due process; and
 - (c) seek your approval to proceed with the publication of the *Invitation to Comment* (a draft of which is at Agenda Paper, AP, 3E(i)), after incorporating any comments you may have on our proposed amendments to the *Due Process Handbook*.

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 identified the following topics as the main focus areas for review:
 - (a) the IFRS Taxonomy advisory structure;
 - (b) the alignment of the standard-setting and IFRS Taxonomy due process;
 - (c) the content transparency of the IFRS Taxonomy, ensuring that the due process documents used make its content accessible and understandable to all its intended users; and
 - (d) the role of the IASB, specifically with regards to whether its members should approve the content of the IFRS Taxonomy.

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 (instead of the annual IFRS Taxonomy) the publications on which public feedback is sought.¹ Other aspects of the existing IFRS Taxonomy due process would continue to apply. These changes were implemented with immediate effect. Taxonomy Interim Releases are now being published soon after a final Standard is issued.
4. The staff completed the second step of the review in March 2014, proposing to the Due Process Oversight Committee (DPOC) at its April 2014 meeting that:
 - (a) the IASB should approve the content of the IFRS Taxonomy;
 - (b) a new due process document, the *[Proposed] IFRS Taxonomy Update*, would serve as a basis to obtain the approval of the IASB and would become the primary (and mandatory) document to consult on the content of the IFRS Taxonomy; and
 - (c) the IFRS Taxonomy and standard-setting due process should be more closely aligned. The *[Proposed] IFRS Taxonomy Updates* would be given the status of accompanying materials to the Standards and would be published at the same time as the Exposure Drafts and final Standards.
5. These proposals were subsequently discussed with members of the IASB, the ITCG and the IFRS Advisory Council. In July 2014, we informed you that some members of the IASB had expressed concerns. Those concerns mainly related to:
 - (a) the publication of the *[Proposed] IFRS Taxonomy Updates* for Exposure Drafts, because this would require additional resources and may not result in significant benefits;
 - (b) the timing of the publication of the *[Proposed] IFRS Taxonomy Updates* at the same time as an Exposure Draft or a final Standard is issued, because this may delay and complicate the standard-setting process; and
 - (c) the approval by the IASB of IFRS Taxonomy common practice elements.²
6. The staff recommended, and the DPOC agreed at that meeting, that the IASB should hold two trials to better assess the staff proposals. The first trial relates to IFRS Taxonomy due process for content reflecting new or amended Standards. The second trial relates to the IFRS Taxonomy due process for content reflecting common practice.

¹ Agenda Paper 3D, January 2014 DPOC meeting, available at:

<http://www.ifrs.org/Meetings/MeetingDocs/Trustees/2014/January/AP3D%20IFRS%20Taxonomy%20-%20proposal.pdf>.

² Common practice IFRS Taxonomy elements are disclosures that entities provide when applying IFRS. They are usually identified by the staff following empirical research on existing IFRS financial statements. They can be compared to additional Illustrative Examples.

7. Since July 2014, we have provided the DPOC with regular updates on the trials and other aspects of the IFRS Taxonomy due process.

Update on progress made since June 2015

8. In June 2015, we updated you on the status of the IFRS Taxonomy due process review.³ We stated at that time that this review was near completion; the only remaining matter was the finalisation of the due process evaluation for taxonomy content reflecting new or amended Standards. This evaluation has now been completed.
9. The Exposure Draft *Disclosure Initiative* (Amendments to IAS 7) was used to test out the proposal to fully integrate the IFRS Taxonomy and Standard-setting due process, namely publication of the *Proposed (or final) IFRS Taxonomy Update* as accompanying material at the same time that an Exposure Draft (or final Standard) is issued. The Exposure Draft incorporated specific questions to seek views on this proposal.
10. The feedback summary was presented to the IASB at its June 2015 meeting.⁴ Respondents raised the following main concerns:
- (a) fully integrating development of the IFRS Taxonomy with the development of the Standards may undermine or add complexity to principle-based Standard-setting; and
 - (b) it is inefficient to review an IFRS Taxonomy that is not based on the final (or near-final) presentation and disclosure requirements.

Some respondents pointed out the benefits of integrating the IFRS Taxonomy development with Standard-setting, stating that the IFRS Taxonomy helps their understanding of the proposed presentation and disclosure requirements.

11. The staff completed their evaluation of the comments in June and presented their analysis and recommendations to the IASB at a public education session in July.⁵ The staff recommended to the IASB to go ahead with the proposal because in their view an integrated due process, which would include concurrent public consultation, is more effective at obtaining broad public feedback and IASB approval of the IFRS Taxonomy content. The trial provided some evidence that confirmed this thinking. A larger than usual number of respondents commented on the proposed IFRS Taxonomy content.
12. Although a few members of the IASB concurred with the staff's recommendation, most did not support it. Of those that did not support the staff recommendation, most favoured

³ See Agenda Paper 3C from the June 2015 DPOC meeting, available at http://www.ifrs.org/Meetings/MeetingDocs/Trustees/2015/June/AP3C-DPOC_Taxonomy.pdf.

⁴ See Agenda Paper 11A from the June 2015 IASB meeting, available at: <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/June/API1A-Disclosure%20Initiative.pdf>.

⁵ See Agenda Papers 13 and 13A to 13C from the July 2015 IASB meeting, available at: <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-July-2015.aspx>.

the view that public consultation of the *Proposed IFRS Taxonomy Update* should take place with the final Standard, as is the case now. Other members of the IASB suggested a repeat of the trials in order to gather further evidence prior to making a decision to change the timing of public consultation of the IFRS Taxonomy. However, a repeat trial is not feasible as the IASB has no immediate plans to issuing an Exposure Draft, with the requisite presentation and disclosure proposals that would make it suitable for this purpose. Other members of the IASB suggested that a change to the proposed timing of the public consultation of *Proposed IFRS Taxonomy Update* could be re-visited when there is a critical mass of use of the IFRS Taxonomy.

13. Members of the IASB generally acknowledged that consideration of the IFRS Taxonomy may benefit, rather than undermine, Standard-setting. Consequently, they were largely in support of concurrent drafting and external fatal flaw reviews of the ballot draft of the Standard and the *Proposed IFRS Taxonomy Update*, provided that it does not delay the Standard-setting process.
14. The staff also had discussions with the IFRS Taxonomy Consultative Group (ITCG) and the Accounting Standards Advisory Forum (ASAF).⁶ Most members of the ASAF and some members of the ITCG held the view that commenting on the IFRS Taxonomy on the basis of the final Standard is more effective.
15. The staff are now recommending to the DPOC that the existing IFRS Taxonomy due process of seeking comments on proposed taxonomy amendments reflecting the presentation and disclosure requirements of the final Standards is maintained, but with some changes to capitalise on the benefits that integration can bring. These changes and our reasoning for making these changes are set out in the draft *Invitation to Comment* (see AP 3E(i) accompanying this paper).

***Invitation to Comment*—summary of the approach taken**

16. The *Due Process Handbook* covers the due process requirements of the IASB and the IFRS Interpretations Committee. At the moment, the IFRS Taxonomy due process is covered by a separate *Due Process Handbook for XBRL Activities* (the '*XBRL Handbook*'). The IASB staff is recommending to the DPOC that:
 - (a) the *Due Process Handbook* is extended to incorporate the IFRS Taxonomy due process in the form of a separate appendix or section; and
 - (b) that on completion (ie when the amendments have been finalised) the *XBRL Handbook* is withdrawn.

⁶ See Agenda Paper 4 from the June 2015 conference call of the IFRS Taxonomy Consultative Group. A meeting summary is available at: <http://www.ifrs.org/Meetings/MeetingDocs/XBRL/2015/June/Meeting%20Summary%20-%20June.pdf>
See Agenda Paper 5B from the July 2015 ASAF meeting. A meeting summary is available at: <http://www.ifrs.org/Meetings/MeetingDocs/ASAF/2015/July/ASAF-July-Summary-201507.pdf>

The proposed changes to the IFRS Taxonomy due process also resulted in consequential amendments to the existing text of the *Due Process Handbook*. These are mainly editorial, such as replacing the currently used term ‘XBRL’ with the more generic term ‘IFRS Taxonomy’.

17. The staff hold the view that merging the two handbooks is consistent with the current organisational structure; under this proposal there will be one single handbook covering the due process for all the technical activities of the IASB, which now also includes the activities relating to the IFRS Taxonomy.
18. The proposed IFRS Taxonomy due process includes substantive changes from the current *XBRL Handbook*. We are proposing that the DPOC should seek feedback on these substantive changes. The *Invitation to Comment* also makes reference to the IFRS Taxonomy due process trials, explains what has changed and our reasoning for making those changes.
19. The current *XBRL Handbook* provides for a comment period of 60 days unless the matter is urgent or the change to the IFRS Taxonomy is not significant, in which case the staff can consider a minimum comment period of 20 days. In January 2014 the DPOC approved a temporary reduction in the consultation period from 60 to 30 days. This approval was based upon the understanding that this was only a short-term step that would become obsolete under the proposal at that time to align the comment period of the *[Proposed] IFRS Taxonomy Update* and the Exposure Draft. The reduced consultation period of 30 days was required in order to meet the need of some regulators that require the final *annual IFRS Taxonomy* to be issued close after the ending of the calendar year-end.⁷
20. The staff are recommending to the DPOC that the comment period for a *Proposed Taxonomy Update* will normally be 60 days. In setting the length of the comment period, the staff weighed up the requirement for a timely release of the *annual IFRS Taxonomy* with the need to have sufficient time to encourage a broad response. The staff hold the view that a comment period of 60 days would normally strike the right balance. It does not preclude the use of a longer comment period when the staff believe that a topic may need wider review and discussion and/or require comprehensive software testing. Based upon our experience, this is normally the case when there is a significant change to the technology of the IFRS Taxonomy but is less often the case when there is an update to the taxonomy content reflecting new or amended Standards. The staff are also proposing to the DPOC that this comment period can be reduced (but not to less than 30 days) when the matter is urgent or when the update is narrow in scope. The current *XBRL Handbook* does not require the staff to seek approval for a reduced comment period. The staff are

⁷ In cases in which a final Standard is issued in late December, a consultation period of 60 days implies that the *annual IFRS Taxonomy* can only be published early to late March. Some regulators prefer an earlier publication date of the *annual IFRS Taxonomy*, to fit in with their annual update cycle or to provide sufficient notice of taxonomy changes to their users.

now proposing that a reduced comment period requires approval from the IASB (content changes reflecting new or amended Standards) or can only be considered by the staff after consulting with the IFRS Taxonomy Review Panel (other content changes) or the ITCG (technology changes).

21. Assuming the DPOC approves this *Invitation to Comment* for public consultation, we would recommend for the DPOC to set a comment period of 90 days.

Summary of recommendations for DPOC approval

22. The staff are formally recommending to the DPOC to approve:
- (a) the proposed amendment(s) to the *Due Process Handbook*; and
 - (b) to approve the draft *Invitation to Comment* with a proposed comment period of 90 days.

Questions for the DPOC

Do you have comments or suggestions on the proposals set out in this paper and the draft *Invitation to Comment* at AP 3E(i)? Subject to these, are you content to approve the staff recommendations set out in paragraph 22 above?

Next steps and anticipated timeline

21. Subject to your approval, the next steps in implementing changes to the IFRS Taxonomy due process will be as follows:

Timing	Step	IFRS Taxonomy Due Process—actions
Nov– Jan 2016	Public Consultation	Receive comments on the Invitation to Comment
Feb 2016	Analysis of Comments	Analyse comments and prepare final amendments to the IFRS Taxonomy due process
May 2016	DPOC	Approve publication of the final IFRS Taxonomy due process