

IFRS Taxonomy Consultative Group meeting
1 February 2021

IFRS® Foundation

Agenda Paper 1

Feedback analysis Proposed IFRS Taxonomy Update 4/2020

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Background

- IFRS Taxonomy 2020—Proposed Update 4 *General Improvements and Common Practice—Presentation of information in primary financial statements* was published on 29 October 2020.
- The proposed changes were aimed at **supporting high-quality tagging of primary financial statements** and included:
 - new elements reflecting common reporting practice, for example for earnings per share and the transition to new IFRS Standards; and
 - new and amended labels to clarify the accounting meaning and intended use of some elements.
- We aim to publish the final IFRS Taxonomy Update at the end of March, together with the annual IFRS Taxonomy 2021.

Aim of today's session

Provide the ITCG with a summary of the public feedback received on the Proposed IFRS Taxonomy Update and our planned response.

- The comment period ended on 5 January 2021. We received letters from:
 - Toppan Merrill LLC (XBRL tagging service provider, ITCG member)
 - Association of National Accountants of Nigeria
 - ACTEO (French preparer body)
 - The Institute of Chartered Accountants of Nigeria
- Letters are **generally supportive** of most proposals, with **some suggestions for improvements**.
- The slides set out our planned response to the feedback, which has been reviewed by the IFRS Taxonomy Review Panel.

Agenda

Analysis of expenses by nature and by function

Earnings per share

Double tagging

Other proposed common practice content and general improvements

Other suggestions made by respondents

A grayscale world map is the background for the slide. Overlaid on the map are several thick, curved, light-gray lines that sweep across the globe from the bottom left towards the top right. Additionally, there are several dotted lines that form a grid-like pattern across the map, intersecting the curved lines.

Analysis of expenses by nature and by function

1. Cost of sales excluding specific expenses

Proposal

Add a guidance label to 'Cost of sales' explaining that this line item should not be used to tag an amount excluding specific expenses classified by an entity as cost of sales.

Feedback

Agreement with proposal but consider:

- a) changing the documentation label to clarify that 'Cost of sales' includes depreciation; and
- b) adding a new common practice line item 'Cost of sales excluding depreciation'.

Response

- a) We agree that changing the documentation label would clarify the accounting meaning of the element (see next two slides for proposed change).
- b) We considered adding 'Cost of sales excluding depreciation' but rejected it because we did not observe it to be common reporting practice (see slide 24 of [Agenda Paper 2A](#) of the January 2020 ITCG meeting).*

*See Appendix for a description of the criteria we use for adding common practice.

1. Proposed change to documentation label

We propose to change the documentation label to include the example referred to in paragraph 12 of IAS 2 (see next slide) and to include the term 'all':

The amount of ~~costs relating to~~ all expenses directly or indirectly attributed to the goods or services sold. Attributed expenses, ~~which may~~ include, but are not limited to, costs previously included in the measurement of inventory that has now been sold, such as depreciation and maintenance of factory buildings and equipment used in the production process, unallocated production overheads, and abnormal amounts of production costs of inventories.

1. IAS 2: cost of sales includes some depreciation

Cost of sales includes (paragraph 38 of IAS 2 *Inventories*):

Costs included in the measurement of sold inventory (paragraph 10 of IAS 2)

Costs of
purchase

Costs of
conversion

Other costs incurred
in bringing the
inventories to their
present location and
condition

- costs directly related to units of production
- allocated fixed production overheads, such as **depreciation** and maintenance of factory buildings (para. 12 of IAS 2)
- allocated variable production overheads

Costs not included in inventory measurement

- Unallocated production overheads
- Abnormal production costs
- Other costs depending on the circumstances of the entity (eg distribution costs)

2. Attribution of expenses by nature to their function

Proposal

Entities commonly disclose an attribution of expenses by nature to line items presented by function in the statement of profit or loss. We proposed adding a new table and axis ‘Line items by function in statement of profit or loss in which expense by nature has been included’ to allow entities to tag such disclosures.

Feedback

- Two respondents agreed with the proposal to introduce a new table and axis.
- One of those respondents said the proposed label is unnecessarily complex and may confuse entities. They suggested creating a more general ‘Statement of profit or loss location’ axis instead.
- One respondent preferred the alternatives approaches set out in the Proposed Taxonomy Update (that is, using extensible enumerations or line item modelling).¹ They think the alternative approaches would achieve a better balance between costs and benefits.

¹ See paragraphs 6 and 7 of the Proposed IFRS Taxonomy Update.

2. Attribution of expenses by nature to their function

Response

- We think the proposed approach achieves the best balance between costs and benefits. An axis is easier to maintain from a taxonomy perspective and would not be more costly for preparers than the alternative approaches discussed in the PTU.
- We agree that a simpler label would make it easier for entities to understand the intended use of the axis.

We propose **to shorten the standard labels** of the axis and table text block:

Disclosure of attribution of expenses by nature to their function ~~analysis of expenses by function in statement of profit or loss~~ [text block]

Attribution of expenses by nature to their function ~~Line items by function in statement of profit or loss in which expense by nature has been included~~ [Axis]

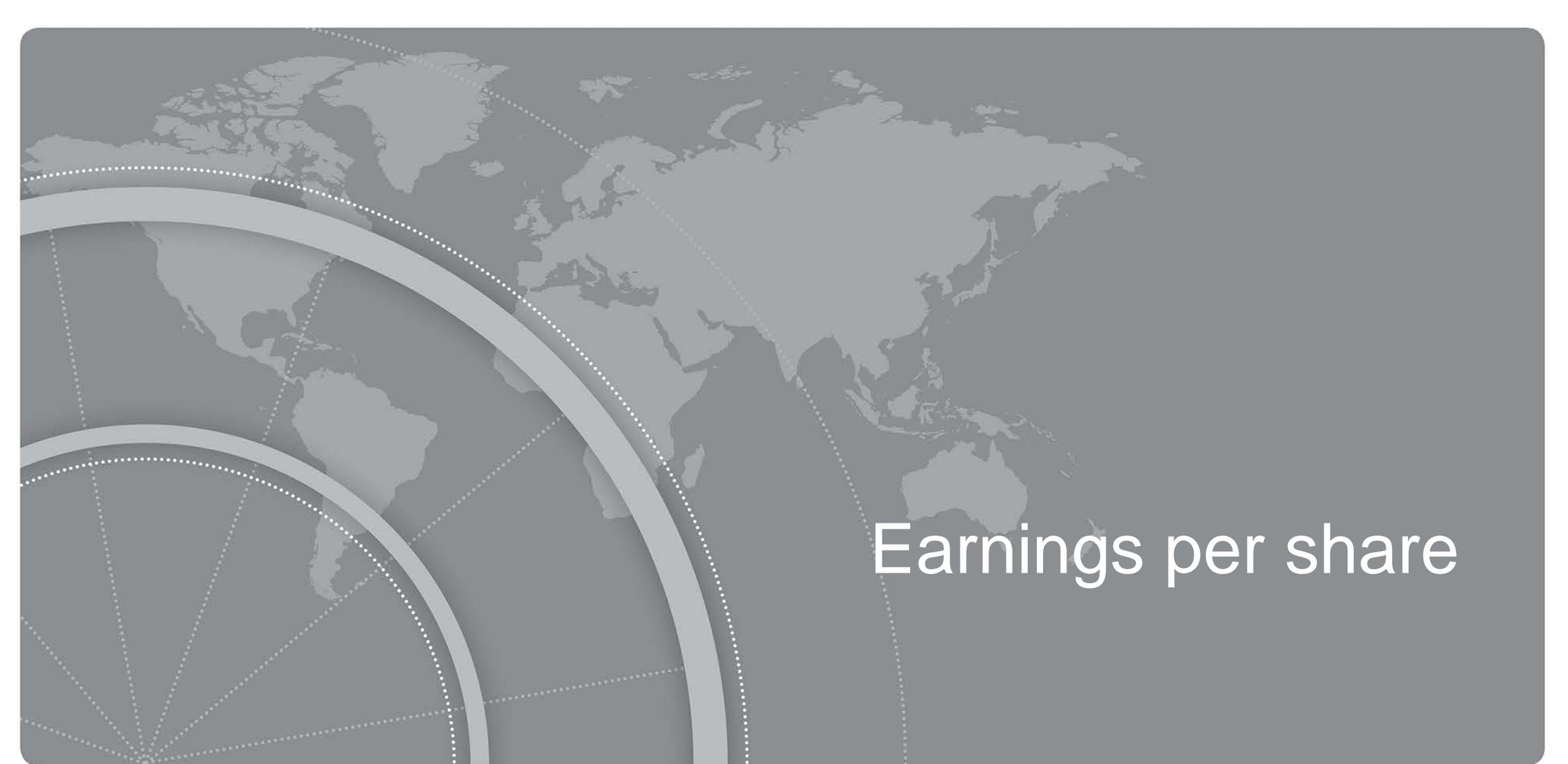
2. Attribution of expenses by nature to their function

We considered, but **rejected** creating a 'Statement of profit or loss location' axis because:

- we received feedback that entities sometimes use general 'location' axes inappropriately in other taxonomies. Therefore, we proposed a more specific label to indicate the intended use of the axis.
- we think the proposed narrow use of the axis is appropriate because:
 - the IFRS Taxonomy already includes specific elements for required disclosures of the location of income and expenses in the statement of profit or loss, for example:

| | | |
|---|------|-----------------------------|
| Description of line items in profit or loss where gains (losses) are recognised, fair value measurement, assets | text | IFRS 13.93 e (i) Disclosure |
|---|------|-----------------------------|

- our empirical review so far has not highlighted other common practice disclosures for which this axis could be applied.



Earnings per share

1. Reconciliation of earnings per share numerator

Proposal

Add new line items for the reconciliation of the numerator used in calculating earnings per share (proposed new elements highlighted in green).

| Element label ^(a) | ET | ER | Reference |
|---|----|----|-----------------------------------|
| Profit (loss), attributable to owners of parent | M | D | IAS 1.81B(a)(ii) |
| Adjustments to reconcile numerator used in calculating basic earnings per share to profit (loss) attributable to owners of parent | M | D | IAS 33.70(a) |
| Adjustments to profit (loss) for preference dividends | M | E | IAS 33 – Example 12, IAS 33.70(a) |
| Profit (loss) attributable to participating equity instruments other than ordinary shares, used in calculating basic earnings (loss) per instrument | M | CP | IAS 33.A14, IAS 33.70(a) |
| Interest and dividends on equity instruments, other than preference shares and participating equity instruments | M | CP | IAS 33.70(a) |
| Profit (loss), attributable to ordinary equity holders of parent entity | M | D | IAS 33.70(a) |
| Increase (decrease) to profit (loss) to reflect dilutive effect resulting from assumed conversion of potential ordinary shares | M | D | IAS 33.70(a) |
| Profit (loss), attributable to ordinary equity holders of parent entity including dilutive effects | M | D | IAS 33.70(a) |

1. Reconciliation of earnings per share numerator

Feedback

Agreement but consider:

- a) changing the names and standard labels of two elements to better explain their accounting meaning; and
- b) adding a new axis and line items to tag information relating to different types of anti-dilutive securities disclosed outside the reconciliation.

Response

- a) We agree with the suggested label changes—see next slide. We suggest some additional label changes to clarify the meaning of the new elements.
- b) The scope of the current project does not include disclosures for anti-dilutive securities. We will research this issue and present a proposal to the ITCG at a later date.

1. Reconciliation of EPS numerator—label changes

We agree with the following two label changes suggested by respondents:

| | Initial proposal for standard label in PTU | Feedback received | Label suggested by respondent |
|----|---|---|---|
| 1. | Adjustments to reconcile numerator used in calculating basic earnings per share to profit (loss) attributable to owners of parent | The standard label is inconsistent with the documentation label. The documentation label better reflects the meaning of the element. | Adjustments to reconcile <u>profit (loss) attributable to owners of parent</u> to <u>numerator used in calculating basic earnings per share</u> |
| 2. | Interest and dividends on equity instruments, other than preference shares and participating equity instruments | Change the label to clarify that this element represents an adjustment to reconcile profit (loss) in calculating the earnings per share and to be consistent with the documentation label | <u>Adjustments to profit (loss) for interest and dividends on equity instruments, other than preference shares and participating equity instruments</u> |

1. Additional label changes

- In discussing the proposed changes in the team, we concluded it was not clear which line item should be used to tag adjustments for **participating preference** shares:
 1. ‘Adjustments to profit (loss) for **preference** share dividends’; or
 2. ‘Profit (loss) attributable to **participating** equity instruments other than ordinary shares, used in calculating basic earnings (loss) per instrument’
- We propose to clarify that such adjustments should be tagged using the second element, by amending the documentation label of the first element. The first element would only apply to non-participating preference shares:*

| Standard label | Documentation label |
|--|---|
| Adjustment to profit (loss) for preference share dividends | Adjustment to profit (loss) for <u>non-participating</u> preference share dividends to calculate profit (loss) attributable to ordinary equity holders of the parent entity. [Refer: Preference shares [member]; Profit (loss)] |

* The first element reflects Illustrative Example 12 of IAS 33, which relates to non-participating preference shares.

2. Depository receipts

Proposal

Add a new axis 'Types of depository receipts' with the default member 'All types of depository receipts'.

Feedback

Agreement with adding the axis but:

- a) The member 'All types of depository receipts' does not represent an entity-wide value and therefore cannot be the default member for this axis.
- b) Add a guidance label stating that extension members representing a specific type of depository receipts should be children of the member 'All types of depository receipts'. Doing so would facilitate using the data and would be consistent with XBRL US data quality committee guidance.

Response

- a) We agree with changing the default member of the axis—see the next two slides.
- b) We agree that linking extension members to existing IFRS Taxonomy members would benefit users. However, such guidance labels would need to be added consistently throughout the IFRS Taxonomy. This is outside the scope of this project.

2. What is the issue with our existing proposal?

| | | |
|---|------|----|
| Earnings (loss) per ordinary share attributable to Himax stockholders: | | |
| Basic | 0.08 | \$ |
| Diluted | 0.08 | \$ |
| Earnings (loss) per ADS attributable to Himax stockholders ⁽³⁾ : | | |
| Basic | 0.16 | \$ |
| Diluted | 0.16 | \$ |

The IFRS Taxonomy element 'Basic earnings (loss) per share' is used to tag the amount of '0.08', which is the value applicable to the underlying ordinary share the ADS represents.

| | |
|--|--------------------------|
| Disclosure of depositary receipts [text block] | text block |
| Disclosure of depositary receipts [abstract] | |
| Disclosure of depositary receipts [table] | table |
| Types of depositary receipts [axis] | axis |
| All types of depositary receipts [member] | member[default] |
| Classes of ordinary shares [axis] | axis |
| Ordinary shares [member] | member[default] |
| Disclosure of depositary receipts [line items] | line items |
| Number of shares represented by one depositary receipt | X.XX _{instant} |
| Basic earnings per share [abstract] | |
| Basic earnings (loss) per share from continuing operations | X.XX _{duration} |
| Basic earnings (loss) per share from discontinued operations | X.XX _{duration} |
| Total basic earnings (loss) per share | X.XX _{duration} |

Because no specific member is used, the default member of the 'Types of depositary receipts' axis applies. Applying the existing proposals, the default member is 'All types of depositary receipts'. The tagging would wrongly imply that the amount of '0.08' is the value of all types of depositary receipts.

2. Depository receipts—proposed change

- The depository receipts axis represents a ‘reporting characteristic’ rather than a disaggregation. Other such axes exist within the IFRS Taxonomy, for example the ‘Consolidated and separate financial statements’ axis.
- We propose to:
 - change the default member of this axis to the underlying equity instrument (ordinary shares or any other equity instruments) issued by a company for which a depository receipt may or may not exist.
 - change the standard label of the axis.
 - retain ‘All types of depository receipts’ as a (non-default) member.

| Table | Disclosure relating to depository receipts |
|----------------|--|
| Axis | Types of depository receipts –Underlying equity instrument and depository receipts |
| Default member | All types of depository receipts –Underlying equity instrument [member] |
| Members | <u>All types of depository receipts [member]</u> Extension members representing a specific type of depository receipt |

3. Multiple classes of participating equity instruments

Proposal

The PTU stated that we found that few entities report information about earnings per instrument for multiple classes of participating equity instruments other than ordinary shares. For example, only a few entities report earnings per preferred share A and earnings per preferred share B. The PTU stated that, if an entity reports such information, it can add an extension axis.

Feedback

Change wording in the IFRS Taxonomy Update to state that, if an entity reports such information, it should consider using the 'Classes of share capital' axis or an extension axis if necessary.

Response

We agree with changing the wording in the final IFRS Taxonomy Update.



Double tagging

Double tagging

Proposal

Add guidance labels recommending entities to tag a single reported amount with two line items ('double tagging') when:

- Basic and diluted earnings per share are equal; or
- Reclassification adjustments on items of other comprehensive income are zero.

Feedback

Two respondents agreed with the proposals. Two other respondents were concerned that:

- in some cases, double tagging could result in entities reporting information in their tagged financial statements that is not (explicitly) reported in their paper-based financial statements.
- more work is needed to establish whether double tagging would benefit data consumers.
- there are many other disclosures where a single reported amount may correspond to two IFRS Taxonomy line items. Requiring double tagging only for some IFRS Taxonomy elements may cause confusion—some entities may apply double tagging more broadly while others may not.

Double tagging—response (1)

Response

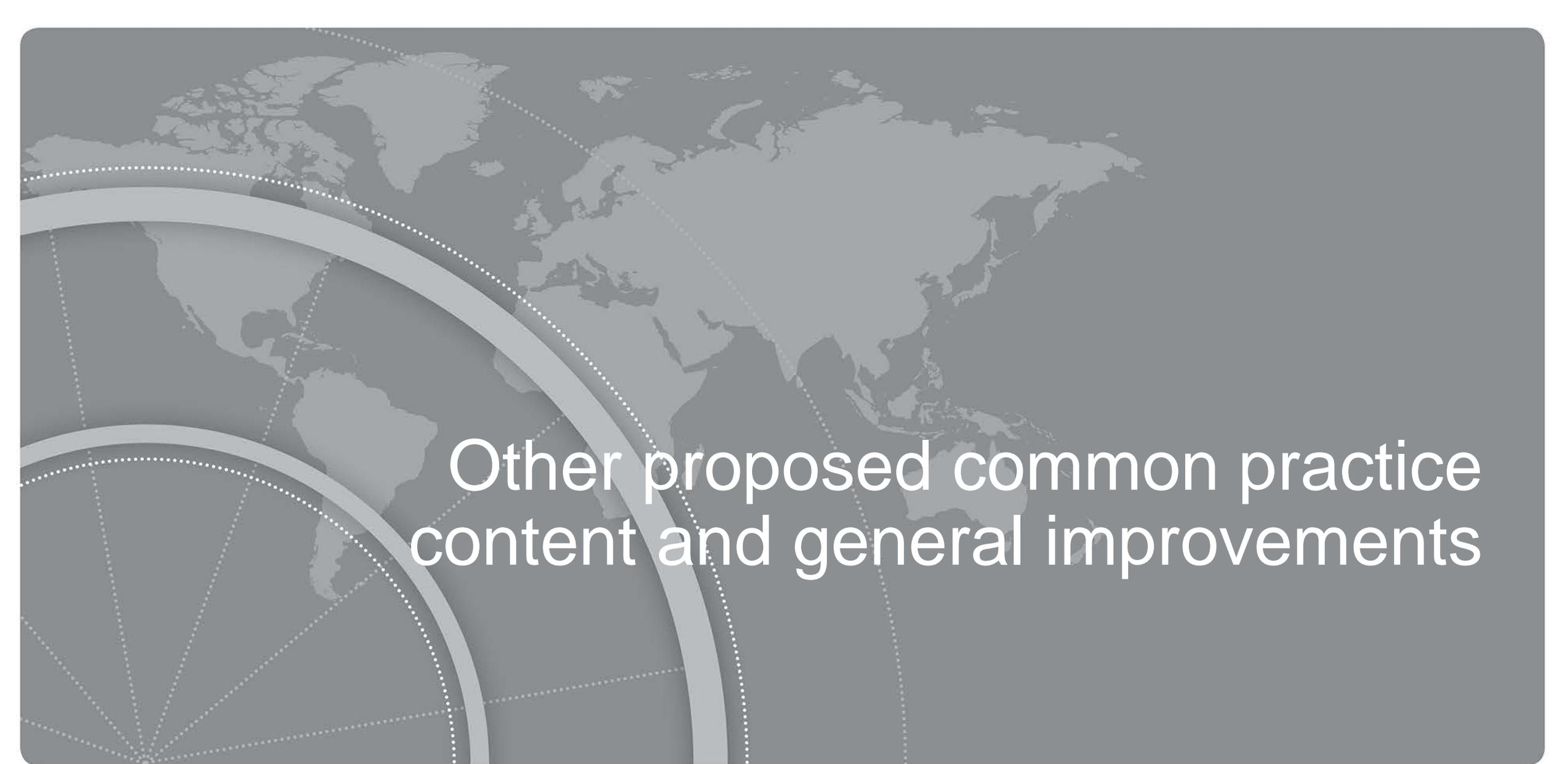
We agree that we need to do further research on double tagging. However, we propose retaining the proposals for earnings per share.

- We agree that we need to:
 - analyse the **benefits** of double tagging for data users more generally; and
 - **develop a general policy** for when we recommend using double tagging in guidance labels. We plan to discuss such a policy at the June 2021 ITCG meeting.
- Therefore, we decided **not** to pursue our proposal for double tagging for **other comprehensive income** before and after reclassification adjustments

Double tagging—response (2)

However, we plan to retain the proposal to deprecate the combined line item ‘**Basic and diluted earnings (loss) per share**’ and add guidance labels recommending double tagging when basic and diluted earnings per share are equal, because:

- IAS 33 is **unique** in that it requires an entity to present basic and diluted earnings per share **even when they are equal** and allows such presentation to be achieved with **a single line item**. As a result, applying double tagging to earnings per share, tagged financial statements would convey the **same information** as paper-based financial statements.
- we have analysed how an investor would use the data and concluded double tagging makes it **easier** to use the tagged data than using the existing combined line items.
- specific guidance labels for earnings per share will make it clear that double tagging **only applies in this particular case**, at least for now.



Other proposed common practice
content and general improvements

1. Cumulative catch-up transitioning approach

Proposal

Entities commonly report cumulative catch-up adjustments to the opening balance of equity and specific assets or liabilities. We proposed to add a new axis and members to tag these disclosures.

Feedback

Three respondents agreed with the proposal. One respondent questioned whether the use of an axis is the best model considering that such adjustments are generally presented in paper-based reports as a separate row in the statement of changes in equity.

Response

We understand that aligning the modelling to a common presentation pattern may make the taxonomy easier to understand. However, in this case, we prefer using an axis because:

- an axis has already been used for the retrospective transitioning approach; and
- an axis can be applied more widely to tag other disclosures if needed. For example, the axis can also be used to tag cumulative catch-up adjustments to specific assets and liabilities, instead of using multiple line items.

2. Statement of changes in equity: retained earnings

Proposal

Add new elements for 'Retained earnings, profit (loss) for reporting period' and 'Retained earnings, excluding profit (loss) for the reporting period'.

Feedback

Agreement. One respondent suggested to add a new element 'Appropriation of profit (loss) for the reporting year' because this is commonly presented in the statement of changes in equity.

Response

The taxonomy already includes the element 'Increase (decrease) through appropriation of retained earnings, equity' that can be used. We did not observe any common extensions.

3. OCI: aggregate of FX and net investment hedges

Proposal

Add the following line item to reflect common reporting practice:

Other comprehensive income, net of tax, exchange differences on translation of foreign operations and hedges of net investments in foreign operations

Feedback

Agreement, but consider adding similar elements for the amount before tax and the related tax effect.

Response

We agree with adding such elements to the IFRS Taxonomy. Such elements would meet the 'completeness' criterion for common practice content, even though they do not meet the 'frequency' criterion.*

*See Appendix for a description of the criteria we use for adding common practice.

4. OCI: gains (losses) on revaluation

Proposal

Amend the labels of an OCI line item to avoid common tagging errors (changes underlined):

| | |
|---------------------|--|
| Element label | Other comprehensive income, net of tax, gains (losses) on revaluation <u>of property, plant and equipment and intangible assets</u> |
| Documentation label | The amount of other comprehensive income, net of tax, related to gains (losses) in relation to changes in the revaluation surplus <u>of property, plant and equipment and intangible assets</u> . [Refer: Other comprehensive income; Revaluation surplus] |

Feedback

Agreement, but consider adding 'right-of-use assets' to the standard label and documentation label.

Response

We agree that the element is also applicable to right-of-use assets that are remeasured applying paragraph 35 of IFRS 16. We agree with the suggested label changes.



Other suggestions made by
respondents

1. Guidance labels

Feedback

The proposed changes to guidance labels are useful, but some respondents were not aware such labels existed. It would be helpful if they were easily accessible on the Foundation's website.

Response

- We agree that we can do more to inform preparers about the existence of guidance labels. We propose changing *Using the IFRS Taxonomy—A Preparer's guide* to include a description and example of a guidance label.
- The *IFRS Taxonomy Illustrated* in Excel which is available on our [website](#) already contains the guidance labels.

2. Non-recurring income and expenses

Feedback

Consider adding line items to the IFRS Taxonomy for recurring and non-recurring operating income and expenses and recurring operating profit (loss).

Response

The IFRS Taxonomy Review Panel concluded such elements should not be added to the IFRS Taxonomy at this time, to avoid pre-empting the Board's proposals in the Primary Financial Statements project on unusual income and expenses and management performance measures.

3. Other suggestions not directly related to the PTU

Feedback

- Missing balance attribute for some IFRS Taxonomy elements
- Missing 'Period start' and 'Period end' labels for a few IFRS Taxonomy elements
- Request for tagging guidance for companies that present discontinued operations as a separate line item in the cash flow statement
- Suggestions for a few new common practice elements
- Suggested changes to labels of a few existing elements to clarify their accounting meaning

Response

We appreciate the feedback. However, these suggested improvements require further research and therefore cannot be included within the annual *IFRS Taxonomy 2021*.

We will consider the priority of these improvements when setting our workplan for 2021 and beyond.



Appendix

Criteria for adding common practice content to the IFRS Taxonomy

Common practice criteria

| Criterion | Description |
|---------------------------------|---|
| Consistency with IFRS Standards | Only those elements that are consistent with the requirements of IFRS Standards are added to the IFRS Taxonomy. |
| Frequency | Only those elements that are frequently reported across jurisdictions are added to the IFRS Taxonomy (see next slide). |
| Distinctiveness | Only those elements with a different accounting meaning from existing IFRS Taxonomy elements are added to the IFRS Taxonomy. |
| Completeness | Elements may be added to logically complete the IFRS Taxonomy. These elements need not meet the frequency criterion. |
| Relevance | Only those elements that provide relevant information to users of tagged financial statements are added to the IFRS Taxonomy. |

Frequency criterion

For an **extension to be considered common reporting practice**, at least **10% of companies from a sample** should report it. In developing PTU 2020/4, the taxonomy team has used **two approaches to select the samples** to which the frequency criterion is applied:



Total companies sample

Common reporting practice is identified based on the total of all foreign private issuers



Activity-based sample

1. A specific industry
 - For example: all companies engaged in extractive activities
2. A specific transaction
 - For example: all companies that have issued preference shares

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