Meeting note—IFRS® Taxonomy Consultative Group

The IFRS Taxonomy Consultative Group (ITCG) held a meeting by video conference call on 30 June 2021. This note has been prepared by the staff and summarises the discussions. Related papers and recordings of the meeting are available on the meeting page.

The ITCG members discussed:

- *Third Agenda Consultation* (paragraphs 1–8);
- Digital reporting implications for the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* (paragraphs 9–22);
- IFRS Taxonomy content—tagging implicitly reported concepts (paragraphs 23–36); and
- IFRS Taxonomy content—tagging comparative information reported in accordance with a superseded IFRS Standard (paragraphs 37–49).

Third Agenda Consultation

1 The purpose of this session was to provide an overview of the Request for Information *Third Agenda Consultation* and seek ITCG members' feedback on three key aspects of the consultation, focusing on the strategic direction and balance of the Board's activities (including work on the IFRS Taxonomy and broader digital financial reporting).

2 Two ITCG members suggested the Board develop updates to the IFRS Taxonomy in parallel with the development of new IFRS Standards or major amendments to IFRS Standards. The staff replied that currently the IFRS Taxonomy is developed in conjunction with the development of any new IFRS Standard or a major amendment to IFRS Standard and will be published in the March immediately after the Standard or the amendment is finalised and incorporated into Issued IFRS Standards–Bound Volume.

3 Two ITCG members suggested the Board should increase its level of focus on digital financial reporting. One of these members suggested the Board decrease its current level of focus on new research and standard-setting projects. Another member suggested the Board leave unchanged its current level of focus on research and standard-setting projects and consider increasing the level of focus on digital financial reporting, so it falls within the range of, for example, 5%–10%. This member suggested the Board should monitor the developments in the digital reporting ecosystem, including regulatory developments, and should be flexible in addressing emerging issues.

4 Some ITCG members said data quality needs to be improved. They said this requires efforts from various market participants, including securities regulators, and the IFRS Foundation also has a role to play by improving the quality of the IFRS Taxonomy. One ITCG member said the Board should focus on improving the understandability of the IFRS Taxonomy, because this is the foundation of the digital reporting ecosystem—if preparers understand how to tag financial information, they will provide better information to users of digital financial information. Some ITCG members noted that the focus so far has been on tagging granular data. This has resulted in inconsistent tagging of totals and has reduced comparability between companies.

5 One ITCG member asked to what extent the Board currently utilizes digital IFRS data that is being filed with the Securities and Exchange Commission (SEC). For example, is the Board looking into the ways the companies have implemented IFRS 15 *Revenue from Contracts with*

Customers and what information these companies have disclosed? The staff replied that in some projects we are using IFRS data that are digitally reported; having digital IFRS data filed with SEC data is a big advantage, because it provides evidence we use when we are undertaking research. As more data are becoming available, we will use it more than we did in the past. The staff noted that we have not started the post-implementation review of IFRS 15 yet. But as part of that review, the staff will undertake research related to the implementation of the Standard, including review of digital IFRS data filed with SEC. The staff also noted that some projects—for example, Primary Financial Statements have used a lot of these data for the analysis of operating expenses. However, the staff identified a lot of issues with data quality. The ITCG member said there are advantages in analysing text blocks, where very rich narrative details are disclosed. In this member's view, researching structured data together with the analysis of the qualitative information, using machine learning and artificial intelligence, may help overcome some of the data quality issues identified by the staff and some ITCG members.

6 One ITCG member asked what is meant by the digital ecosystem and whether the digital ecosystem is based on the IFRS Taxonomy. The staff responded by explaining that there are different players involved in digital reporting. The Board is one of the players in the digital reporting ecosystem, developing the IFRS Taxonomy and IFRS Standards. But for that ecosystem to work effectively, we rely, among others, on regulators that set the digital reporting requirements, software platforms, data aggregators, preparers, and investors. For that ecosystem to work effectively we need all players to work together toward the common goal of accessible digital financial information. The ITCG member said in China there is a general-purpose taxonomy based on the IFRS Taxonomy and a regulatory taxonomy, which includes some elements of the IFRS Taxonomy. This member said he believed the digital ecosystem described in the Agenda Paper 1 refers to the former. The staff replied that the focus is on the digital ecosystem based on the IFRS Taxonomy. As part of the agenda consultation, we are seeking stakeholders' views on whether there is demand for more streamlined digital financial reporting using the IFRS Taxonomy and what role the Board should play in the digital ecosystem.

7 One ITCG member said ongoing engagement of the taxonomy team with the project teams working on the development of accounting standards makes the standard-setting process more effective. This involves research into how the information is actually used in the digital ecosystem and for greater engagement with constituents, including not only the users of financial statements, but also intermediaries in the digital ecosystem.

8 Two ITCG members suggested the Board explore how the latest advancements in machine learning and artificial intelligence can be used to analyse large volumes of digital information. These members suggested the Board collaborate with other players to further progress the vision for digital financial markets. One of these members also suggested research to understand the way companies are expanding the IFRS Taxonomy by use of extensions and how they are utilising these networks of relationships.

Digital reporting implications for the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*

9 The purpose of this session was for ITCG members to discuss and provide feedback on the digital reporting implications of the Board's proposed new approach to developing disclosure requirements in IFRS Standards.

10 The technical staff provided ITCG members with an overview of the proposals included in the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach.* This overview was followed by breakout sessions to obtain ITCG members' views on:

a. the likely effects of the proposed new approach on digital reporting; and

b. the IFRS Taxonomy reference type for items of information included in IFRS Standards applying the proposed new approach.

Likely effects of the proposed new approach on digital reporting

The Board's views on the likely effects of the proposed new approach on digital reporting

11 ITCG members generally agreed with the Board's views on the likely effects of the proposed new approach on digital reporting.

12 ITCG members welcomed creating IFRS Taxonomy elements for overall and specific disclosure objectives and items of information identified in the Standards, including those items that would not be mandatory. Some members added that, by maximising data points for the IFRS Taxonomy, the approach would reduce the risk of unnecessary extensions being created. One ITCG member noted that the IFRS Taxonomy already has a lot of elements and cautioned against significantly increasing its size.

Consequences of the proposed new approach on digital reporting

13 ITCG members commented on the interaction between the proposed new approach and the use of extensions, as follows:

a. some ITCG members said that educating stakeholders on the proposals would be very important and that preparers should be encouraged to use the IFRS Taxonomy tags that would be created rather than extensions.

b. some other ITCG members said that extensions provide useful, entity-specific information and therefore the use of extensions should not be discouraged. These members noted that developments in technology – for example, normalisation and anchoring tools – are providing opportunities to improve the accessibility of extensions for users of financial statements. They added that the IFRS Foundation should invest more resources in providing awareness on those developments in technology.

c. a few ITCG members said that the proposed approach would increase the importance of auditing electronic financial statements in order to improve the quality of the tags that would be used in filings.

14 Some ITCG members said that it would be helpful to further consider how numerical elements in the IFRS Taxonomy can be reflected under the US SEC filing rules. They added that detailed tagging with numerical elements is more helpful than tagging with text block elements. However, these members noted that this is an issue that already exists today.

15 Some ITCG members said that viewing the proposed approach as an iterative process would provide a good feedback loop to the Board on disclosures that provide useful information to users of financial statements in practice. A few ITCG members added that the proposed approach may require a significant focus on common practice analysis and increase the need for common practice elements in the IFRS Taxonomy.

Potential costs of the proposed new approach

16 Many ITCG members said that the proposed new approach would not introduce additional costs for users of electronic reporting.

17 However, a few other members said that the proposals could increase costs for users of electronic reporting in accessing a wider range of information and costs for preparers to use and anchor extensions.

Other comments

18 Some ITCG members commented on the likely effects of the proposed approach generally. Some of those members said the proposals could be more challenging for preparers to apply and that prescriptive disclosure requirements would be preferable. One member suggested a hybrid approach – that is, a combination of disclosure objectives and a minimum list of requirements. Other ITCG members commented that the proposed approach is a consequence of IFRS Standards being principles based rather than rules based.

19 A few members suggested that the Board consider undertaking fieldwork on the proposals with preparers of electronic reports to better understand how the proposals would interact with the IFRS Taxonomy.

IFRS Taxonomy reference type for items of information included in IFRS Standards applying the proposed new approach

20 Many of those ITCG members that commented supported approach B—that is, an approach that would use a new disclosure reference type in the IFRS Taxonomy for items of information that are not mandatory. This could be the 'recommendedDisclosureRef' reference type already specified by XBRL International. Some of these members added that they support this approach because the IFRS Taxonomy should clearly distinguish between mandatory and non-mandatory disclosure items, similar to the Standards.

21 One ITCG member supported approach A—that is, using the 'Example' reference type—because in their view, it is better to use a reference type that already exists in the IFRS Taxonomy.

22 One ITCG member said that preparers generally do not use references, although the member acknowledged that references are a helpful resource for preparers to tag effectively.

Tagging implicitly reported concepts

23 The purpose of this session was to discuss the tagging of implicitly reported concepts. The topics for this session were:

a. problems with lack of tagging of implicitly reported concepts; and

b. potential solutions.

Problems with lack of tagging implicitly reported concepts

24 The paper explained two examples of implicitly reported concepts in the paper-based reporting:

a. Example 1 illustrated that some entities do not explicitly report information that profit or loss equals profit attributable to owners of the parent when the amount of non-controlling interest is zero.

b. Example 2 illustrated that some entities do not explicitly report total employee benefits expense but instead report all components of employee benefits, such as salaries and pensions.

In both examples, using the context provided by a paper-based report, a user can often derive the missing information. However, in digital reporting that context might not be provided, making it more difficult for a user to derive those amounts.

25 Many members agreed it would be helpful if digital reporting facilitated data consumption by making important information easily available for users. Two members noted that in the absence of some specific data users will often estimate it using available information. However, such a process requires more work and is often subject to judgement and assumptions.

26 Some members were not clear what "implicitly reported" information in the paper-based report means, for example:

a. should the amount that is not reported be tagged with zero;

b. could we always assume that total amounts are implicitly reported if all components are reported;

c. do companies provide additional information by reporting amounts with zero values compared to when they decide such information is not reported.

Potential solutions: Approach A – Change paper-based reports to achieve better digital reporting

27 Approach A specifies that paper-based reports should be changed to facilitate the improvement of digital information, for example IFRS Standards should require reporting some totals to allow tagging of that information.

28 Many members thought that important information for users should be provided in paper-based reports to allow its tagging. However, some members raised concerns about reporting and tagging nil or immaterial information:

a. One member cautioned that such an approach might be viewed as a checklist approach without value to users.

b. One member thought that adding such requirements to paper-based reports would clutter the financial statements.

Potential solutions: Approach B – Improve digital reports independently from paper-based reports

29 Approach B specifies that digital reports should be changed without changes in the paper-based reports, for example companies could be required to tag concepts required to be disclosed by IFRS Standards even if a company does not report them explicitly in their paper-based report.

30 Some members had concerns about the idea that digital reporting might provide more information than a paper-based reports because:

a. it could confuse users as to where to look for particular information and over time the divergence between paper-based and digital reporting might become even greater.

b. such a change might not be supported by some regulators or software providers that focus on tagging information that is reported in the paper-based report.

31 A few members referred to reporting for regulators in a template-type format using mandatory disclosures where companies need to provide specific information even if it is zero. However, another member thought such an approach might work better in regulatory frameworks where requirements might be more specific than IFRS requirements.

Additional comments on technical solutions explored in the paper

32 Double tagging for two concepts with equal amounts (Example 1) – members commented as follows:

a. One member thought that double labelling in a paper report allows tagging such amounts.

b. One member noted that double tagging is a good technical solution because it already works well, and is supported by systems and viewers.

c. One member was concerned that such a solution might not be in conformity with ESMA requirements for ESEF filings.

33 Calculation for components that add up to a total (Example 2) – members commented as follows:

a. Two members thought that users need to understand the relationship between amounts – they suggested the use of calculations, formula or some form of anchoring.

b. Two other members noted that calculations could not be used currently when the total amount is not reported. However, one member explained that XBRL International is working on a new XBRL specification which aims to address this issue.

Next steps

34 Two members highlighted that digital reporting could offer some technical solutions not available for paper-based reporting. They challenged members to think in more innovative ways instead of using more traditional ways of thinking. That member also stressed that digital reporting might be an opportunity for financial reporting to be more relevant by making information more easily available.

35 One member noted that such discussions are important because they bring issues to the attention of the group. This is especially important when solutions might require feedback and cooperation from a range of stakeholders.

36 The staff highlighted that this discussion aimed to brainstorm the topic but would require some additional thinking to develop potential solutions. In addition, the feasibility of the staff developing and implementing the technical solutions discussed is linked to the outcome of the IASB's *Agenda Consultation*. In this consultation the IASB is asking stakeholders on their views regarding priorities the Board should be focusing on in the next 5 years, including the scope of work for digital reporting.

IFRS Taxonomy content: tagging comparative information reported in accordance with a superseded IFRS Standard

37 The purpose of this session was to discuss the tagging of comparative information reported in accordance with a superseded IFRS Standard. The topics for this session were:

a. delayed deprecation of elements pertaining to superseded IFRS Standards;

b. easy identification of elements of superseded IFRS Standards; and

c. use of expired elements in the current reporting period.

Delayed deprecation of elements pertaining to superseded IFRS Standards

38 Many of the ITCG members agreed with the staff proposal:

a. not to deprecate the elements of a superseded IFRS Standard when the new (or amended) IFRS Standard permits or requires a prospective transition approach or a cumulative catch-up transition approach;

b. retain such elements in the IFRS Taxonomy for three years after the new (or amended) IFRS Standard becomes effective; and

c. apply the new policy to delay the deprecation on a prospective basis.

39 One ITCG member supported the proposal and agreed with the risks noted. The member said that guidance could be helpful in avoiding those risks. The member raised a concern regarding filers that have an atypical reporting period, for example December to November, because this means that their application of the Standards would be delayed. However, the member suggested providing guidance to help preparers understand which elements they should be using.

Easy identification of elements of superseded IFRS Standards

40 Many of the ITCG members supported the proposals to add a reference note and guidance label to the elements of superseded IFRS Standards. They agreed that the proposed formula will discourage the use of expired elements in the current reporting period.

41 One ITCG member suggested to break down the reference notes components of 'expiry', 'effective' and the dates to better manage this information digitally, believing this would be helpful for vendors, users and preparers.

42 One ITCG member suggested analysis of the usage of the guidance labels that have been introduced recently. The member said this would show whether the filers are behaving consistently with the guidance and the guidance labels are effective. However, another ITCG member considered that not everything is in the hands of the Board regarding correct tagging and providing guidance is the best that can be done to make the things clear.

43 One ITCG member raised a concern regarding the formula, that it might not capture different expiry date between filers due to different filing periods. The staff replied that the formula could not capture all possible cases of different filing periods.

44 One ITCG member disagreed with the proposals because the warnings raised from the formula would be different between jurisdictions. The member said the filers are aware of the tags that should be used; hence it is not useful to have those warnings. In contrast, two ITCG members said the warnings are helpful. One of the members said the Board could create a formula and each jurisdiction could customise it accordingly, for example if necessary to account for Standards that have yet to be endorsed in that jurisdiction.

Use of expired elements in current reporting period

45 There were mixed views from ITCG members towards both approaches considered: either to allow the use of the 'expired' elements when a company provides superseded disclosures voluntarily, or to leave entities to create extensions to tag such voluntary disclosures in the current reporting period.

46 Two ITCG members supported the use of extensions. One ITCG member also said that the approach is appropriate because using expired elements would mean that a preparer is tagging with an element which corresponds to a Standard which is not the one used in preparing the disclosures in Financial Statements.

47 One ITCG member had a concern regarding non-calendar-year reporting periods, where the filers might need to use the expired tag if they were still subject to a requirement to report the

expired element. The staff replied that it will depend on the version of the IFRS Taxonomy being used, and that if preparers have good reason to use the expired tag, they could use it.

48 One ITCG member suggested that the approach should provide some discretion to regulators. The member added that some jurisdictions that do not permit the use of extensions do take notice of these kinds of flags. Therefore, the member suggested not to use the warnings in this context.

49 A few ITCG members agreed that the preferable approach would vary according to the scenario. One of the members said filers might need to use the expired tag due to legal requirements, hence warnings are sufficient to remind the filers that the tag is expired. Another member said that the better approach may depend on the reason for the disclosure being made, for example, the use of an expired element is logical if it is to clarify a comparative balance item (assessed under the expired standard), otherwise the use of an extension would be reasonable.