

Agenda paper 1
ITCG meeting, November 2021

IFRS® Foundation

Exposure Draft *Management commentary*

Digital reporting implications
for proposals related to cross-references

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Objective of the session



Seek ITCG members' views on the digital reporting implications of the Board's proposals for reporting information in management commentary

September 2021

This meeting

Future meetings

IFRS Taxonomy modelling for disclosure proposals:

disclosure objectives and examples

key matters

metrics

Technology considerations for proposals:

identification of information from each report

relationship with other taxonomies

statement of compliance with requirements



inclusion of information by cross-reference to other reports

Agenda

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Background

Management Commentary –
project objectives (reminder)

What is management commentary?



A financial report

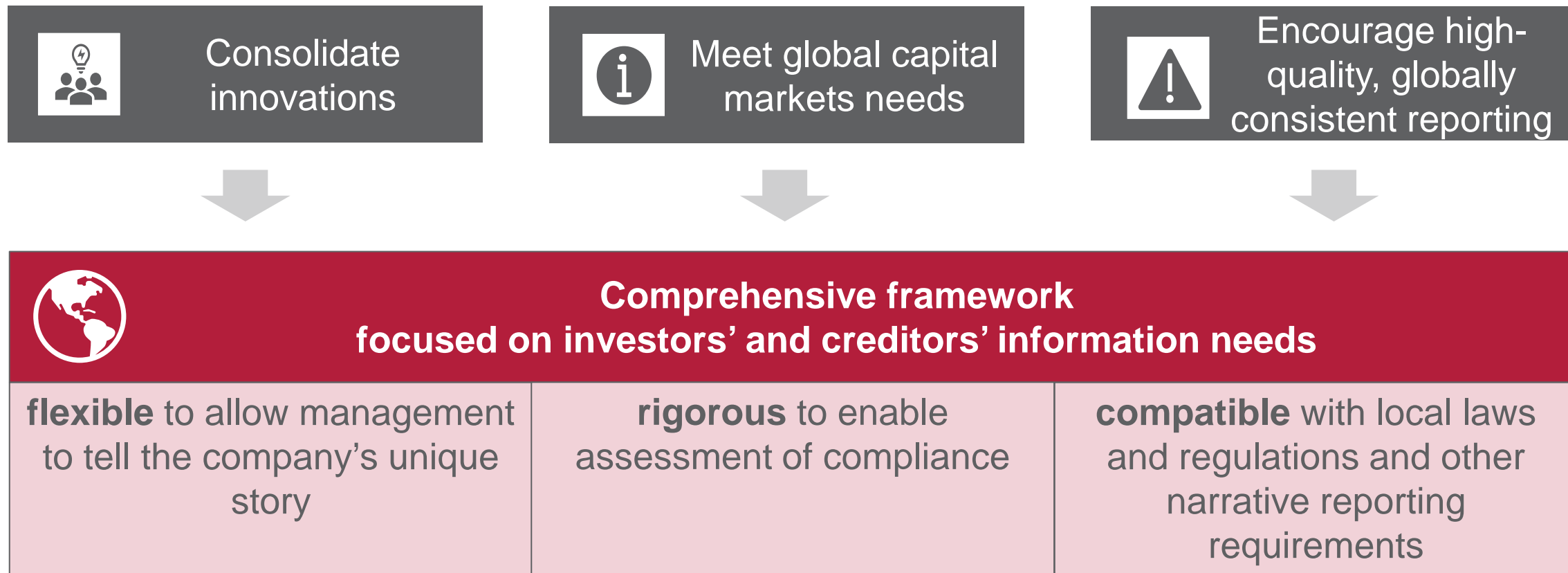
- Complements financial statements by explaining factors that affected a company's financial position or performance or might affect it in future – **includes more discussion, analysis, forward-looking information and non-financial information**
- Provides insights into a company's ability to create value and generate cash flows
- Aimed at investors and creditors but may be useful for a wider range of stakeholders

IFRS Practice Statement 1
Management Commentary

Management commentary



What is the IASB aiming to achieve?



Project timeline



- Project information <https://www.ifrs.org/projects/work-plan/management-commentary/>
- The Exposure Draft can be found [here](#)
- The snapshot summarising the proposals in the Exposure Draft can be found [here](#)



Background

Management commentary: proposals for including information by cross-reference

Inclusion of material information in management commentary by cross-reference



Objective of proposals: Reduce duplication of information and make management commentary more concise and clear

Information may be included in management commentary by cross-reference to another report.
That information **becomes part of management commentary**

- needs to comply with the requirements of the Practice Statement
- the cross-referenced report needs to be available whenever the management commentary is available and on the same terms
- the bodies who authorise the management commentary for issue take the same degree of responsibility for the information included by cross-reference

Specific requirements

- the cross-referenced report is clearly identified and it is made clear how to access it
- cross reference is made to a precisely specified part of the report
- the information included is up to date and period covered by the information is clear

Examples and illustration

- The scope of management commentary is broad, so it may include information by cross-reference to various reports. **For example**, information may be included by cross reference to:
 - disclosure about management performance measures¹ **in the company's financial statements**
 - the explanation of metrics on which incentive schemes are based **in the remuneration report**
 - capital adequacy and risk management disclosures in 'Pillar 3' risk disclosures in the financial sector
 - information about environmental, social or governance matters **in the company's sustainability report**
- **Illustration** of disclosure in management commentary and related report

Management Commentary

[...]

Pages 45-46 of the Risk Management section of the Group's Governance report explain the oversight and management of risks within the Group.

Governance report

[...]

Section 5: Risk management

The Group's Risk Committee monitors and reports on the Group's financial, operational and legal risks.

In 202X, the Committee monitored developments related to COVID-19 pandemic, identifying associated new or increasingly severe financial and operational effects ...

¹ Proposals related to Management Performance Measures are discussed by the Board in a separate project [Primary Financial Statements](#)



Background

Financial statements: requirements related to cross-references in IFRS Standards

Requirements related to cross-references in IFRS Standards

- In a limited number of cases, IFRS Standards allow providing information in financial statements by cross-reference to other reports.
- Example of requirement in IFRS 7 *Financial Instruments: Disclosures* (section: Hedge accounting)

21B. [...] an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is **available** to users of the financial statements **on the same terms** as the financial statements **and at the same time**. Without the information incorporated by cross-reference, the financial statements are incomplete.

- Illustration of disclosure in the financial statements and related report

Notes to the financial statements

[...]

Note 2.3 Hedge accounting derivatives

A company applies hedge accounting to manage the following risks: interest rate, foreign exchange and net investment in foreign operations. Explanation on how these risks arise and how they are managed by the Group **can be found in the risk management section of 'Risk report' pages 100-102.**

Risk report

[...]

Section 5: Risk management

The company is exposed to risks related to interest rate, foreign exchange and net investment in foreign operations. The management decided to mitigate some of the risk related to interest rates by using derivative instruments ...

Reflecting requirements related to cross-references in IFRS Taxonomy

- IFRS Taxonomy includes 8 **text** elements related to cross-references in financial statements:
 - Explanation of cross-reference **to interim financial statement** disclosures for first-time adopter (IFRS 1.33)
 - Description of cross-reference to disclosures about hedge accounting **presented outside financial statements** (IFRS 7.21B)
 - Description of cross-reference to disclosures about credit risk **presented outside financial statements** (IFRS 7.35C)
 - Description of cross-reference to disclosures about nature and extent of risks arising from financial instruments (IFRS 7.B6)
 - Description of cross-reference to disclosures about activities subject to rate regulation (IFRS 14.31)
 - Description of cross-reference to disclosures about leases (IFRS 16.52)
 - Description of cross-reference to disclosures about plans that share risks between entities under common control **in another group entity's financial statements** (IAS 19.150)
 - Description of cross-reference to disclosures presented **outside interim financial statements** (IAS 34.16A)



We have not found any usage of those text elements by SEC IFRS (FPI) filers

Note: currently, tagging requirements are focusing on blocks of information (eg whole disclosure) and numerical information (values), textual information is mostly not required to be tagged

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 continents. A network of thin, dotted lines is also visible, connecting various points across the map, suggesting a global or interconnected theme.

Staff analysis

What is the issue?

Comparison of effects of cross-references in financial statement and management commentary



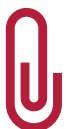
IFRS Standards allow inclusion of information by cross-reference in **limited number of cases**, as illustrated by IFRS taxonomy elements on slide 13. Compared to financial statements, we expect that inclusion information by cross-reference to other reports may be **more pervasive in**

Management commentary because:

- Use of cross-references **may be more extensive** (though proposals intend to limit excessive cross-referencing).
- Management commentary is expected to include information on various areas of a company's activities so cross-references may be made to a **broad range of reports**.



Slides 16-17 **illustrate** how companies may tag information using text elements available in IFRS Taxonomy for financial statement and similar text elements that may be created for Management commentary.




Note: For digital reporting, we should consider 2 scenarios for cross-reference to another report:

1. Reports are provided within the same file (pdf or xhtml)
2. Reports are provided in different files

In these slides we will focus on scenario 2 because it is more challenging from technology perspective. We assume the same solution can be used for scenario 1.

Illustration of tagging of financial statement using only text elements

 The objective of the session is to discuss cross-references *from* management commentary *to* other reports, but it may be easier to understand the issue by looking at cross-references included in tagged financial statements

- Let's consider **an example** of including information in financial statements (that is required to be tagged) by cross-reference to a risk report (that is not required to be tagged)

Financial statements

Explanation on how these risks arise and how they are managed by the Group can be found in the risk management section of 'Risk report' pages 100-102.



Description of cross-reference to disclosures about hedge accounting presented outside financial statements [text]

Risk report

The company is exposed to risks related to interest rate, foreign exchange and net investment in foreign operations. The management decided to mitigate some of the risk related to interest rates by using derivative instruments ...



Disclosure of risk management strategy related to hedge accounting [text block]

Description of nature of risks being hedged [text]




Conclusion:



- Companies might not tag information provided in other reports by cross-reference, if those reports are not required to be tagged
- Users of digital information will receive **different information depending on where information is provided in the paper format** – in the example above information from Risk report would not be tagged and therefore available in digital format

Illustration of tagging of management commentary using only text elements

 Let's now consider **an example** of including information in management commentary (assuming report is required to be tagged) by cross-reference to a governance report (that is not required to be tagged).

Management Commentary [...]


Pages 45-46 of the Risk Management section of the Group's Governance report explain the oversight and management of risks within the Group.


Governance report [...]

Section 5: Risk management

The Group's Risk Committee monitors and reports on the Group's financial, operational and legal risks.

In 202X, the Committee monitored developments related to COVID-19 pandemic, identifying associated new or increasingly severe financial and operational effects ...

Description of cross-reference to disclosures about entity's oversight and management of risks [text] 

Disclosure of entity's oversight and management of risks [text block] 



Conclusion (the same as for tagging financial statement)

- Users of digital information will receive **different information depending on where information is provided in the paper format** – in the example above information from Governance report would not be tagged and therefore available in digital format

Note: Elements used for tagging the example are provided for illustration purposes only, IFRS Taxonomy does not currently include such elements

What is the issue?



Proposal in the Exposure Draft: Material information may be included in management commentary by cross-reference to another report. That information **becomes part of management commentary**. This means another report **needs to be available on the same terms** as management commentary.



The approach to tagging illustrated on slides 16 and 17 would mean information provided by cross-reference in another report **may not be available in a digital format**. This **does not appropriately reflect the proposal** in the Exposure Draft.



We need to consider an **approach to tagging that would provide the same access to information in a digital format regardless of the location of information in a paper report**.
Such approaches will require collaboration with various stakeholders.

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. A network of thin, dotted white lines is also visible, connecting various points across the map, suggesting a global or interconnected theme.

Staff analysis

Potential solutions

Considered options

- **Option 1: tag the text** that indicates the cross-reference with a hyperlink (URL) to the referenced file

Options that provide digital access to the tagged, specified information from the referenced file where information is located (tagged using the same elements as if the content was included in the main file)

- **Option 2: include tagged, specified information** from the referenced file **as hidden content** in the tagged report (main file) (and likely tag the text in the main file as in Option 1)
- **Option 3: tag the referenced file** (and likely tag the text in the main file as in Option 1)
- **Option 4: tag the referenced file**, and include a **structured link in the main file** that allow access to the information in the referenced file (requires developing new specification for XBRL linking)
 - Similar to option 3 but: (a) requires more work on technology for linking (b) would allow software / users to **automatically incorporate tagged information** from the referenced file to any final output, for example to database with digital information



See slide 21 for illustration of tagging using potential options; and slide 22 for comparison of expected tagging for potential options.

Illustration of tagging using considered options

Example of including information in management commentary by cross-reference to a governance report

Management Commentary

Pages 45-46 of the Risk Management section of the Group's Governance report explain the oversight and management of risks within the Group.

Governance report

The Group's Risk Committee monitors and reports on the Group's financial, operational and legal risks.

Illustration of tagging included in both files using considered options

Option	Tags in Management Commentary (MC) file	Tags in Governance (Gov) file
1	<u>Pages 45-46 of the Risk Management section of the Group's Governance report (hyperlinked)</u>	
2	<u>Pages 45-46 of the Risk Management section of the Group's Governance report (hyperlinked)</u> The Group's Risk Committee monitors and reports on the Group's financial, operational and legal risks.	
3	<u>Pages 45-46 of the Risk Management section of the Group's Governance report (hyperlinked)</u>	The Group's Risk Committee monitors and reports on the Group's financial, operational and legal risks.
4	"Pages 45-46 ..."	The Group's Risk Committee monitors and reports on the Group's financial, operational and legal risks.

Comparison of expected tagging using considered options

Options	Tagging cross-reference in management commentary	Tagging specified information in the referenced file (eg risk report)
Option 1: tag text reference with URL	Use text element explaining cross-reference (with URL to provide link to referenced file)	<ul style="list-style-type: none"> Specified information not tagged Referenced file not needed and unlikely to be requested in regulatory submission
Option 2: hidden information in the main file	<ul style="list-style-type: none"> Use text element explaining cross-reference (possibly with URL) Include tagged specified information in XBRL as hidden data 	<ul style="list-style-type: none"> Specified information tagged, tags in the main file (as hidden data) Referenced file not needed as part of regulatory submission
Option 3: tag information in the referenced file	Use text element explaining cross-reference (possibly with URL)	<ul style="list-style-type: none"> Specified information tagged, tags in the referenced file (requires referenced file as xhtml) Referenced file needs to be part of regulatory submission
Option 4: digital links to information in the referenced file	Use new type of element that will digitally link to specific tagged information in the referenced file	<ul style="list-style-type: none"> Specified information tagged, tags in the referenced file (requires referenced file as xhtml) Referenced file not needed but may be requested in regulatory submission

Analysis of benefits and costs for considered options

	Option 1: tag text reference with URL	Option 2: include hidden information in the main file	Option 3: tag information in the referenced file	Option 4: include links to information in the referenced file ⁴
Ease of access for digital users ¹	Limited use	Easy	Easy	Easy (better reflection of links)
Costs for software vendors / XBRL standard	No	Yes – related to the extended use of hidden data ²	No	Yes – requires developing new technology for links
Costs for regulators	No		Yes – handling tagged referenced files as well as main file ³	Yes – related to new technology and referenced files
Costs for preparers	No	Yes – depend on software and regulation	Yes – more coordination might be needed between internal teams to tag other files	



1,2,3 ... See next slide for more detailed explanation

Additional explanation for analysis of considered options

1. Notes regarding **ease of use for all options**:
 1. Options 2–4 are more consistent with the objective of proposal for cross-referencing information comparing to Option 1 ie information should be available (in the digital format) as if it was part of the main report – see slide 18.
 2. Options 2–4 provide the same access to information in a digital format (the same tags available when querying database), Option 4 also represents cross-reference in machine-readable way.
2. **Option 2**: note that hidden data is currently used in digital reporting but not to the extent that potentially might need to be used for tagging management commentary (whole disclosures tagged with multiple elements). Consequently, additional work may be needed, for example on clear representation of such extended hidden information in Inline XBRL without related facts in the paper format.
3. **Option 3** might require regulators to consider how to extend the scope of tagging and storing various documents to allow accessing information from the referenced documents
4. **Option 4**: requires similar tagging as Option 3 but uses structured links (technology needs to be developed) to the referenced documents, which *could* be stored outside of regulatory filings*

* Although technology will allow accessing information from the files stored outside of the regulatory filing, regulators may request the complete set of main and referenced files (as in Option 3) for simplicity of retrieval, validation, archive etc.

Questions to ITCG members



1. Do you have any experience with disclosures that include information provided by cross-reference to another file in a digital format? *How was it tagged?*
2. Would all options resolve the issue? Are benefits of some options higher in your view and if so why? What technical and regulatory issues need to be resolved in order to implement options 2, 3 and 4 respectively, and how long do you think it would take to resolve them?
3. On balance, which option would be preferable, and why? Are there *any other options* the staff could consider?

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