
IASB[®] meeting

Date	December 2022
Project	Digital Financial Reporting
Topic	A digital financial reporting strategic framework
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Purpose of this paper

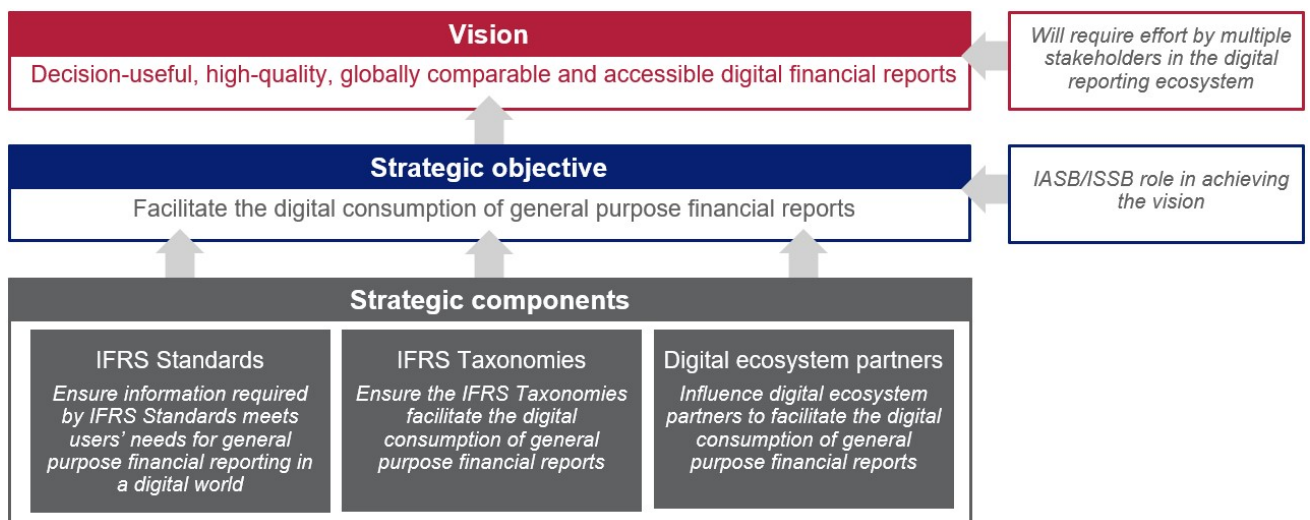
1. This paper sets out a strategic framework that is intended to:
 - (a) provide strategic direction and boundaries to help identify possible digital financial reporting activities that the IASB could undertake; and
 - (b) provide consistent language for communicating the digital financial reporting strategy.
2. At this meeting, the IASB is asked to provide feedback on the strategic framework.
3. This paper does not ask the IASB to make any decisions.
4. Staff think that the considerations in this paper are likely to also be relevant to the ISSB. It is intended that the input of the ISSB will be sought separately including confirming whether this work falls within the foundational activities that the ISSB agreed to undertake at its October 2022 meeting.

Structure of this paper

5. This paper is structured as follows:
 - (a) overview of the strategic framework;
 - (b) background information;
 - (c) feedback from the IFRS Advisory Council on the strategic framework; and
 - (d) question for the IASB.

Overview of the strategic framework

6. Staff have developed the following strategic framework to provide strategic direction and boundaries to help identify the digital financial reporting activities that the IASB, and possibly the ISSB, could undertake.



7. The vision, IASB strategic objective and strategic components are described in more detail below.

Vision

8. The vision is intended to describe the desired state for digital financial reporting. It is not intended to be an objective that is solely within the control of the IASB (or ISSB). Achieving the vision will require a co-ordinated effort by multiple stakeholders in the digital financial reporting ecosystem.
9. Decision-useful, high-quality and globally comparable are qualities of general purpose financial reports prepared in accordance with IFRS Standards. At a minimum, digital financial reports need to reflect these qualities in a digital format.
10. In order for digital financial reports to be decision-useful, high-quality and globally comparable they need to accurately represent all the information in an entity's general purpose financial reports in a machine-readable format. This leads to accessibility.
11. In the context of the vision, accessible refers to the ability to *accurately* access in a machine-readable format *all* the information in an entity's general purpose financial reports. Information that is not tagged or incorrectly tagged is inaccessible in a digital format. Additionally, information is inaccessible if the digital financial reports themselves are not digitally accessible to the public.

Strategic objective

12. The strategic objective is intended to describe the role the IASB, and possibly the ISSB, will play in advancing the vision for digital financial reports.
13. The strategic objective is intended to be sufficiently high-level to provide flexibility for continued developments in digital financial reporting and the range of activities either board may seek to undertake.

Strategic components

14. The strategic components provide a more granular lens to conceptualise possible activities that the IASB, and possibly the ISSB, could undertake to deliver on the strategic objective.
15. Activities that ensure information required by IFRS Standards meets users' needs for general purpose financial reporting in a digital world would fall under the IFRS Standards strategic component—for example considering how disclosures are digitally represented and consumed when drafting IFRS Standards.
16. Activities that ensure the IFRS Taxonomies facilitate the digital consumption of general purpose financial reporting would fall under the IFRS Taxonomies strategic component—for example updating the IFRS Accounting Taxonomy for common practice.
17. The intended outcomes for activities that fall under the IFRS Standards or IFRS Taxonomies strategic components are expected to typically be within the control of the IASB or ISSB.
18. Activities that fall under the digital ecosystem partners strategic component will typically involve partnering with or influencing digital ecosystem partners to achieve the intended outcome—such as the global adoption of the IFRS Taxonomies.

Background information

19. In developing the strategic framework, staff considered the following questions:
 - (a) What are the benefits of digital financial reporting?
 - (b) What are the challenges that currently undermine those benefits?
 - (c) Where does the world need to be?
20. Consideration was also given to connectivity with the ISSB. Staff think that many of the digital reporting considerations for the IASB and ISSB will be similar and see opportunities for connectivity.

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21. Benefits of digital financial reporting include:¹
- (a) improved capital market efficiency and transparency;
 - (b) reduced search costs and improved information-processing efficiency for investors;
 - (c) expanded population of companies investors cover and investment choices; and
 - (d) greater access to capital and reduced cost of capital.
22. Additionally, digital financial reporting can assist regulators in their market oversight activities.
23. Three key challenges were identified that currently undermine these benefits:
- (a) Fragmented global adoption of the IFRS Accounting Taxonomy—variations in whether the use of the IFRS Accounting Taxonomy is required means investors cannot digitally compare IFRS financial statements from around the world. For example, some jurisdictions:
 - (i) require use of the IFRS Accounting Taxonomy;
 - (ii) require use of the IFRS Accounting Taxonomy, with modifications for carve outs;
 - (iii) require use of their proprietary taxonomy for IFRS financial statements;
 - (iv) permit, but do not require, use of the IFRS Accounting Taxonomy; or
 - (v) have no digital financial reporting requirements.
 - (b) Digital data quality—although some stakeholders have observed improvements in the quality of digital financial reporting data over the past few years, challenges in data quality arising from, for example, the incorrect use of tags, scaling errors (thousands vs. millions), negative vs. positive signs and use of unnecessary extensions continue to hinder investor trust in digital financial reporting.
 - (c) Challenges in accessing digital data—variations in what information is required to be tagged² and how accessible digital financial reports are³, means even if financial reports are tagged using the IFRS Accounting Taxonomy, investors cannot access some of this data to analyse digitally.

¹ For a summary of academic evidence, see Troshani, I. and Rowbottom, N., 2021. Digital corporate reporting: research developments and implications. *Australian Accounting Review*, 31(3), pp.213-232.

² For example, some jurisdictions only require digitalisation of the primary financial statements, therefore information in the notes are not digitally accessible.

³ For example, in some jurisdictions with digital financial reporting requirements, digital financial reports are not publicly accessible or sit behind a paywall.

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24. In considering 'where the world needs to be', staff determined that, at a minimum, the benefits of today's decision-useful, high-quality and globally comparable general purpose financial reports on paper need to be realised in a machine-readable format.
 25. Furthermore, to leverage the full benefits of digital financial reporting, all investors need to be able to digitally access all aspects of financial reports for all entities.

Feedback from the IFRS Advisory Council on the strategic framework

26. At the IFRS Advisory Council meeting in October 2022, members provided feedback on a draft digital financial reporting strategic framework intended for the IASB. This feedback has been incorporated into the strategic framework outlined above.
27. Several members expressed support for the digital vision. A few members said it would be helpful to clarify the IFRS Foundation's role in achieving the vision. Subsequently, staff added text to the strategic framework to clarify:
 - (a) achieving the vision will require effort by multiple stakeholders in the digital reporting ecosystem; and
 - (b) the boards' role in achieving the vision is to facilitate the digital consumption of general purpose financial reports (ie, the strategic objective).
28. Two members commented it would be helpful to distinguish between activities related to the IFRS digital taxonomies from those activities that sit with other stakeholders in the digital ecosystem. Those members questioned whether the IFRS Foundation should focus on wider ecosystem activities, which would be subject to various jurisdictional remits. Staff have added text to clarify the nature of each of the three strategic components.
29. Several members said it would be a missed opportunity for the ISSB not to embed digital financial reporting into its work and that the strategic framework should extend to the ISSB. Subsequently, staff revised the wording in the framework to ensure it was appropriate for both the IASB and ISSB, should the ISSB wish to incorporate it into its discussions.
30. Members also provided feedback on possible digital financial reporting activities the IASB could undertake. This feedback is provided in Agenda paper 25B *Priority digital financial reporting activities*.

Question for the IASB

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31. Does the IASB have any questions or comments relating to the strategic framework?