
IFRS Taxonomy Consultative Group (ITCG) meeting

Date **27 February 2023**

Project **IASB digital financial strategy**

Topic **Update**

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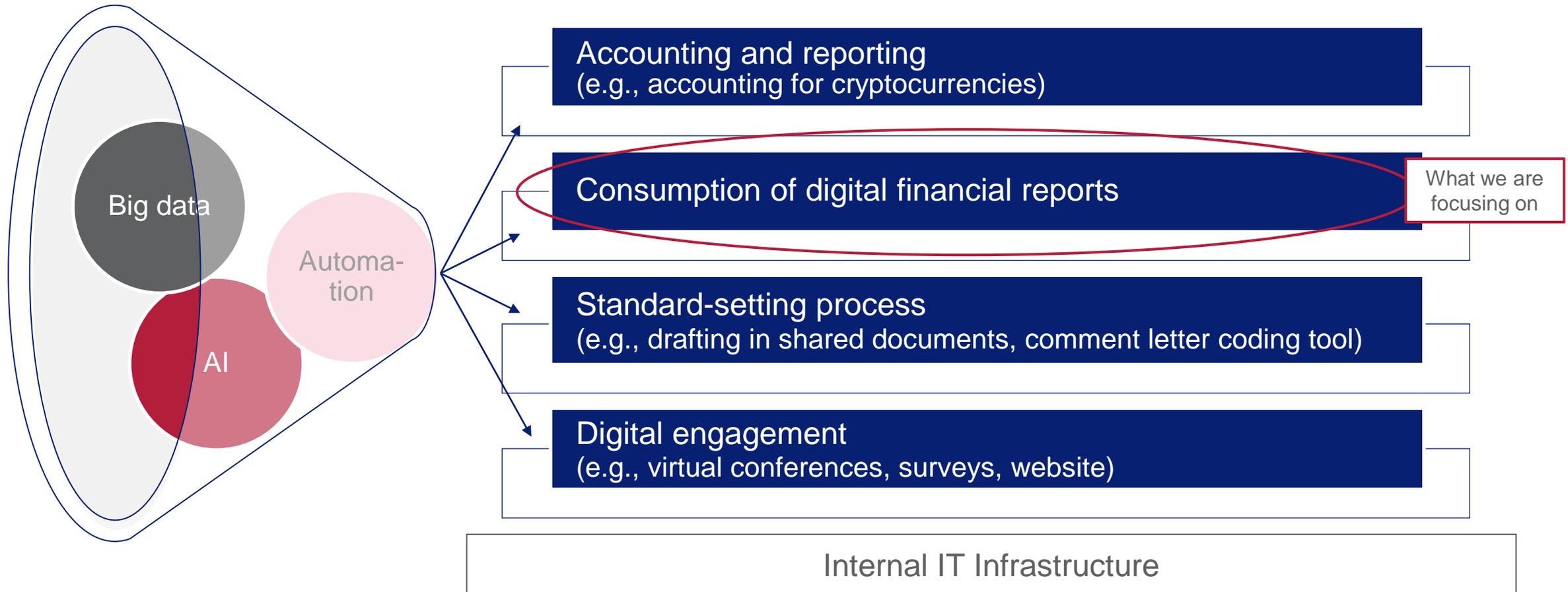
This paper has been prepared for discussion at a public meeting of the ITCG. This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB *Update*.

Session objective

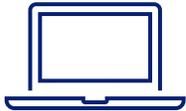
- Provide an update on the digital financial reporting strategy and priority activities of the International Accounting Standard Board (IASB)
- ITCG members are asked to discuss the update and give their advice on areas that require further research or consideration

This session is focused on the IASB's digital financial reporting strategy and priority activities. Some considerations may also be relevant to the International Sustainability Standards Board (ISSB). The ISSB agreed to undertake some foundational work—including advancing the IFRS Sustainability Disclosure Taxonomy and developing materials to support regulator capacity building for taxonomy use. The ISSB will consider any additional digital financial reporting activities it could undertake at a future date

Setting the context



Background



As part of its Agenda Consultation on its priorities for 2022 to 2026, the IASB agreed to **slightly increase** its level of focus on digital financial reporting

- With the aim of improving the usefulness, quality, accessibility, and comparability of digital financial information



The IASB's historical focus has primarily been on updating the IFRS Accounting Taxonomy for updates to IFRS Accounting Standards, as well as some general maintenance



At its December 2022 meeting, the IASB discussed

- A strategic framework to help guide its digital financial reporting activities
- Priority digital financial reporting activities that the IASB could undertake as part of its slightly increased focus on digital financial reporting

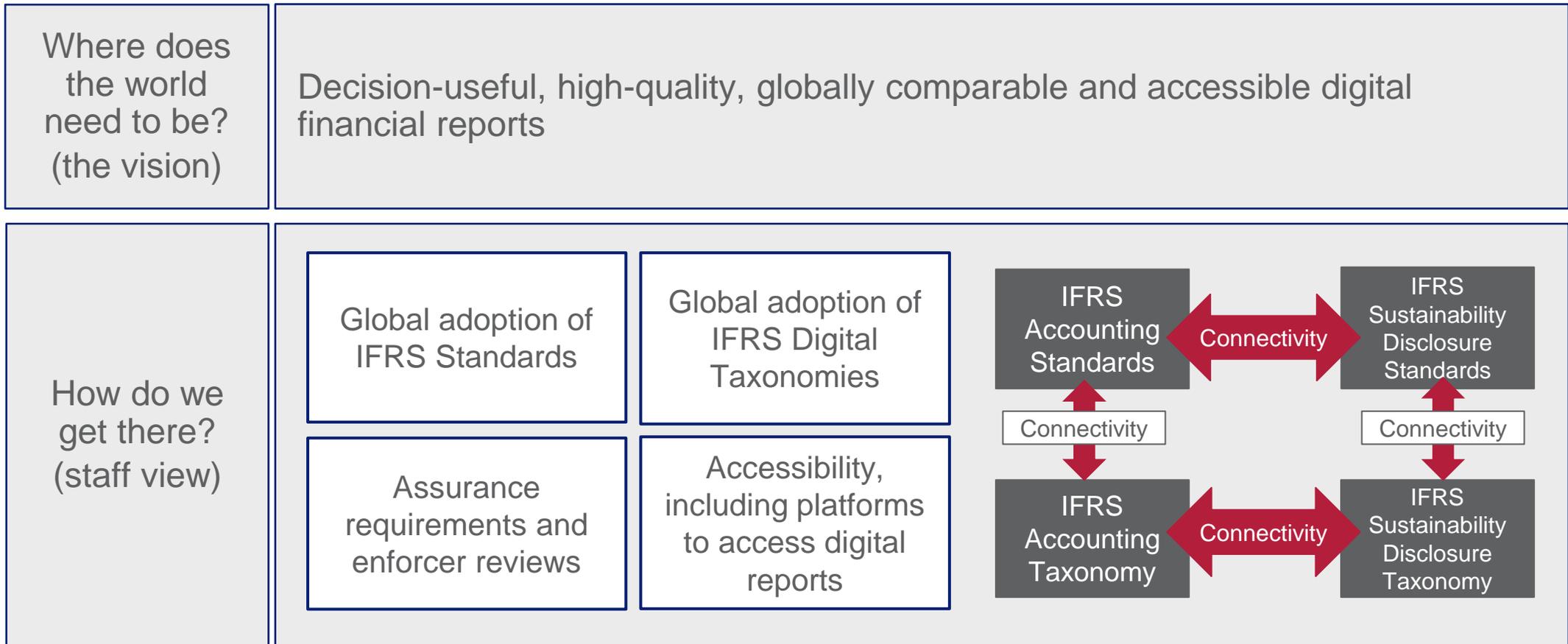
IASB's digital financial reporting strategic framework



Developing the strategic framework (1/2)

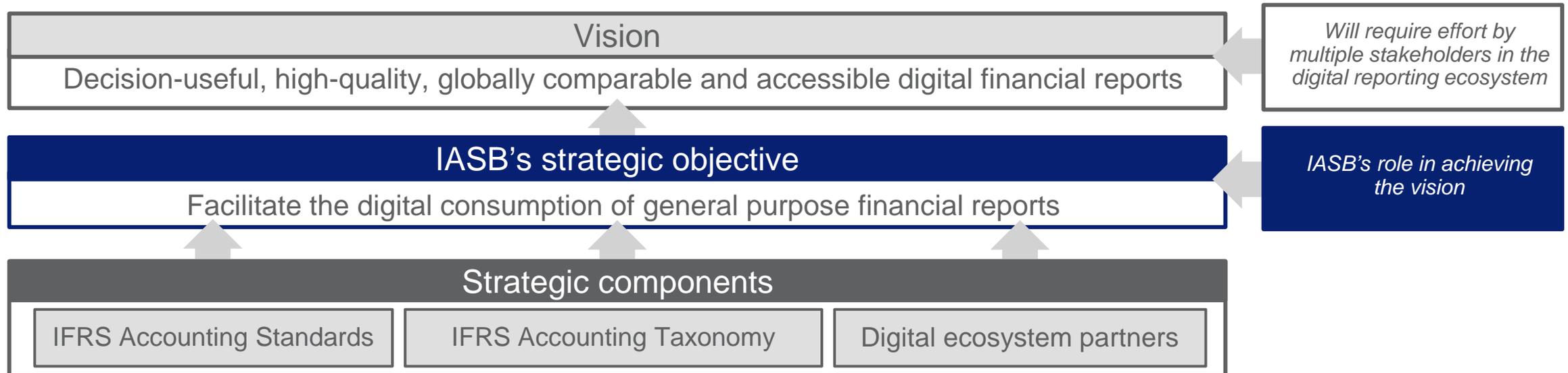
<p>What are the benefits of digital financial reporting?</p>	<p>Provides opportunities to improve capital market efficiency and reduce cost of capital</p> <ul style="list-style-type: none"> By digitalising financial reports, information becomes machine-readable, allowing investors to extract, compare and analyse information efficiently <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>Reduces search costs</p> </div> <div style="text-align: center;">  <p>Increases analyst coverage</p> </div> <div style="text-align: center;">  <p>Increases access to capital</p> </div> <div style="text-align: center;">  <p>Levels the playing field for investors</p> </div> <div style="text-align: center;">  <p>Reduces language barriers</p> </div> </div>
<p>What are the challenges that undermine those benefits?</p>	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid red; padding: 10px; text-align: center;"> <p>Fragmented global adoption of the IFRS Accounting Taxonomy</p> </div> <div style="border: 1px solid red; padding: 10px; text-align: center;"> <p>Poor quality digital data</p> </div> <div style="border: 1px solid red; padding: 10px; text-align: center;"> <p>Fragmented accessibility of data digitally</p> </div> </div>

Developing the strategic framework (2/2)



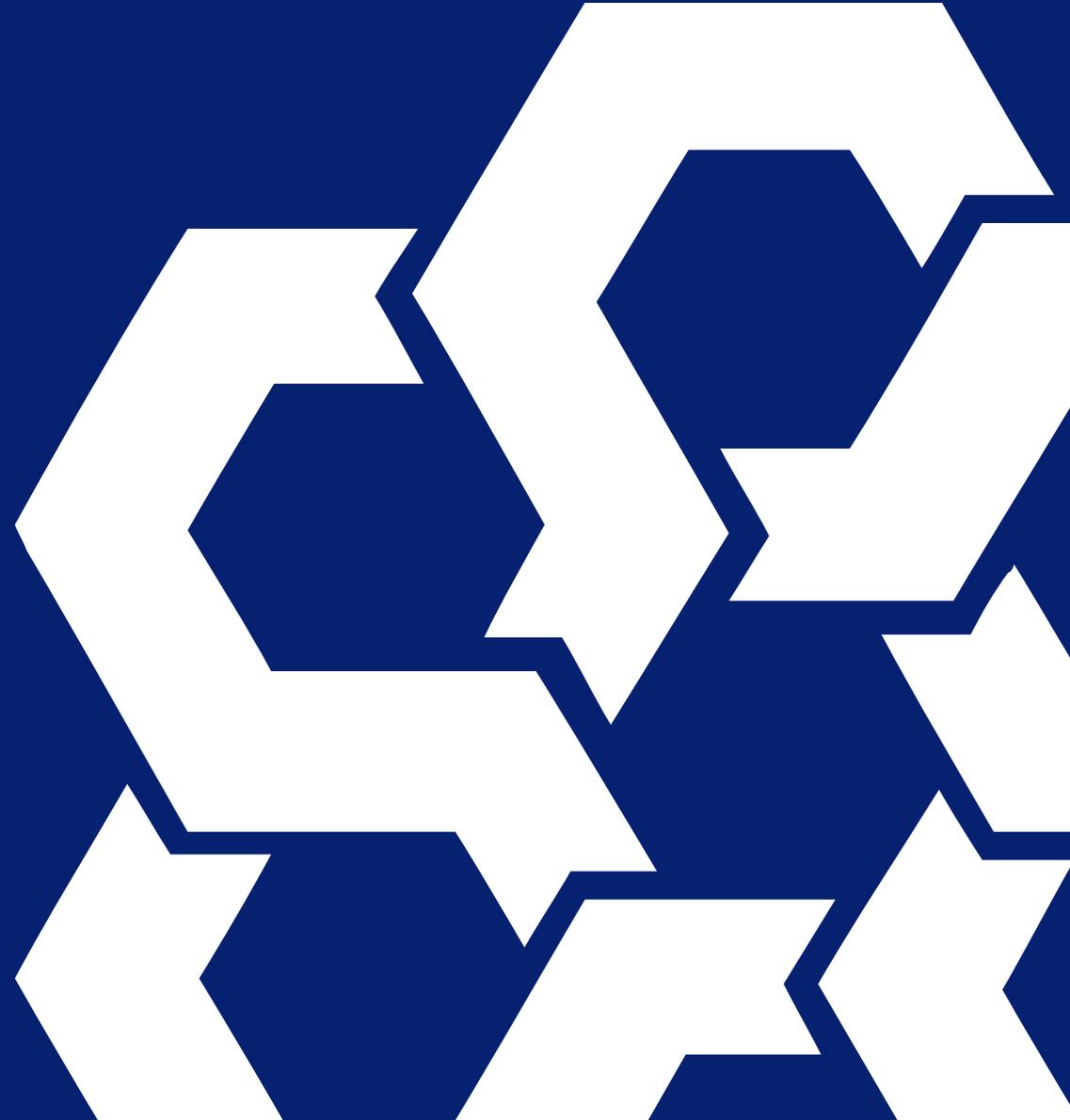
The strategic framework*

Staff developed the following strategic framework to provide strategic direction and boundaries to help identify the digital financial reporting activities that the IASB could undertake



* Final wording of the strategic framework is TBC. Staff are currently considering feedback from the IASB's December 2022 meeting

IASB's digital financial reporting priority activities



Identifying possible priority activities

Step 1: Identify the population of possible activities that the IASB could undertake

To do so, staff considered

- the benefits and current challenges of digital financial reporting
- the strategic direction and boundaries provided by the strategic framework
- stakeholder feedback (see appendix A for summary of key messages)

Step 2: Prioritise activities identified in step one

Staff sought to prioritise activities that maximise each of the following four considerations:

- 1. Activities that are foundational to the vision**
- 3. Activities that leverage expected synergies between the IASB and ISSB**
- 4. Activities where the intended outcome is within our control**
- 5. Activities that offer the most impact for effort—given our expertise and resources such as opportunities that utilise the multiplier effect (eg top-down multi-lateral engagement, broad-based engagement / support, train the trainer opportunities)**

Digital financial reporting hierarchy of needs

IASB's priority digital financial reporting activities*

IFRS Accounting Standards

IFRS Accounting Taxonomy

Digital ecosystem partners

Fundamental activities

Update the IFRS Accounting Taxonomy for changes to IFRS Accounting Standards

First wave (priority) activities to progress strategy (in no particular order)

Information required by Standards meets users' digital consumption needs

Consideration of digital representation when drafting IFRS Accounting Standards (embed process, train staff and ensure sufficient time in timetables for drafting iterations)

Research how users' needs are changing in light of increased digital consumption (eg more structure, comparability, granularity) and address implications in standard-setting

Improved Accounting Taxonomy

Stakeholder engagement and reviews of digital financial reports to identify issues and root causes (eg field testing, PIR-like process)

Common practice updates

Representing relationships / context

Improved navigability (eg layout improvements)

Improved data validation

Monitor for technological disrupters

Horizon scan for technological disrupters that affect the need for Taxonomies

Optimal adoption

Engage with digital ecosystem stakeholders to gain momentum towards the digital vision—**standardised** materials

Support regulators adopting the IFRS Accounting Taxonomy to do so in the optimal way—**standardised** materials (eg adoption guide, capacity building materials)

Updating jurisdictional profiles to help inform adoption activities

Encourage public statements of support from international policy-makers—**tailored** materials

Encourage large markets to transition from current to optimal adoption—**tailored** materials and engagement

* Based on available resources and current digital financial reporting state of play

Appendix A

Stakeholder feedback—key messages

Multiple IFRS Advisory Council meetings 2017-2022	General outreach	IASB’s Third Agenda Consultation feedback	Feedback on the staff draft of the IFRS Sustainability Disclosure Taxonomy and S1 / S2 EDs ¹
<ul style="list-style-type: none"> Updating and maintaining the IFRS Accounting Taxonomy is important Centralised accessibility to digital data considered important Need for tools to access and process digital financial reports Data quality issues need to be resolved Educational materials would be helpful Consider what ‘compliance’ with the IFRS Taxonomies would mean Important to preserve contextual information in a digital format Interoperability needed between an IFRS Sustainability Disclosure Taxonomy and digital taxonomies for other sustainability standards Horizon scan for technological disrupters 	<ul style="list-style-type: none"> Drafting in IFRS Standards could be improved to facilitate digital consumption Important to ensure IFRS Accounting Taxonomy is maintained, including: <ul style="list-style-type: none"> Robust (due) process Common practice updates Adoption/application guidance Capacity building and educational materials needed Some suggest we enhance data validation functionality in the IFRS Taxonomies to help with data quality Evidence to support benefits of digital financial reporting exceeding costs considered helpful We have a role to play in promoting a global approach to digital financial reporting—need to work with other digital ecosystem stakeholders 	<ul style="list-style-type: none"> Ensure IFRS Standards meet the digital reporting needs of users Continue to improve the IFRS Accounting Taxonomy, including: <ul style="list-style-type: none"> Improvements to meet users’ needs better Illustrative examples to support application Common practice updates Work with regulators and standard-setters to increase adoption of the IFRS Accounting Taxonomy Identify partners and work jointly with them to achieve high-quality, comparable and accessible digital financial reports 	<ul style="list-style-type: none"> Support for the development of an IFRS Sustainability Disclosure Taxonomy Improving an IFRS Sustainability Disclosure Taxonomy considered important, including: <ul style="list-style-type: none"> Updates for common practice Mechanism to address implementation issues Educational or supporting materials would help with consistent application Interoperability with digital taxonomies for other sustainability standards considered important Field testing suggested to help develop the IFRS Sustainability Disclosure Taxonomy

¹ Exposure drafts (EDs) IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (S1), and IFRS S2 Climate-related Disclosures (S2).

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