IFRS Sustainability

Agenda reference: 5

IFRS Taxonomy Consultative Group (ITCG) meeting

Date **28 February 2023**

Project **IFRS Sustainability Disclosure Taxonomy**

Topic **Facilitating use in jurisdictions which do not permit extensions**

Contacts **Vivek Baid** (vbaid@ifrs.org)
Owen Jones (ojones@ifrs.org)

Objective of the session

Discuss whether the new **taxonomy for sustainability disclosure standards** should be designed to also support adoption in jurisdictions which will not permit entities to use extensions (so called *closed* reporting systems)

Introduction

- The IFRS Accounting Taxonomy was developed to work in an '*open*' reporting system* only (that is, one where entity-specific XBRL elements – extensions – are allowed).
- Such taxonomy needs adjustments to be usable in a '*closed*' reporting system (where extensions are not allowed).
- The adjustments are needed to, at a minimum, replace the functionality of dimensions which are designed for extensions, (for example 'segments', 'major customers' or 'products and services')

- We need to consider if the IFRS Sustainability Disclosures taxonomy should support both open and closed reporting systems.
- More specifically, the question is whether-
  - the sustainability taxonomy should support only *open* reporting systems (the same as the IFRS Accounting Taxonomy); or
  - the sustainability taxonomy should support both *open* and *closed* reporting systems. †
- Taxonomy modelling would be different for each option (see appendix B for examples).

* "Reporting system" is the combination of regulator requirements and data collection systems that specify how digital reports should be prepared and structured.

† Note - a taxonomy on its own can't *prevent* extension, so a taxonomy that supports use in a closed environment can always also be used in an open environment.

Open and closed reporting systems and their relationship to taxonomy

Overview

Open reporting system

In an *open* reporting system, preparers are allowed to *extend* the XBRL taxonomy specified by the regulator, to include elements from other taxonomies or of their own. Examples of open reporting systems are the systems used by US SEC and ESMA.

Closed reporting system

In a *closed reporting system*, the XBRL taxonomy specified by the regulators cannot be extended by preparers, they are required to use the taxonomy as it is released by the taxonomy developers. Examples of closed reporting systems for tagging of financial statements are India and the UK (non UKSEF)

A suitably designed taxonomy could be used in both *open* and *closed* reporting systems.

Both types of reporting systems support inline XBRL* reporting (iXBRL).

Neither approach determines the content or scope of the human-readable (or paper-based) sustainability report

* Inline XBRL document is a human-readable web document that embeds the tagged information. It enables a single document to provide both human-readable and structured, machine-readable data.

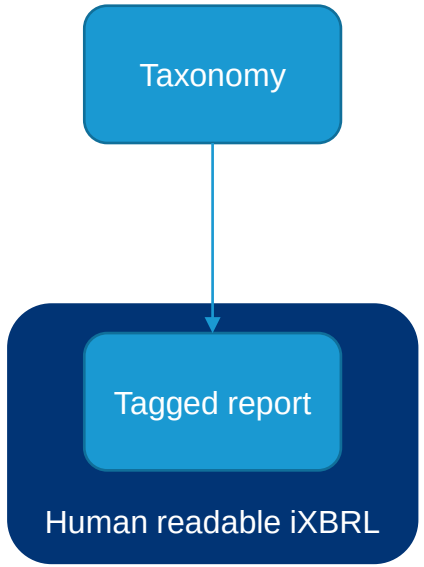
Closed reporting system

Benefits

- (Anecdotal) Easy analysis and comparison of tagged data because this data, once tagged, will (by necessity) be structured as per the taxonomy.*
- (Anecdotal) Easier (and therefore, less costly) for preparers, software developers and regulators because no need to create or handle extensions to the core taxonomy.
- May limit the amount of detail and effort required from preparers on tagging non-comparable data.

Drawbacks

- Tagging of entity specific information is reliant on taxonomy author explicitly building flexibility in at the right points. This requires time and effort and introduces risk in taxonomy development
- Preparer specific data may have to be left untagged / only tagged under a broader textblock element.
- Less (or no) flexibility in resulting tagged digital reporting because entities have to follow the taxonomy meaning and relationships.†



* Potential risk of preparers “forcing” badly fitting data into the provided elements – creating false comparability. Need to provide more guidance to mitigate this risk.

† Inline XBRL can of course provide flexibility of both content and report structure outside tagging.

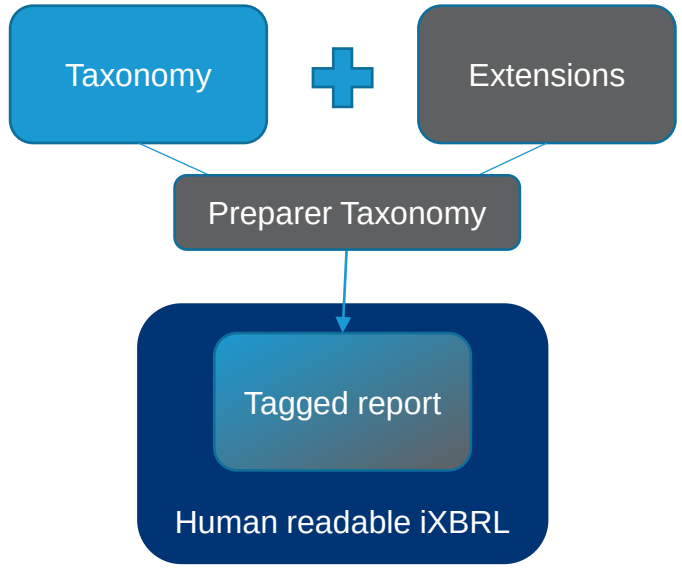
Open reporting system

Benefits

- Allows preparers to "extend" the taxonomy to suit their own reporting needs. Preparers can create new elements or reorganise the taxonomy structure as per their report.*
- All data (including preparer specific data) can be tagged **individually,** if needed. †

Drawbacks

- Extensions can be difficult to analyse–unless anchored (or linked through another mechanism) to existing taxonomy elements (and even then analysis can be difficult).
- (Anecdotal) More complex/ costly to build the ecosystem (preparation software, filing platform, analysis software, etc) that support extensions.



* Some risk of preparers creating extensions when an existing element would be perfectly suitable, thereby, reducing comparability.

† This might not be useful or efficient for all data.

Interaction with jurisdictional taxonomies

Taxonomy supports use without extensions	Usable as baseline/component in jurisdictions which	
	do not permit extensions	permit extensions
Yes	Yes	Yes
No	**No**	Yes

What reporting systems should IFRS Sustainability disclosures taxonomy support?

Factors considered in assessment

Factor	Description
1. Usefulness of extensions	How important is *detailed* tagging of entity specific information for the users of sustainability information?
2. Benefits and risks to users	How easy will be for users to extract and analyse the data? Is the nature or quality of the resulting tagged data sufficient? What are the risks of using closed vs open taxonomy?
3. Adoption and implementation	How easy is it for regulators to implement digital reporting using the taxonomy? How easy is to create a platform to enable digital reporting?
4. Cost of tagging for companies	How costly is it to file the report using the taxonomy in terms of preparation software and filing efforts?
5. Connectivity and interoperability	Is it easy to use this taxonomy with other sustainability/accounting taxonomies? Is it easy to use with the IFRS Accounting Taxonomy when both the taxonomies will be required to tag one integrated report (Financial Statements + Sustainability report)?
6. Maintenance of the taxonomy	How easy is it for the taxonomy developers to maintain and update the taxonomy?

Assessment outcome (see Appendix A for analysis)

Factor	Assessment outcome
1. Usefulness of extensions	Extensions expected to be less useful for sustainability financial reporting than for financial statements reporting
2. Benefits and risks to the users	Arguably better comparability in closed reporting system, assuming sufficient taxonomy structure is provided.
3. Adoption and implementation	It may be easier for regulators to adopt and for software providers to implement closed reporting system
4. Cost of tagging for companies	Tagging without use of extensions may be easier than with extensions, depending on the extent of entity-specific information
5. Connectivity and interoperability	Unclear what reporting systems will be used for jurisdictional top-ups so hard to assess
6. Maintenance of the taxonomy	Taxonomy that facilitates closed reporting may be harder to maintain if lots of structure is needed to accommodate entity-specific information.

Questions

- Do you agree with our analysis of the different factors in both types of reporting systems?
- Are there any other factors that we should consider?
- Do you have experiences of (reasons behind, design or operation of) ‘closed’ reporting systems that you could share?
- Would you advise the Sustainability Disclosures Taxonomy be built to rely on the use of XBRL extension by preparers, or to support both open and closed reporting systems?

Appendix A
Detailed assessment of relevant factors

1. When are extensions generally useful?

Two factors are important in assessing the usefulness of extensions:

- How easy is it to anticipate the type of entity specific information which will be provided, if any; and
- Is such entity specific information likely to be used on its own, ie does it need to be tagged individually.

We think extensions are useful for IFRS Accounting Taxonomy because:

- It is hard to anticipate all types of entity specific information in order to provide required structures for taxonomy to work in closed reporting environment. Lack of structures creates the risk of digital report being incomplete.
- Disclosures of entity specific disaggregation, grouping or concepts are likely to be used on their own, for example various disclosures relating to financial instruments.

1. Assessment for sustainability financial reporting

Can anticipate entity specific information, if any?

- Sustainability disclosures are largely **narratives on a broad topic** – naturally covering **entity-specific information**.
- **Entity specific discrete disclosures** (that are not already adequately covered by narratives) are **expected only for metrics and targets**. The more comparable **metadata on these will be captured in a structured way**.

Would information be used on its own?

- Entity specific information is unlikely to be used on its own, without the wider narrative context. Extensions for such information would therefore not be useful.
- For example, extension to capture disclosure stating that '80% of packaged ice cream to contain no more than 10g total sugar per serving by 2025 (% of sales by volume)' is unlikely to be used (or compared) on its own

Extensions expected to be less useful for sustainability financial reporting than for financial statements

2. Benefits and risks for users

	Open reporting system	Closed reporting system
Benefits	• Entity specific information can be distinctly tagged using extensions. • With the help of anchoring (or other linking mechanisms), extensions can also be used, to some extent, in analysis.	• Comparisons maybe easier because structure in tagged report will be same for all entities. • Through different modelling techniques, the taxonomy could still enable the controlled tagging of preparer specific information, so it can be analysed by users.
Risks	• Although extensions can be analysed, they can be difficult to understand. • Data quality issues such as unnecessary extensions make comparisons harder. • Comparisons can be misleading if an entity has modified relationships or concepts used in taxonomy.	• Data quality issues such as inappropriate use of elements, making non comparable information seem comparable. • Depending on taxonomy structure, material entity specific information may be left untagged, impairing quality of user decision-making.

Both systems have risks and benefits, closed reporting system can have higher net benefits to users if the taxonomy is sufficiently structured

3. Adoption and implementation

Open reporting system	Closed reporting system
• Preparers would need to create taxonomy files along with the instance file. Regulators would need to build a filing platform to handle this submission. • More education and guidance will be needed for the preparers, software vendors and the users.	• Preparers would need to create an instance file only. The filing platform and tools may be able to be less complex (lower XBRL understanding). • Relatively, less education and guidance would be required because the taxonomy will be fixed and no guidance would be required around extensions.

Implementation likely to be less costly in a closed reporting system, making adoption easier.

4. Cost to preparers (Anecdotal)

Open reporting system	Closed reporting system
• Tagging software is comparatively costlier because of the feature to create extensions. • Decisions about when it is appropriate to use an extension can require judgement. • Preparers are required to submit their taxonomy files along with their instance file. • Since more effort is required in preparation and filing, preparation costs are considered higher in open reporting system.	• Tagging software may be less costly. • Tagging decisions may require less judgement • No need to submit taxonomy files because the taxonomy is fixed in structure and content. • Overall preparation costs may be lower in the closed reporting system.

Costs are (anecdotally) lower in the closed reporting system.

5. Connectivity and interoperability

Open reporting system	Closed reporting system
• The IFRS Accounting Taxonomy (and US GAAP Taxonomy) was developed assuming an *open* reporting system only. • Having the sustainability taxonomy also assume an *open* reporting system would be consistent. • This may be easiest for stakeholders who are already using the IFRS Accounting Taxonomy.	• Some jurisdictions currently operate a *closed* reporting system for accounting related reporting. • There are some jurisdictions that are exploring using a *closed* reporting system for the sustainability reporting.

Though there would be some design consistency issues with extension-dependent taxonomies, a sustainability taxonomy supporting both *open* & *closed* reporting systems would cover more jurisdictions (also see slide 8).

6. Maintenance of the taxonomy

Open reporting system	Closed reporting system
• Arguably less need to anticipate common practice in initial design (because prepares can add extensions) • Common practice review will likely be easier. We can extract extensions and analyse those for inclusion in the taxonomy.	• To manage risk of material entity specific information not being tagged, common practice disclosures may need to be anticipated. • Frequent common practice reviews may be needed to include more elements in the taxonomy to help ensure it has sufficient structure to be useful to users. • Review of common practice disclosures will be more difficult – without extensions, entity specific disclosures would be hard to identify.

Taxonomies developed for an open reporting system may be easier to maintain.

Appendix B
Examples of approaches supporting open and closed reporting

Examples of architectural features suitable for closed vs. open reporting systems

There are two primary forms of entity/jurisdiction specific information that might be needed to be provided and might lead to requiring XBRL extension by preparers (or by jurisdictions).

1. Preparer specific breakdowns, where the list of items/categories that might be used to disaggregate a specific reported item varies from entity to entity (and the full universe of values isn't known to the taxonomy designer ahead of time).
2. Preparer specific concepts, where the fundamental identity of the item of information being reported is specific to particular preparer(s), and hasn't been anticipated by the taxonomy designer.

For breakdowns, there is an XBRL approach which requires preparer extension (explicit dimensions–slides 24-25), and an alternative XBRL approach that achieves largely equivalent effect and does not require preparer extension (typed dimensions–slides 26-27).

For concepts, there are approaches that can be used to provide some ability to report preparer specific concepts in specific places (slide 29), but only preparer extension allows complete freedom to tag any concepts if this is needed (slide 28).

Preparer specific breakdown

IFRS 8.32

An preparer shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the preparer's financial statements.

Requirement

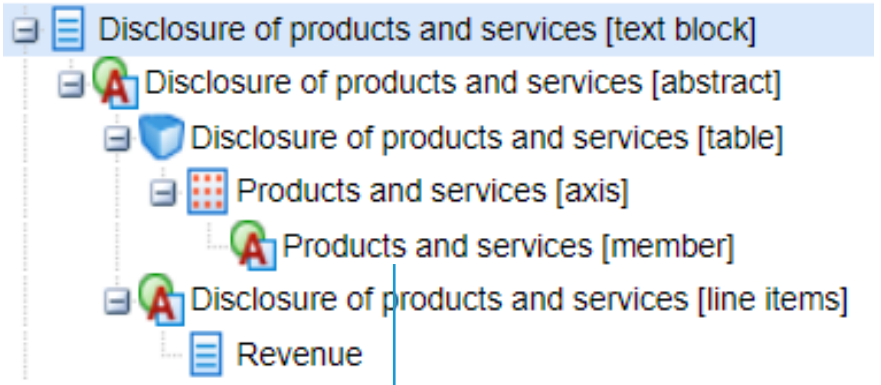
Products and services	Revenue
Respiratory	2360
HIV	4876
Shingles	1989
Pandemic vaccines	447
Oral health	2753
Vitamins and supplements	1506

Example data

Open reporting system–Preparer specific breakdown

IFRS 8.32

An preparer shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the preparer's financial statements.

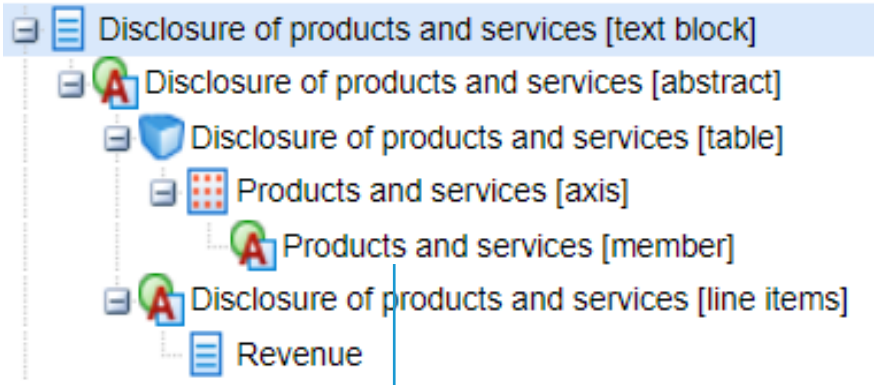


Preparers need to create 'member' elements for *each* product and service they have reported in their financial statements, and insert them under this parent member on this axis. These members can be associated with (multi-lingual) labels, references etc.

Open reporting system–Preparer specific breakdown

```
"f1": {
    "value": "123000000",
    "decimals": -6,
    "dimensions": {
        "concept": "ifrs:Revenue",
        "entity": "lei:54930043XZGB27CTOV49",
        "period": "2020-01-01T00:00:00",
        "unit": "iso4217:USD",
        "ifrs:ProductsAndServicesAxis": "tesla:Elec12",
    }
},
```

This code refers to a concept created by the preparer in their preparer taxonomy

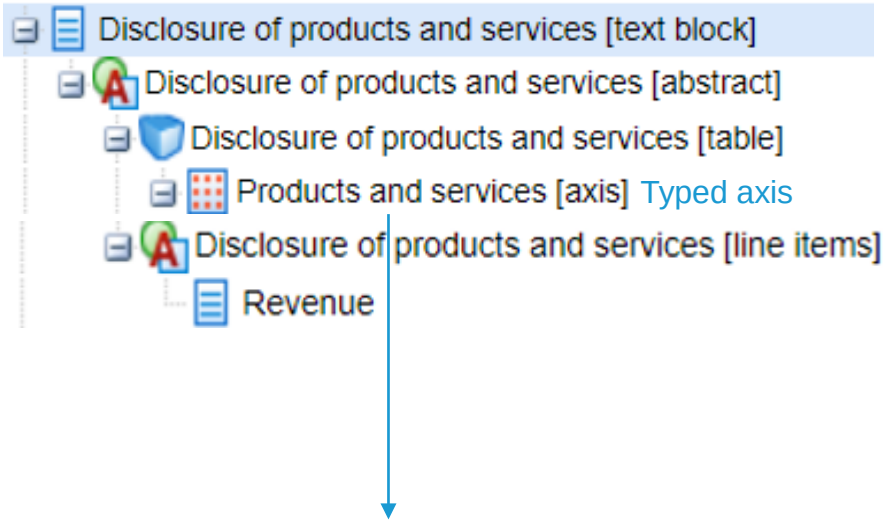


Preparers need to create ‘member’ elements for *each* product and service they have reported in their financial statements, and insert them under this parent member on this axis. These members can be associated with (multi-lingual) labels, references etc.

Closed reporting system–Preparer specific breakdown

IFRS 8.32

An preparer shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the preparer's financial statements.

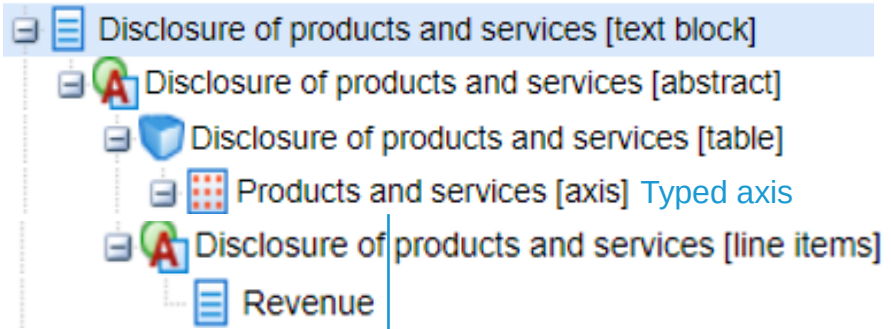


Preparers can report any number of (simple string) entries under this axis, without needing to create any extension.

Closed reporting system–Preparer specific breakdown

```
"f1": {
    "value": "123000000",
    "decimals": -6,
    "dimensions": {
        "concept": "ifrs:Revenue",
        "entity": "lei:529900R27DL06UVNT076",
        "period": "2020-01-01T00:00:00",
        "unit": "iso4217:EUR",
        "ifrs:ProductsAndServicesTypeAxis": "Elektroauto-Sparte",
    }
},
```

This string is ‘just’ a string, directly labelling the product or service in question.



Preparers can report any number of (simple string) entries under this axis, without needing to create any extension.

Open reporting system–Preparer specific concepts

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business	Quantitative	Number, Presentation currency	FN-CB-000.A

Bank Accounts, Value [Abstract]		
Bank Accounts, Value [Table]	Table	
Bank Card Account [Axis]	Axis	
Bank Card Account [Domain]	Domain[Default]	
Personal Checking And Savings Accounts [Member]	Member	
Small Business Checking And Savings Accounts [Member]	Member	
Bank Accounts, Value [Line Items]	Line items	
Bank Accounts, Value	Monetary instant	IFRS S2 - FN-CB-000.A Disclosure
Ext: Bank Accounts, typical overdraft facility (extension element)	Monetary instant	

Extension elements (and axes, tables etc.) can be added by a filer anywhere they wish. They can also use the components provided by a base taxonomy in new ways (eg combining elements and axes in novel ways).

Such extension concepts are (by their nature) quite difficult to analyse and compare.

Some meaning to the extensions can (sometimes) be derived from their labels, the presentation structure, calculations, anchoring or references provided.

Closed reporting system–Preparer specific concepts

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business	Quantitative	Number, Presentation currency	FN-CB-000.A

Bank Accounts, Value [Abstract]		
Bank Accounts, Value [Table]	Table	
Bank Card Account [Axis]	Axis	
Bank Card Account [Domain]	Domain[Default]	
Personal Checking And Savings Accounts [Member]	Member	
Small Business Checking And Savings Accounts [Member]	Member	
Bank Accounts, Value [Line Items]	Line items	
Bank Accounts, Value	Monetary instant	IFRS S2 - FN-CB-000.A Disclosure
Other metric relating to bank accounts value (dummy element)	Monetary instant	

Closed reporting system can provide specific, control mechanisms for preparer specific reporting.

For example, a dummy element can be provided in a specific places to allow preparers to tag preparer specific metric(s). Eg- if a preparer disclosed average quarterly balance in bank accounts, they could use this dummy element to tag it and change its label to match the description in their report.

Like extensions, these elements will not be easily comparable, because different preparers can use these elements for different disclosures.

IFRS Foundation

Follow us online

ifrs.org

@IFRSFoundation

IFRS Foundation

IFRS Foundation

International Accounting Standards Board

International Sustainability Standards Board