

Technology Initiative – Strategic Questions for the IFRS Taxonomy

IFRS Advisory Council
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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

Objective of this session

We are seeking the advice of the IFRS Advisory Council members on our role and strategy related to the IFRS Taxonomy

Why now?

Advisory Council technology recommendations in October 2017

Increasing digital consumption of financial reports

More jurisdictions mandating use of the IFRS Taxonomy

Within context of

Our remit, limited resources and other priorities

Rapid pace of technological change – what is the stable platform on which to base our plans?

Progress requires commitment and prioritisation from multiple stakeholders

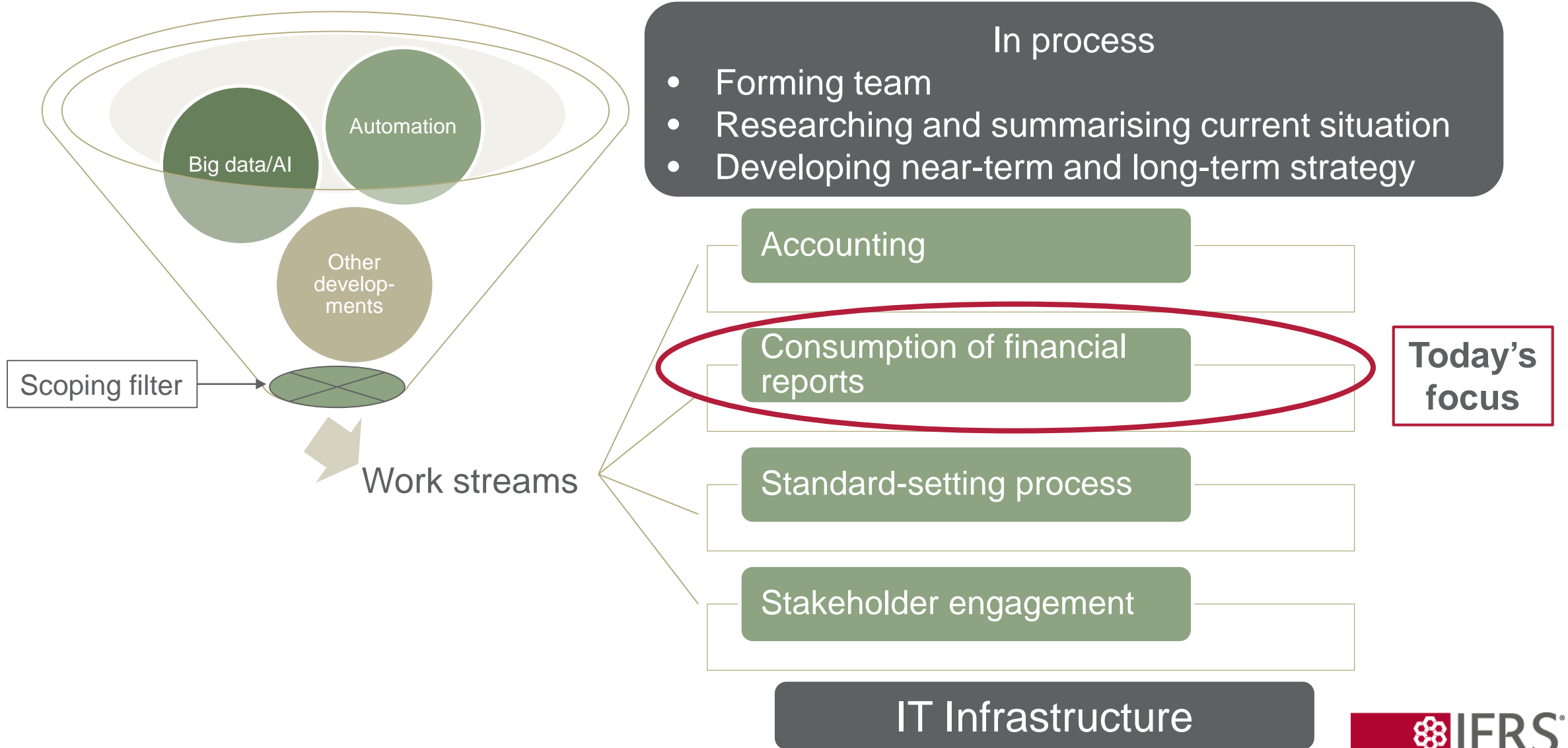
What will we discuss today?

- Scope of today's session within the broader technology initiative
- Structured electronic reporting
 - Who is using it? Including an update by ESMA on electronic reporting in Europe
 - Opportunities
 - Challenges
- Strategic considerations
 - Current strategy
 - Possible future strategy
- Questions for break-out discussion
- Appendix: background on the IFRS Taxonomy
 - What is the IFRS Taxonomy?
 - How does it work? The electronic reporting ecosystem

Scope of today's session within the broader technology initiative

- Advisory Council discussed effect of technology on the future of financial reporting and standard-setting in October 2017:
 - Observed that a clear, future role exists for some form of financial reporting and for some form of principles-based accounting standards and, therefore, for the IFRS Foundation
 - Recommended identification of a champion in leadership and additional resources
 - Recommended consideration of how we innovate (or transform) to respond to technological changes
 - Recommended experimentation and innovation

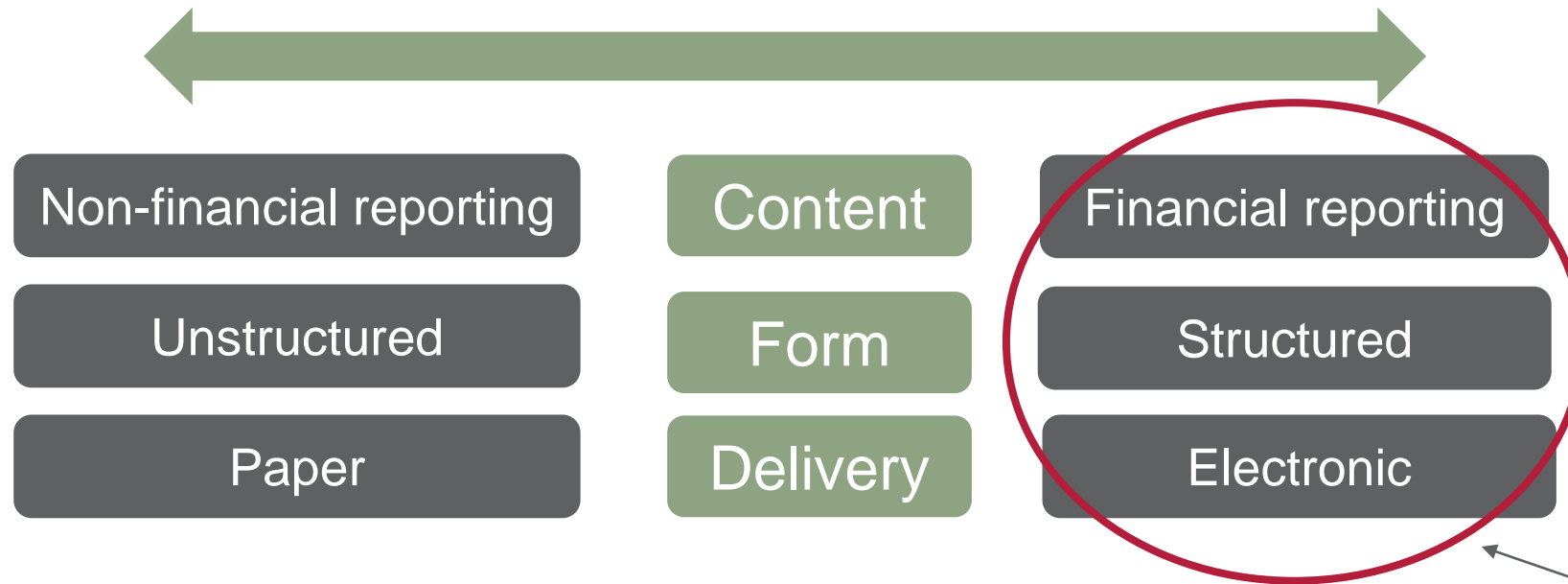
Technology initiative—Preliminary work streams



Technology initiative —Consumption of financial reports

Scope of today's session

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For today, assume :

- There continues to be a role for financial reporting in the future
- XBRL computer language is technology best suited to render and view the IFRS Taxonomy

IFRS Taxonomy supports the electronic delivery of financial reports in a structured manner today.

Structured electronic reporting

Structured electronic reporting

Who is using it? Including an update by ESMA on electronic reporting in Europe

- **How many investors** are using structured electronic data?
- **Who** is tagging the data?
- **What taxonomy** is used to tag the data?

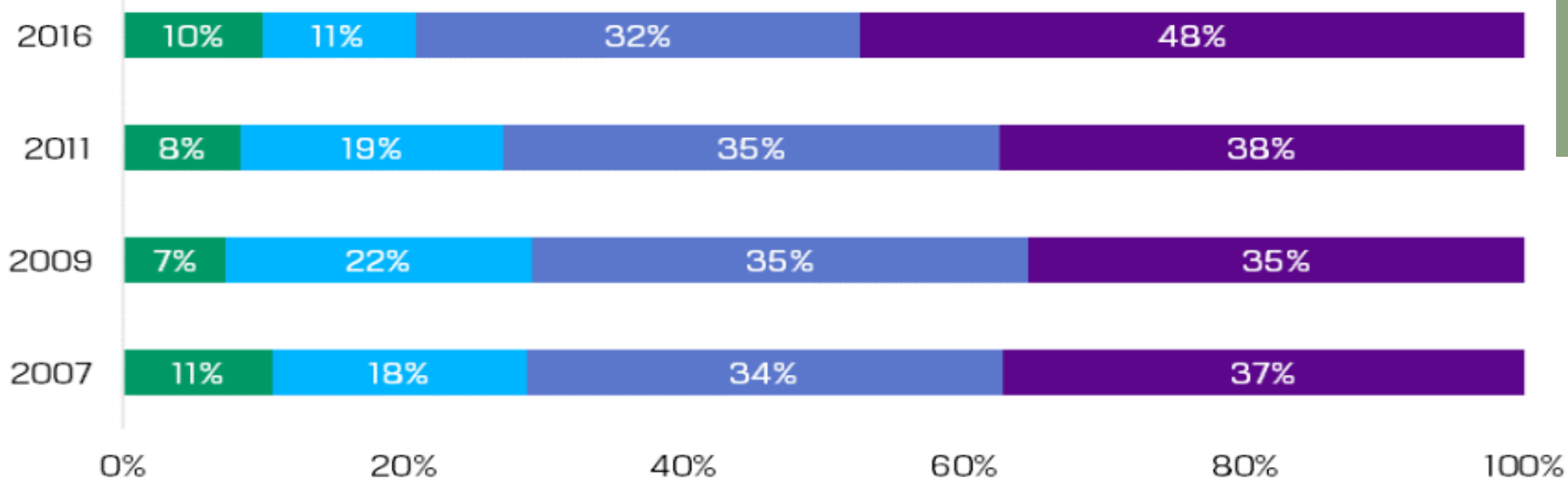
A 2016 CFA survey* provides some insight into this ...

* https://www.cfainstitute.org/Survey/survey_extensible_business_reporting_language_xbrl.pdf

The CFA Institute member survey

Sources of obtaining companies' financial data

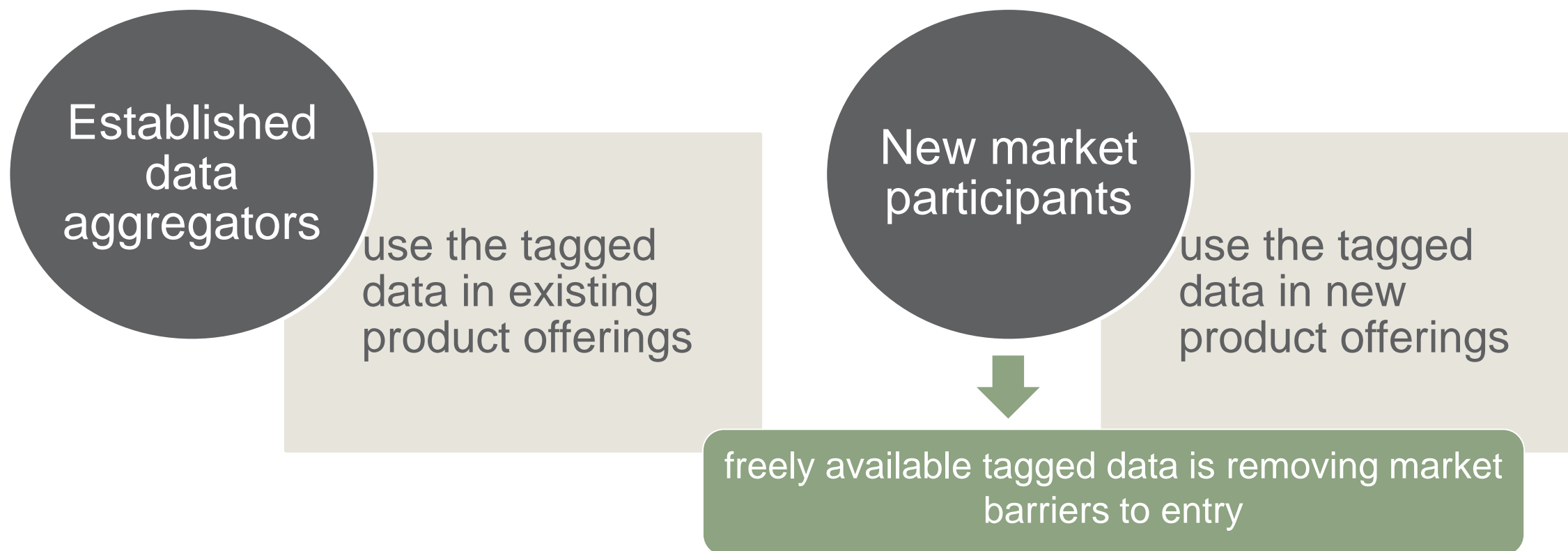
- All data/information is obtained from 3rd party data providers.
- All data/information is extracted manually from source documents.
- Limited data/information is obtained from 3rd party data providers but most is extracted manually from source documents.
- Most of the data/information is obtained from 3rd party data providers with some limited amount of data extracted manually from source documents.



Use of structured electronic data is increasing

Who is using electronically tagged data?

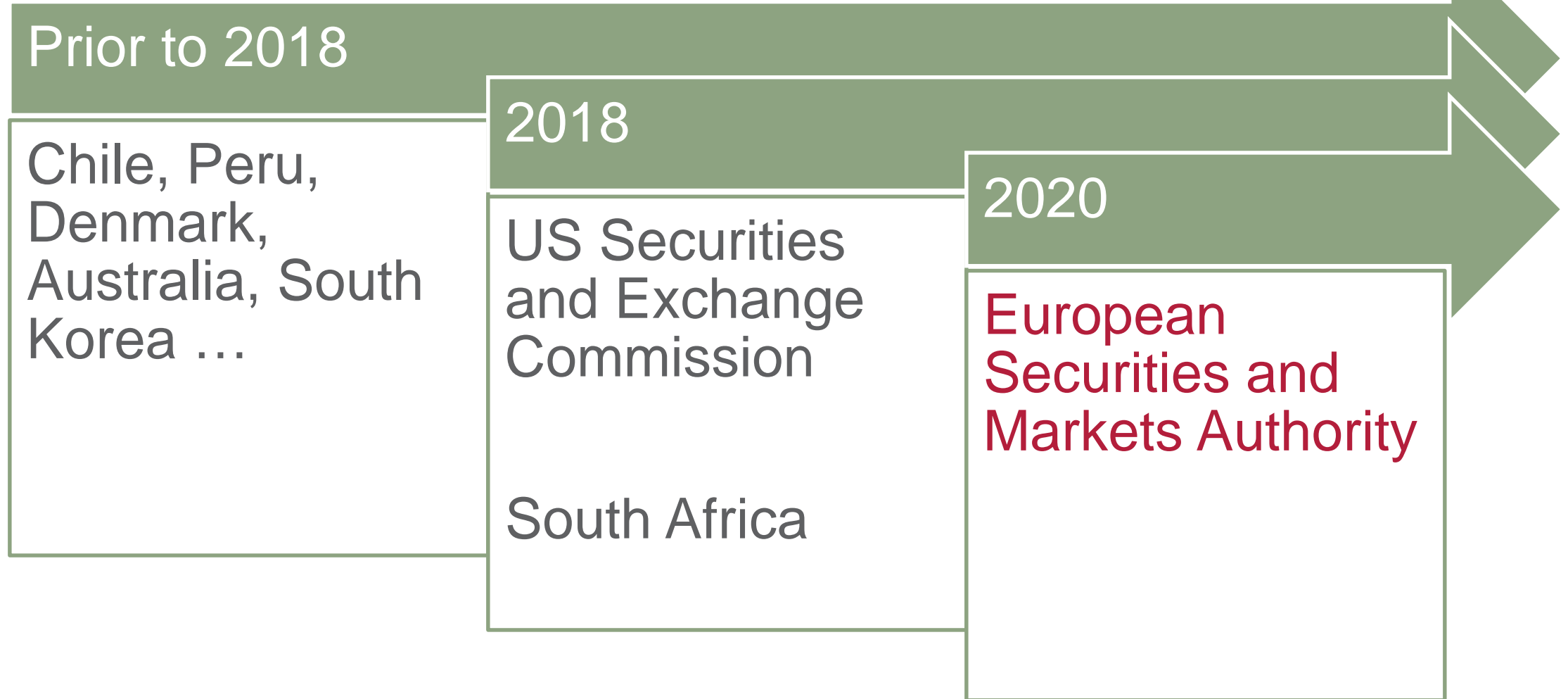
- We have heard that **investors are currently consuming the data** mainly **indirectly** through information intermediaries:



Who is using the electronically tagged data? (cont'd)

- We have also heard about other uses of tagged data, for example:
 - **preparers** to review the disclosures provided by their peers and for benchmarking
 - **standard-setters** to gather empirical evidence
 - regulators to **support enforcement**
- In the slides that follow, we will mainly focus on the opportunities and challenges of using tagged financial statements from an investor's perspective.

More regulators requiring use of IFRS Taxonomy





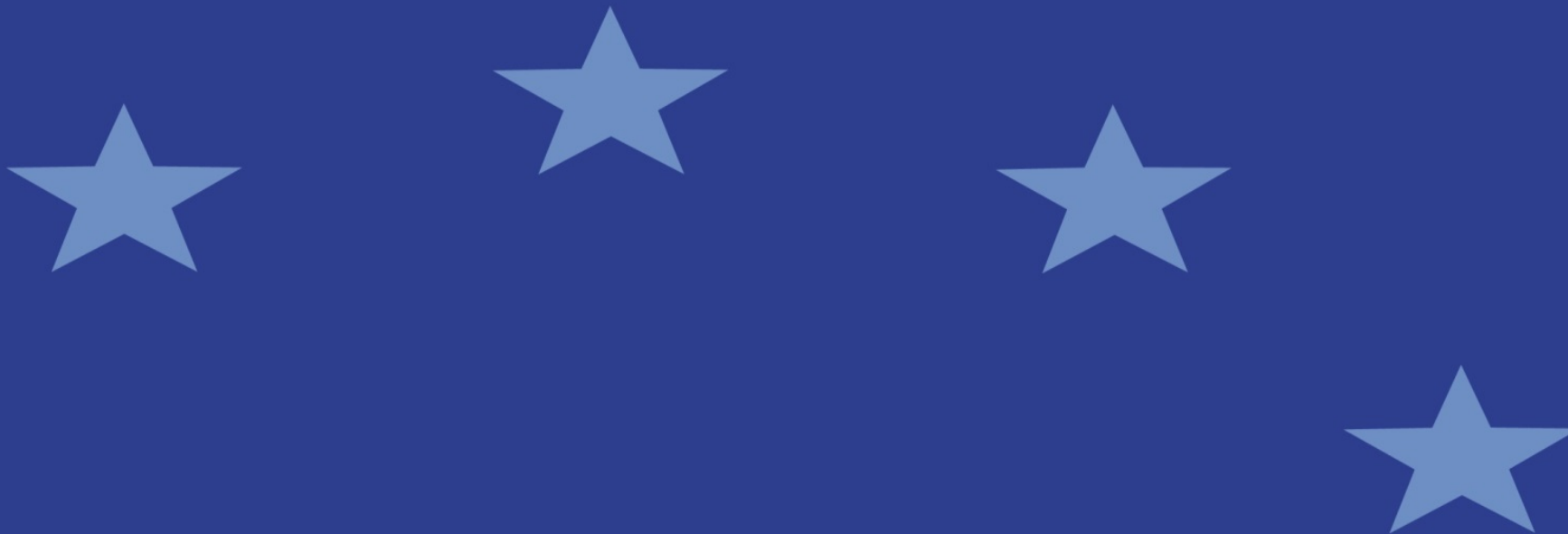
European Securities and
Markets Authority

ESMA REGULAR USE

September 2018 | London

IFRS Advisory Council

Roxana Damianov



Overview of the due process





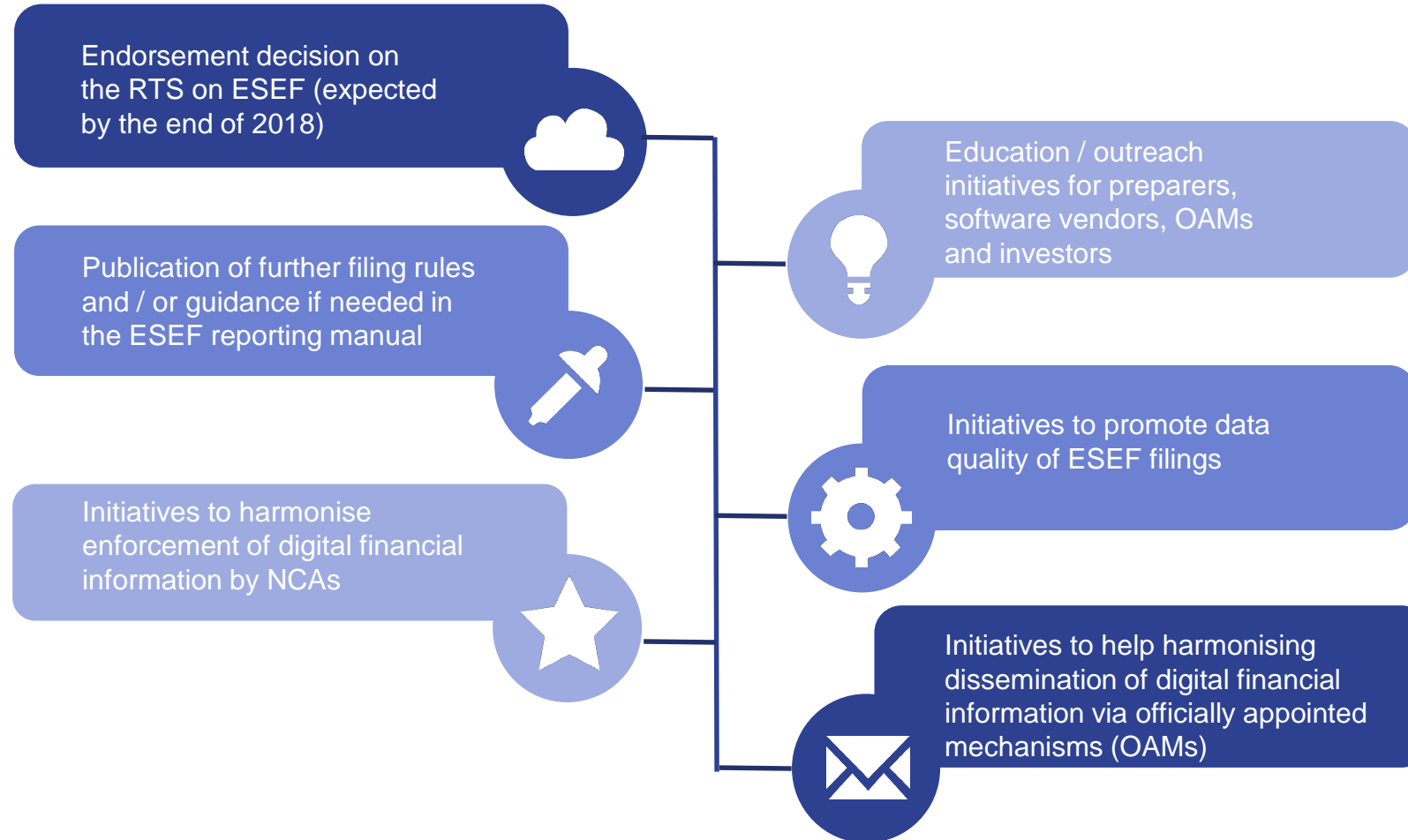
Key requirements set out in the RTS

- **From 2020, all annual financial reports shall be prepared in xHTML format**
- **Consolidated IFRS Financial Statements** shall be marked-up with XBRL tags
- **1 document, 2 views:** Tags embedded in human readable doc. via *InlineXBRL*
- **Tagging using ESEF Taxonomy** i.e. IFRS Taxonomy plus a few ESMA additions
- **Extensions:** only if no existing IFRS tag reflects the intended accounting meaning
- **Anchoring:** extensions shall be linked to the closest taxonomy element
- **Level of tagging:** detailed tagging of primary statements, block tagging of notes

Scope of the requirements in the RTS

	IFRS consolidated FS	Individual FS	3rd country GAAP FS
Primary Financial statements	mandatory from 2020		
Block tagging of Notes	mandatory from 2022	voluntary (if MS provides taxonomy)	Forbidden
Detailed tagging of Notes	voluntary		

Ongoing and future activities on the ESEF



Structured electronic reporting

Opportunities

Opportunities—What the future may hold...

Better navigation and accessibility

- Reduced costs and improved timeliness to find and obtain data

Fosters market innovation in reporting and consumption

- Calculations and analytics
- Interactive reporting

Supports fundamental research

- Facilitates comparisons
- Timely access to granular data for all companies

Example 1—better navigation and accessibility

Disclosure of reconciliation of liabilities arising from financing activities [text block] text block IAS 7.44D Example

The screenshot shows the CALC BENCH interface. At the top, there is a search bar with the text 'Liabilities Arising From Financing Activities Explanatory' and a 'Go' button. A red arrow points to this search bar. Below the search bar, there are buttons for 'Add Previous Period', 'Show All History', 'Compare To Previous Period', and 'Remove Links'. The main content area displays a table with the following text and data:

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Financing activities are those for which cash flows were, or of future cash flows will be, classified in the Group's cash flow statement as cash flows from financing activities.

For the year ended December 31, 2017

	Short-term borrowings	Bor
	NTS	
Balance at January 1, 2017	\$ 20,955,522	\$
Financing cash flows	(2,038,993)	
Non-cash changes		
Amortization of issuance cost	-	
Converted to ordinary shares in current period	-	
Effects of exchange rate changes	(954,058)	
Balance at December 31, 2017		\$

At the bottom right of the table, there are buttons for 'Export Table' and 'Export History'.

Example 2—fosters innovation in reporting

Source:



Enhanced the freely available Inline XBRL viewer to include new interactive features:

- converting a time series for an element into a graph to facilitate comparisons over time
- searching on disclosures using the FASB codification
- benchmarking to peers



Example 3—fosters innovation in consumption

‘The success of today’s new technology depends on the machine readability of decision relevant information’.

Scott W. Bauguess, Deputy Chief Economist and Deputy Director, Securities and Exchange Commission (<https://www.sec.gov/news/speech/speech-bauguess-050318>)

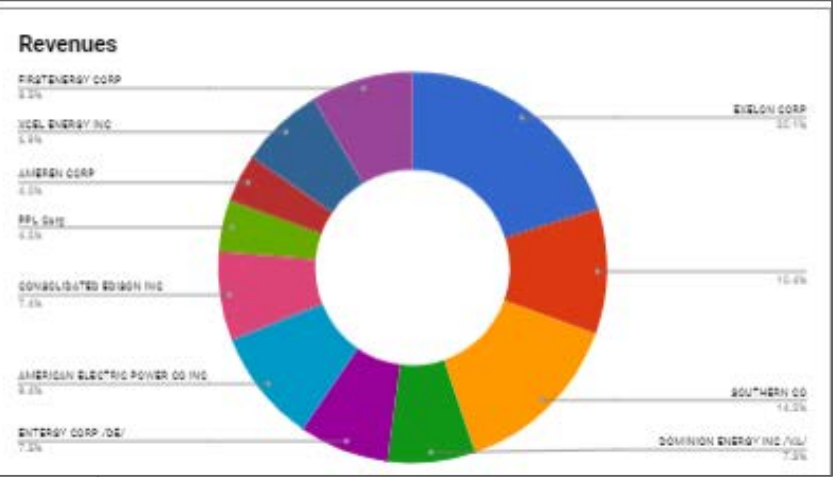
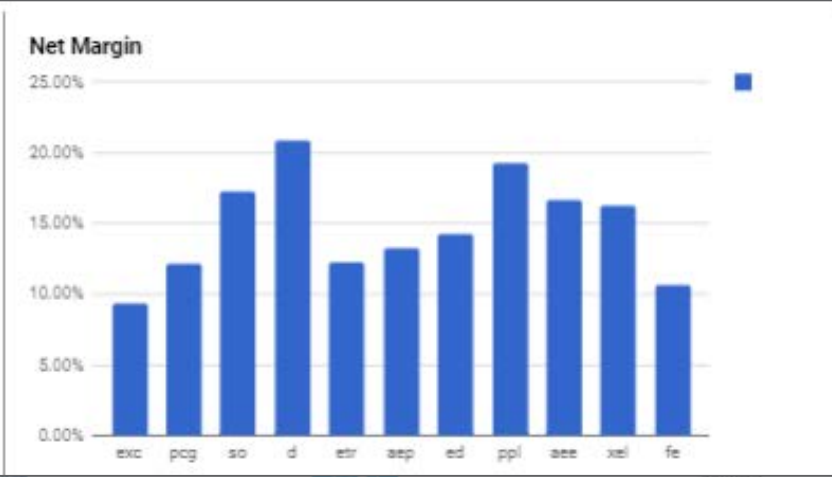
The Danish Business Authority is exploring ways to apply a number of machine readable techniques to predict corporate failures. It is using the XBRL financial statements that it collects from the 240,000 companies that operate in Denmark.

Example 4—facilitates comparisons between companies

Net Margin Comparison

Parameter	Value
Period	3Q
Year	2017
Calendar	true
Revenue Elements	Revenues,SalesRevenueNet,SalesRevenue
Net Income Loss Elements	NetIncomeLoss,ProfitLoss,NetIncomeLoss
Ticker	ex

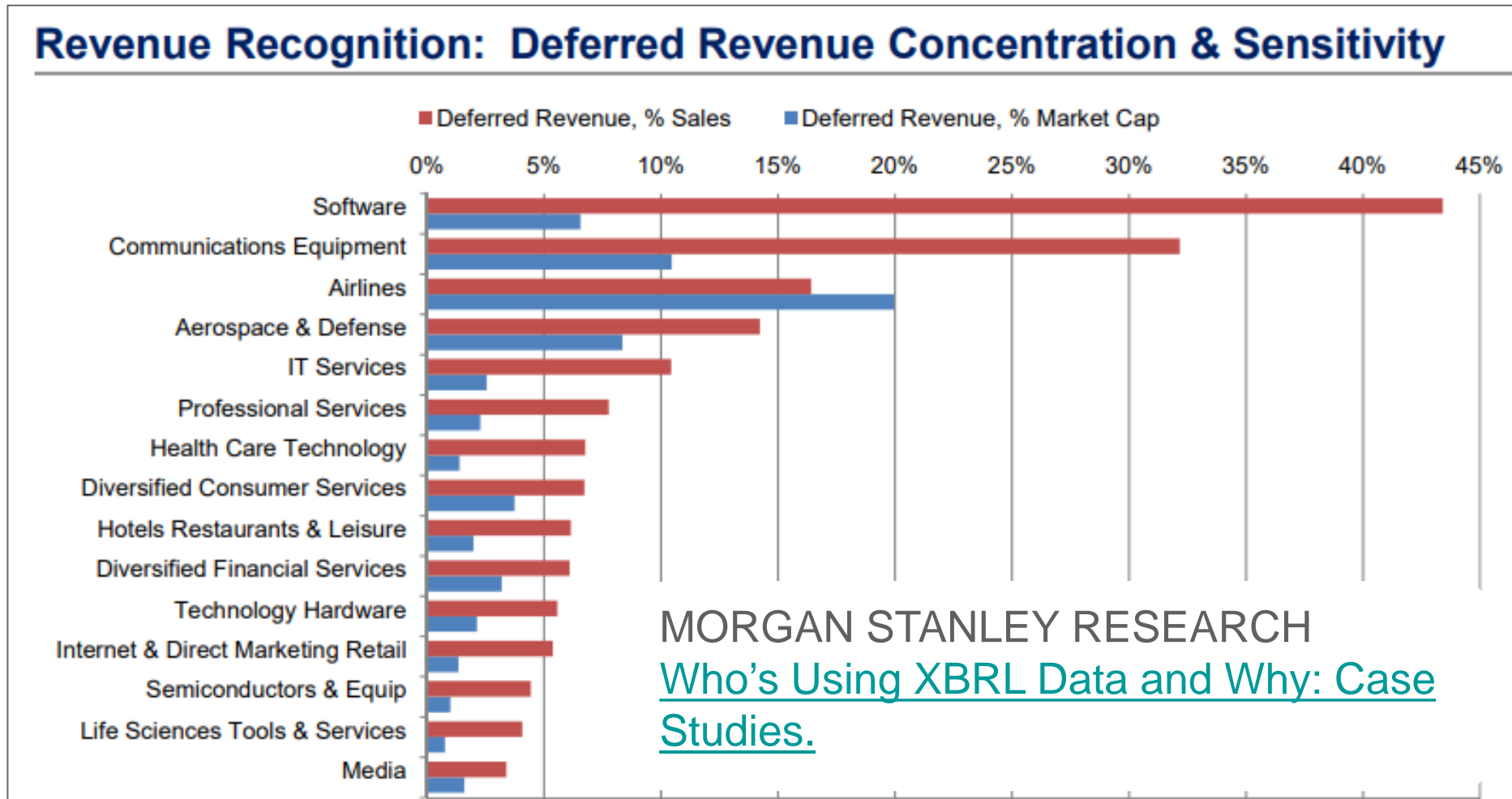
Net Margin Comparison Data



Company	EXELON CORP	PPL CORP	SOUTHERN CO
CIK	0001109357	0001004980	0000092122
website	www.exeloncorp.com	www.ppl.com	southerncompany.com
Namespace	http://www.exeloncorp.com/20171221	http://www.ppl.com/20170930	http://southerncompany.com/20171221
	204668	202026	205494
Revenues	\$8,769,000,000	\$4,517,000,000	\$6,201,000,000
Net Income (Loss) Attributable to Parent	\$824,000,000	\$550,000,000	\$1,089,000,000
Net Margin	9.40%	12.18%	17.24%

Source:
XBRL US

Example 5—access to granular data



Example 6—timely access to data for all companies

What are the advantages of XBRL data in your experience?

The main advantage that we see is speed to market, which is really crucial when you are in this business. You want to put financial data out as soon as it is released. XBRL does give you a chance to do that. Of course, you always have to balance speed with accuracy and completeness. Those are other things that we need.

Source:



[Q&A with an expert: Bloomberg Global Data's use of XBRL shows the vital importance of data quality](#)

Finally, another big thing is that everybody files these statements, the big companies and the small ones too, and this allows the small filers to get their data out on a par with the big filers. If many companies are reporting on a given day, normally our staff is going to be drawn to the bigger filers first, but XBRL allows data from the small filers to get into the system faster. Otherwise it might be delayed—dealt with after all of the big companies have filed.

Implications—What the future may hold...

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Improved capital market transparency

Reduced costs of capital

Level playing field for all investors

- Reduces information asymmetries

Increased analyst coverage of companies

Increased efficiency

- User analysis
- Preparation of financial reports
- Evidence-based standard-setting and regulation
- Audit

Structured electronic reporting

Challenges

- Investors require **tagged data that is:**
 - reliable
 - consistently available
 - company-specific
 - comparable
 - available in a usable form

... but these characteristics of useful information do not always seem to apply to the tagged as reported data ...

... likely to explain why investors are not using the data directly

Reliable

- Tagging errors exist. This may be due to lack of familiarity with the IFRS Taxonomy and lack of audit / regulatory review.

Consistently available

- Lack of critical mass of (detailed) tagged IFRS financial statements.

Company-specific

- Communicating company-specific information in a way that is understandable and easy for users of electronic information to consume is challenging



Information intermediaries are cleansing, supplementing, aggregating and standardising the tagged as reported data

Comparable

- Third parties are applying (and need to apply?) a degree of standardization to the tagged as reported data (sometimes due to unnecessary use of entity specific extensions)

Available in a usable form

- Data is provided in a format that is difficult for users to use directly



Information intermediaries are cleansing, supplementing, aggregating and standardising the tagged as reported data

- The most common errors are:
 - Use of an extension element where an appropriate IFRS Taxonomy element exists
 - Tagging a disclosure with an inappropriate IFRS Taxonomy element
 - Inappropriate use of signs, entering a negative value for an element where the value should be positive
 - Inappropriate scaling, for example use of billions instead of millions

What is happening now?

IFRS Foundation

- Supports preparers in their understanding of the IFRS Taxonomy content. For example:
 - educational materials
 - tagging of the Illustrative Examples
 - sample validation rules

Regulators

- Usually mandate validation checks, mainly on the technical integrity of the XBRL files
- May mandate audits, for example discussions are currently on-going in the EU

Other parties

- XBRL US publishes data quality rules for foreign private issuers applying IFRS Standards
- Software vendors are building checks within their tools
- Experts in IFRS Taxonomy provide consultancy services

What is happening now?

IFRS Foundation

- Supporting adoption: the IFRS Taxonomy is an important component of the Board's Better Communication in Financial Reporting theme
- Supporting consistent application of the IFRS Taxonomy: educational materials for regulators

Regulators

- Adoption is increasing, but so far only the SEC requires detailed tagging of the notes
- Cooperation among regulators emerging

Company specific—What is the issue?

Consolidated balance sheets

ASSETS

(in millions of Euros)

Goodwill

Other intangible assets

Property, plant and equipment operated under French public electricity distribution concessions

Property, plant and equipment operated under concessions for other activities

Property, plant and equipment used in generation and other tangible assets owned by the Group

The IFRS Taxonomy has an element to tag the 'total carrying amount of Property, plant and equipment'. This total is not reported.

No IFRS Taxonomy elements exist to tag the disaggregation reported by this company, as this does not reflect common reporting practice.

A human reader uses labels and presentation of line items to understand the information. What is needed to make this information easy consumable and understandable for an user of structured electronic data?

Addressing the challenges—company specific

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What is happening now?

IFRS Foundation

- Encouraging regulators to permit companies to tag company-specific disclosures and data relationships
- Collaborating with XBRL International
- Supporting the use of linking extensions to the 'closest' IFRS Taxonomy element(s)

Regulators

- Linking extensions to the closest IFRS Taxonomy element(s), as required by the draft regulatory technical standard published by ESMA

XBRL International

- Taskforce looking at how to best communicate company-specific disclosures in an XBRL filing
- Consultation document issued Q1 2018

What is happening now?

IFRS Foundation

- Standard setting, in particular in the Board's project on Primary Financial Statements
- IFRS Taxonomy content includes elements to reflect common reporting practice

Regulators

- Facilitating comparability
 - tagging granular data and data relationships
 - linking company-specific disclosures to the closest IFRS Taxonomy element

What is the issue?

- Data is provided in a format that is difficult for users to use directly leading to their reliance on third party intermediaries (eg data aggregators)

What is happening now?

Regulators

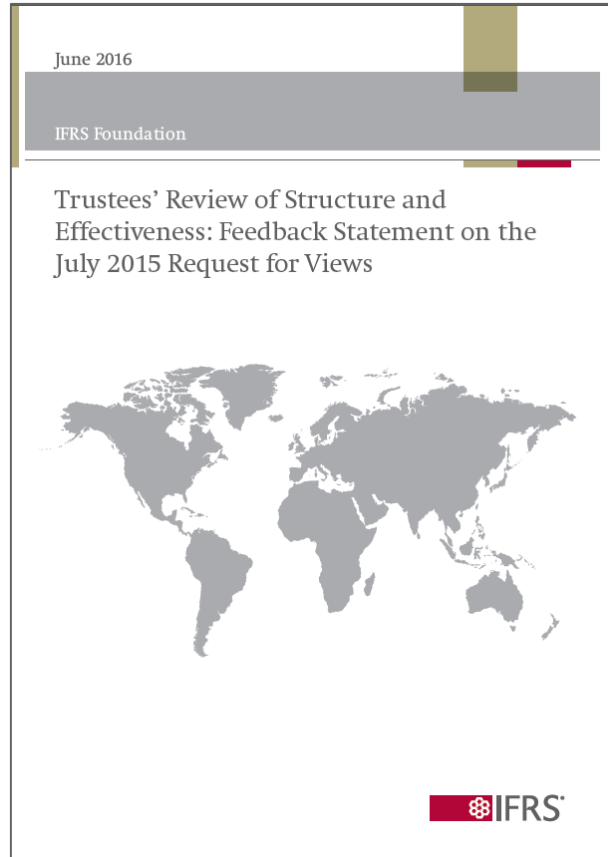
- Some are working on accessibility of filed data

Software providers

- Developing software tools to facilitate consumption of data

Strategic considerations

Current strategy
Possible future strategy



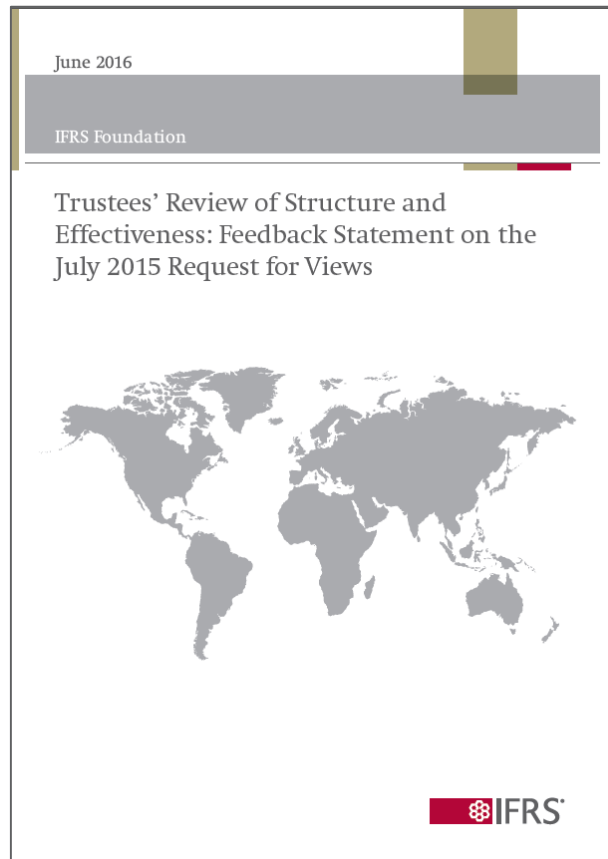
See <https://www.ifrs.org/-/media/project/2015-trustees-review/request-for-views/educational-materials/feedback-statement-request-for-views.pdf>

‘The Trustees believe that the Foundation has a role in ensuring high quality reporting in the digital world. In order to achieve this, there is a need to support the implementation of electronic reporting in the same way as the implementation of the Standards is supported, and that the implementation of IFRS electronic reporting should be as close to the Standards as possible. Therefore, in order to achieve its mission, the Foundation needs to own the digital representation of its Standards, with the objective of ensuring that the IFRS Taxonomy is fit for purpose and can be used effectively in a fully automated environment.’

Current strategy

Identified challenges with IFRS Taxonomy

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See <https://www.ifrs.org/-/media/project/2015-trustees-review/request-for-views/educational-materials/feedback-statement-request-for-views.pdf>

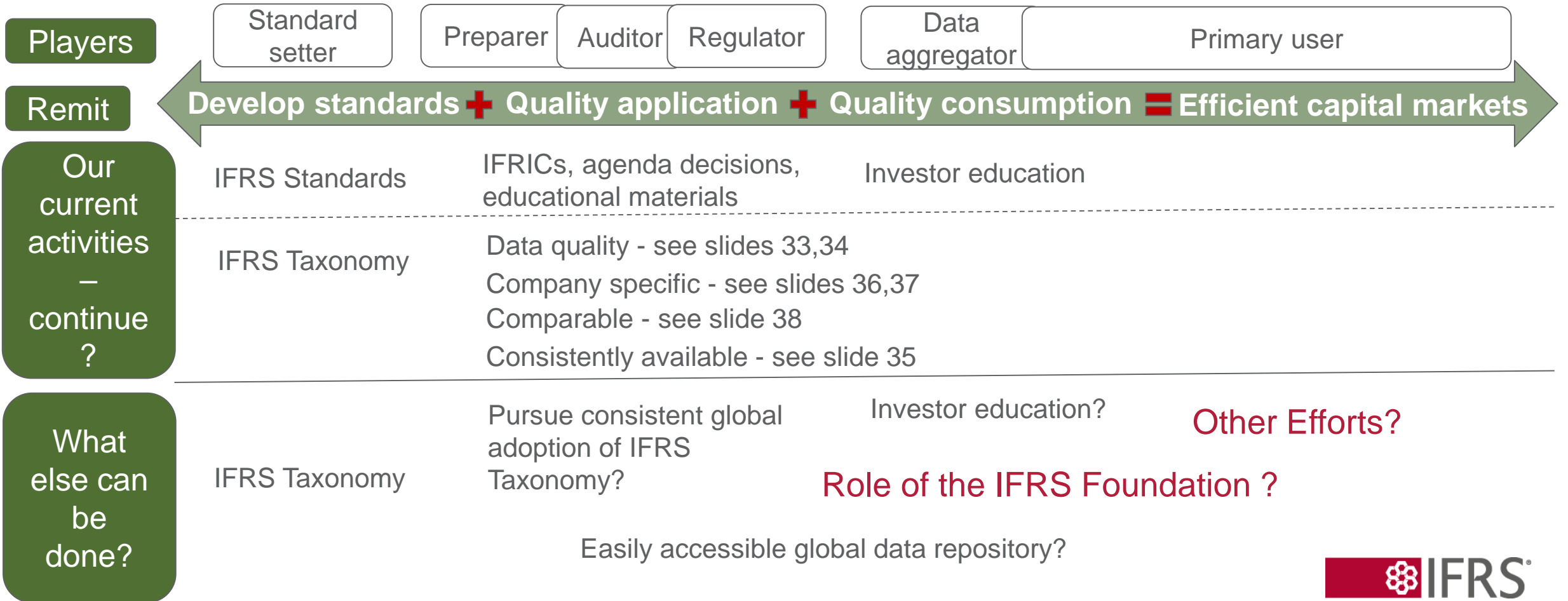
- Perceived conflict working with principles-based reporting in an electronic world; in particular, company-specific disclosures can impact data quality and are implemented inconsistently
- Effect on data quality of overall inconsistent implementation of electronic reporting
- Need to support all types of users, in particular those interested in larger scale data-oriented quantitative research
- Not all countries that use IFRS Standards use the IFRS Taxonomy for their electronic reporting

Current strategy - status

Action	Status
Focus more on IFRS Taxonomy rather than associated electronic reporting technology (XBRL)	COMPLETE
IFRS Taxonomy considerations should not constrain principles-based approach to Standard-setting	In process
Review current limits on content scope of the IFRS Taxonomy, including potential for improving the way that electronic filings work with principles-based reporting, in particular company-specific disclosures.	In process <ul style="list-style-type: none"> • See slide 37 • Also developing common practice elements
Enhance co-operation with and support for securities regulators seeking to implement the IFRS Taxonomy	In process <ul style="list-style-type: none"> • Working closely with ESMA and SEC
Support a wider range of users <ul style="list-style-type: none"> • Consult more widely with investors to identify possible future improvements • Support users of large scale (big data) analytic techniques and data aggregator firms • Continue to improve accessibility of the current IFRS Taxonomy for users without a background in electronic financial reporting 	In process <ul style="list-style-type: none"> • Investor outreach indicated data quality, company-specific disclosures and comparability are main concerns. See slides 30-39
Formalise tracking of technological developments, including establishing a network of experts to provide advice (including Advisory Council)	In process

Possible future strategy

Our mission is to develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world. Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.



Questions for break-out discussion

Objective of this session

We are seeking the advice of the IFRS Advisory Council members on our role and strategy related to the IFRS Taxonomy

Why now?

Advisory Council technology recommendations in October 2017

Increasing digital consumption of financial reports

More jurisdictions mandating use of the IFRS Taxonomy

Within context of

Our remit, limited resources and other priorities

Rapid pace of technological change – what is the stable platform on which to base our plans?

Progress requires commitment and prioritisation from multiple stakeholders

Question 1 – The future environment

Technology is said to be changing at a rapid pace, but the implications of these changes is uncertain. We need a stable (but regularly monitored) set of assumptions upon which to develop our strategy to support the consumption of financial reporting.

- a. What future time period should our strategy cover? 3 to 5 years? 10 years? Longer? Can any of these assumptions be articulated in a way that future-proofs them?
- b. What should these assumptions be?
 - i. Will there continue to be a role for structured electronic reporting? Will artificial intelligence work together with and complement tagged electronic data or supersede it?
 - ii. If so, will the IFRS Taxonomy continue to be the structure of the future?
 - iii. If you think the IFRS Taxonomy remains relevant, how might the structure and content of the IFRS Taxonomy need to change?

Question 2 – Challenges

Slides 30 to 32 list the challenges that we have heard users have when consuming electronic data structured using the IFRS Taxonomy.

Are you aware of any other challenges impeding consumption of tagged electronic data for investors? If so, what are these?

Question 3 – What else can be done?

Slides 34-39 and 43 describe what is currently been done to support high-quality structured electronic financial reporting and its consumption. Slide 44 provides some ideas of other activities that could be done.

In your view, what else can be done to support the high-quality electronic financial reporting and its consumption?

Question 4 – What should our role be?

Given our remit and limited resources, what should be the role of the IFRS Foundation in supporting high-quality electronic financial reporting and its consumption?

- a. What new taxonomy related activities should we undertake, if any?
- b. What existing taxonomy related activities should we curtail, if any?
- c. Should we encourage further adoption of electronic reporting? If yes, how could we do this?
- d. Who else needs to be involved? How can we get their involvement?
- e. Or should we leave the development of electronic reporting to information intermediaries and other market forces?
- f. How should we measure progress? What is our measure of success?

Appendix: Background on the IFRS Taxonomy

Appendix: Background on the IFRS Taxonomy

What is the IFRS Taxonomy?

What is a taxonomy? ① Classification

- A system for classifying something—allowing information to be structured so it is easy to browse and find
- Here's an familiar example of a taxonomy, from an online retailer:

Shop by...			
Gender: male			
	Item: tops		
		Size: medium	
			Colour: green

- The **IFRS Taxonomy** classifies the presentation and disclosure requirements of the IFRS Standards.

What is a taxonomy? ② Identification

- A system for identifying something—allowing the information to be accessed, processed and analysed more efficiently
- For example, an online retailer:



= identifier for a green male top—helping a retailer to efficiently manage inventory and supply

- What are the stock levels of green male tops?
- Book new stock and instantly update availability of green male tops to all selling channels

- The **IFRS Taxonomy** is a system for identifying disclosures required by IFRS Standards.

What does the IFRS Taxonomy do?

- Reflects the presentation and disclosure requirements in IFRS Standards (including in the *IFRS for SMEs* Standard) in a structure
- Consists of **elements** used to identify ('tag') information in financial statements prepared using IFRS Standards
- Makes the tagged information **readable for computers**

A single global standard for tagging disclosures prepared using IFRS Standards, facilitating electronic communication

IFRS Taxonomy elements—example

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IAS1 *Presentation of Financial Statements*

IFRS
Standards

81B An entity shall present the following items, in addition to the profit or loss and other comprehensive income sections, as allocation of profit or loss and other comprehensive income for the period:

- (a) profit or loss for the period attributable to:
 - (i) non-controlling interests, and
 - (ii) owners of the parent.



IFRS
Taxonomy

Computer tag	ifrs-full:ProfitLossAttributableToOwnersOfParent
Label	Profit (loss), attributable to owners of parent
Reference	IAS1 81B (a) (ii)
Documentation	The profit (loss) from continuing and discontinued operations attributable to owners of the parent. [Refer: Profit (loss)]

Tagging using the IFRS Taxonomy—example

General and administrative expenses	(1,003)
Research and development expenses	(1,562)
Other business	89
Other business	(30)
Income from o	658
Financial income	94
Financial expense	(453)
Investments in a	30
Income before	329
Income tax expense	(169)
Income from c	160
Discontinued op	479
Net income	638
Attribution of net income	
Net income attributable to Koninklijke Philips N.V. shareholders	624
Net income attributable to non-controlling interests	14

Attributes ✕

Profit (loss), attributable to owners of parent

Tag	ifrs-full:ProfitLossAttributableToOwnersOfParent
Fact	624,000,000
Period	12 months ending 12/31/2015
Measure	EUR
Scale	Millions
Decimals	Millions
Balance	Credit
Sign	Positive



IFRS
Taxonomy
element



IFRS disclosure



Source: SEC Inline XBRL viewer

Data relationships can also be expressed in a computer-readable format

The screenshot displays a 'Calculation' window titled 'Current work in progress' with the following data:

Section	41502 - Disclosure - Inventories - Inventories (Detail)
Balance	Debit
Weight	Added to parent (1.00)
Parent	Current inventories

Below the calculation window is a table of inventory components for 2016:

	2016
Raw materials and s	<u>1,040</u>
Work in process	<u>446</u>
Finished goods	<u>1,906</u>
Inventories	<u>3,392</u>

A green callout box with an arrow pointing to the calculation window contains the text: 'The calculation indicates that 'work in progress' is a component of 'Current inventories''

Source: SEC Inline XBRL viewer

IFRS Taxonomy elements

IFRS Standards

Financial reporting practice
applying IFRS Standards

presentation and
disclosure
requirements

illustrative examples
and implementation
guidance

information that companies
commonly disclose when
applying IFRS Standards

Additions to the IFRS Taxonomy—extensions

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Company extensions

company-specific disclosures

company-specific relationships

Regulatory extensions

regulatory and country-specific disclosures

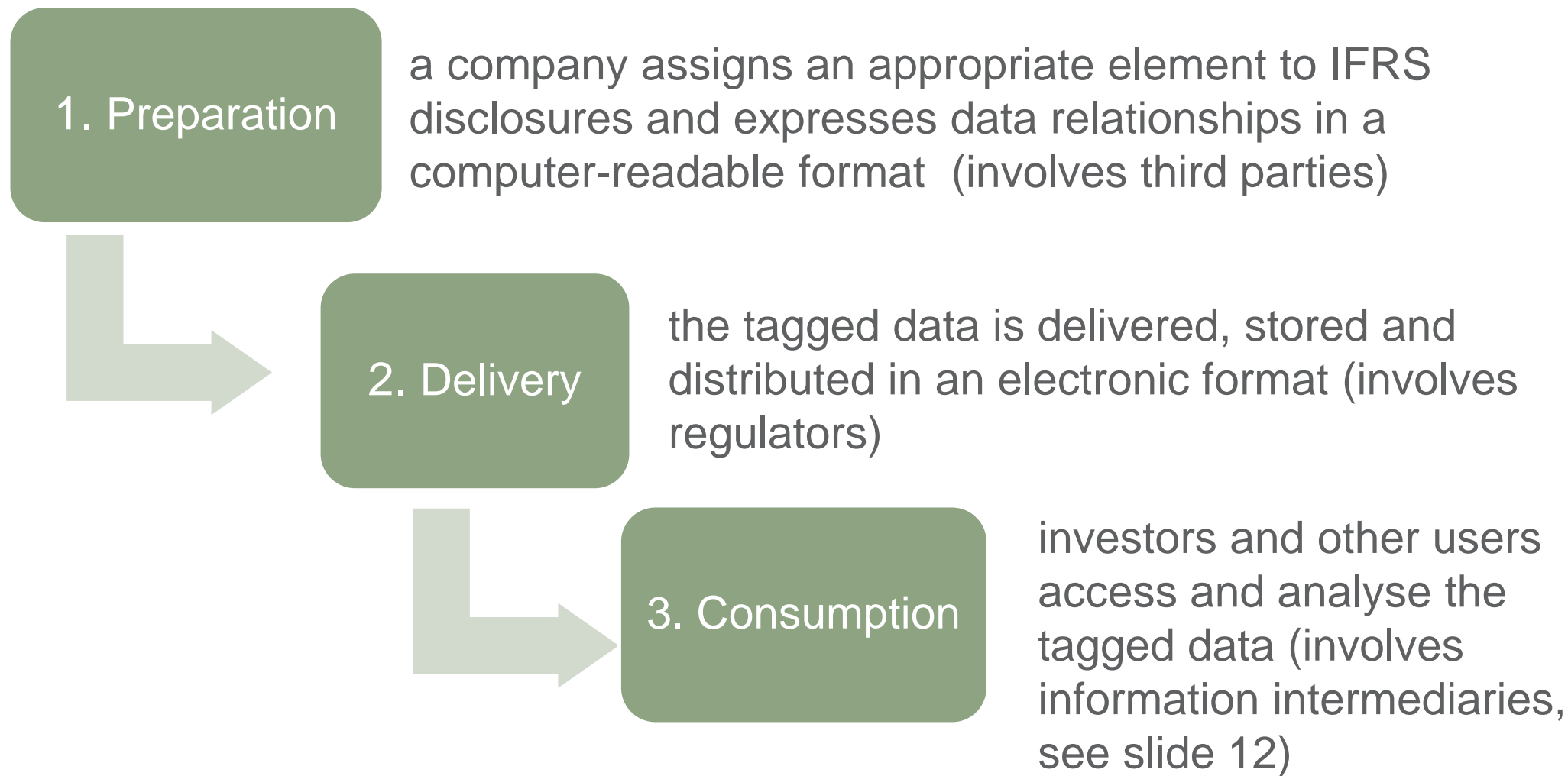
company identifiers, industry codes, ...

Extensions that express identical content may vary between regulators

For example, the use of or decision not to use a Legal Identity Identifier (LEI) to identify companies

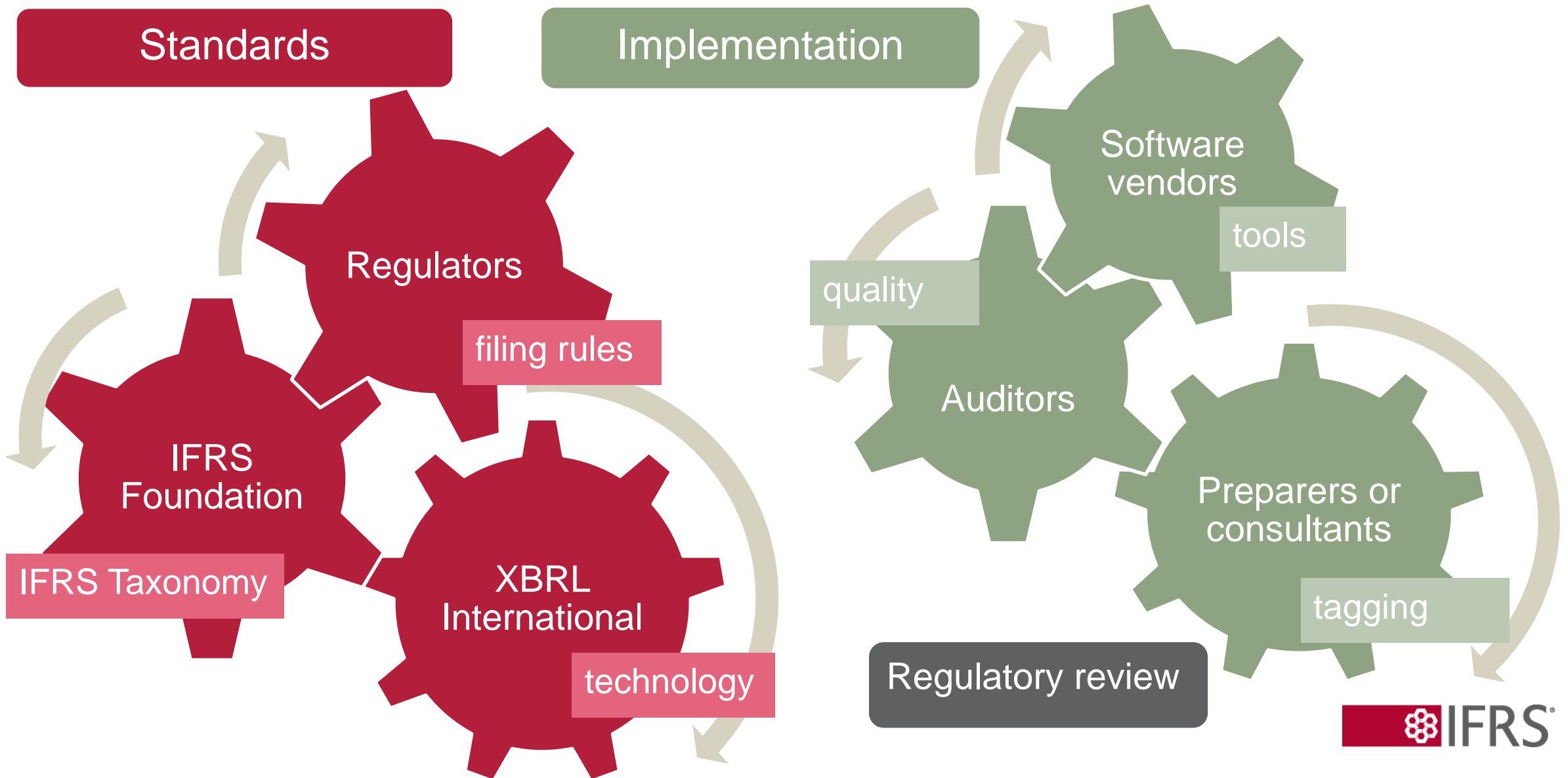
Appendix: Background on the IFRS Taxonomy

How does it work? The electronic reporting
ecosystem



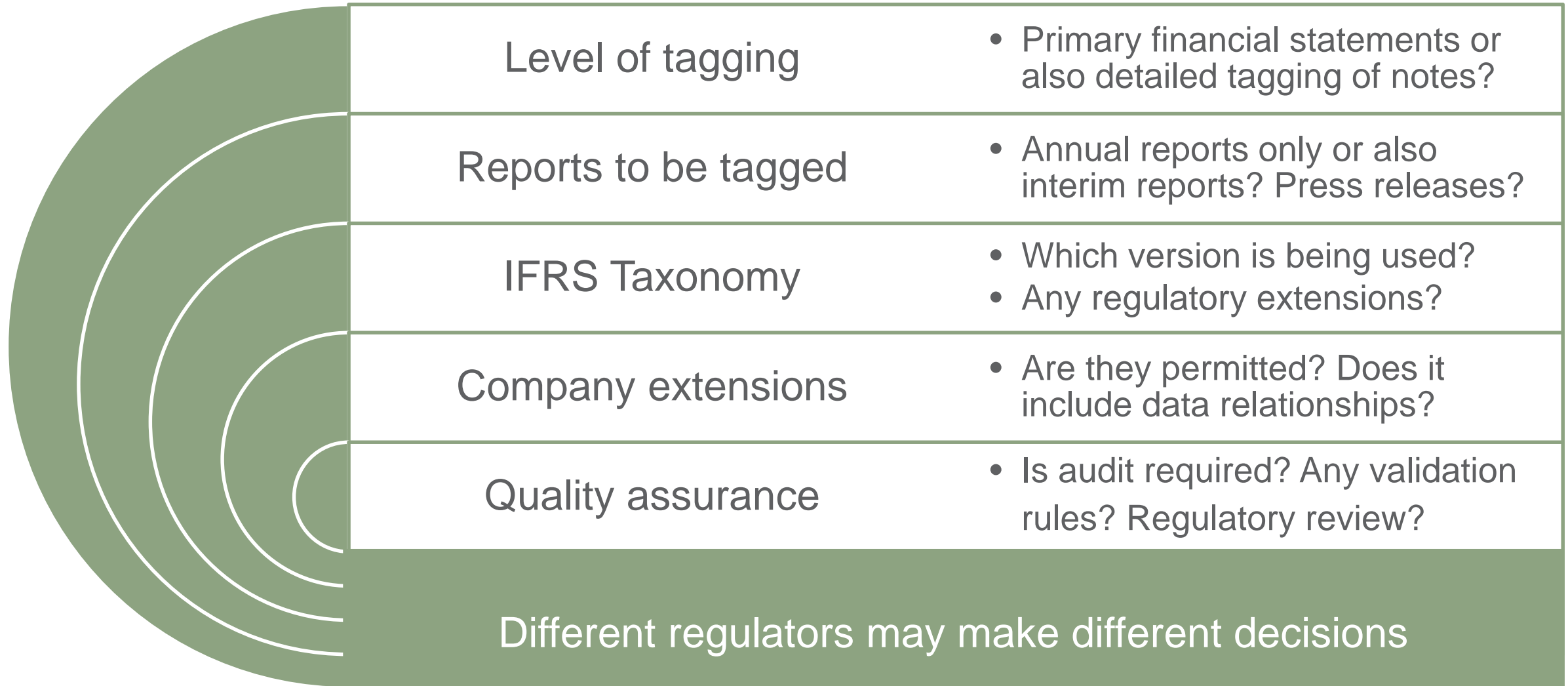
Many parties have a role to play for electronic reporting to work well!

1. Preparation—main parties involved



Electronic filing rules—examples of key decisions for regulators

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2. Delivery—main parties involved

Preparer

individual web site

XBRL

free

Regulators

multiple access points

XBRL, may also include other delivery formats

usually free

Information intermediaries

a single global access point

single user tool to view and extract the data

usually not free, limited open source content

Example of a tagged financial report

- A tagged version of the IFRS foundation's 2017 Annual Report can be found on our website:

<https://www.ifrs.org/about-us/who-we-are/#annual-reports>

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