

AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

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IFRS® Taxonomy Due Process: feedback on the Invitation to Comment and proposals for change

Introduction

1. The purposes of this paper are to:
 - (a) update you on the comments received on the *Invitation to Comment: IFRS Taxonomy due process* ('Invitation to Comment')¹;
 - (b) seek your views on the changes we are proposing to finalise the revisions of the existing IFRS Taxonomy due process;
 - (c) seek your views on our proposal to amend the *IASB and IFRS Interpretations Committee Due Process Handbook* ('*Due Process Handbook*') to add the final IFRS Taxonomy due process in the form of an appendix; and
 - (d) seek your approval to proceed with the publication, after incorporating any comments you may have, of the *Feedback Statement: IFRS Taxonomy due process* ('Feedback Statement') and the amendments to the *Due Process Handbook*.

Background

2. The integration of the taxonomy-related activities within the standard-setting function of the IFRS Foundation triggered a review of the IFRS Taxonomy due process as set out in the *Due Process Handbook for XBRL Activities* ('the XBRL Handbook'). This review started in mid-2013.
3. At your meeting in January 2014², the DPOC approved interim amendments to the IFRS Taxonomy due process, which have been in place since then. These amendments

¹ This document is available at:
<http://www.ifrs.org/DPOC/Documents/Invitation%20to%20Comment%20IFRS%20Taxonomy%20Due%20Process.pdf>

included the creation of the IFRS Taxonomy Consultative Group ('ITCG') and the establishment of a process whereby public consultation is sought on IFRS Taxonomy updates released during the year (instead of the *annual IFRS Taxonomy* as is the case under the XBRL Handbook). In addition, it also included the use of a new consultation document '*The Proposed IFRS Taxonomy Update*' to expose proposed changes to the IFRS Taxonomy for public comment.

4. The staff completed their proposals for a revised IFRS Taxonomy due process in mid-2015. The DPOC approved these proposals in October 2015³ and an Invitation to Comment on the proposals was issued on 4 November 2015. The proposals retained the process of seeking public feedback on the taxonomy after the release of the final IFRS Standard (including IFRS for SMEs[®]) or Interpretation. The substantive proposed changes were that:
 - (a) the Board should be involved in the approval and review of the IFRS Taxonomy content;
 - (b) the drafting, Board approval and ITCG review of the IFRS Taxonomy would happen at the same time as the drafting, Board approval and external editorial review of the related IFRS Standard or Interpretation; and
 - (c) the publication of the *Proposed IFRS Taxonomy Files* for a proposed content update is optional.⁴

Comments received

5. The comment period for the Invitation to Comment closed on 3 February 2015. The staff's comment letter analysis and the summary of outreach activities conducted with the ITCG is provided in Agenda Paper (AP) 3D(i).

Feedback Statement - our proposed response to the comments received

6. The draft Feedback Statement is available at AP 3D(ii). It summarises the consultation that has taken place, the main views expressed by respondents to the Invitation to Comment and our proposals as to how the IFRS Foundation should respond to any issues raised. In addition, it also provides a brief project history.
7. We have outlined the substantive matters in the paragraphs that follow.

² Agenda paper (AP) 3D for that meeting refers, available at:

<http://www.ifrs.org/Meetings/MeetingDocs/Trustees/2014/January/AP3D%20IFRS%20Taxonomy%20-%20proposal.pdf>.

³ AP 3E for that meeting refers, available at: <http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2015/October/DPOC/AP3E-DPOC-Taxonomy.pdf>.

⁴ The *IFRS Taxonomy Files* are the files used to express and deliver the IFRS Taxonomy content using syntax such as XBRL or any taxonomy delivery mechanism the IFRS Foundation considers appropriate.

Board engagement

8. Many respondents agreed that Board involvement enhances the credibility and quality of the IFRS Taxonomy. The approach to Board engagement as proposed in the Invitation to Comment was also well supported, namely that:
 - (a) IFRS Taxonomy content directly reflecting new or amended IFRS Standards (including the accompanying materials to the IFRS Standards) require the support of a super-majority of the Board by means of a ballot; and
 - (b) IFRS Taxonomy content not directly referred to in the IFRS Standards (including the accompanying materials to the IFRS Standards) requires the review, but not approval, by three-to-five Board members ('the IFRS Taxonomy Review Panel').⁵
9. A few respondents suggested establishing a taxonomy committee of financial reporting specialists that would work in a similar way to the IFRS Interpretations Committee. These respondents thought that not all Board members have the required taxonomy expertise, and they were also concerned about the adverse impact on Board resources. We carefully considered this proposal, but recommend to the DPOC not to proceed with this proposal. Our reasons are as follows:
 - (a) we continue to hold the view that Board approval and review is required to protect the credibility and integrity of the IFRS Taxonomy content;
 - (b) we have observed that the use of structured electronic reporting is growing, and we therefore think that it is likely to become increasingly important for the Board and staff to have the required taxonomy expertise. The Board has been educated on the IFRS Taxonomy content in the last two years, and we will continue to renew this education on a regular basis; and
 - (c) if necessary, the Board can obtain advice from others with the necessary technical expertise. For example:
 - (i) members of the ITCG already review proposed changes to the IFRS taxonomy content and raise issues for the attention of the Board and staff.
 - (ii) the existing *Due Process Handbook* permits the Board to set up other task forces or consultative groups for specific taxonomy projects. We think that a taskforce consisting of financial reporting specialists, including investors and preparers, could be especially useful in assisting with the identification and review of common practice content.⁶

⁵ IFRS Taxonomy content not directly referred to in the IFRS Standards is mainly comprised of common practice taxonomy elements. These are element tags for disclosures that entities report in practice when applying the IFRS Standards. For example, a particular class of Property, Plant and Equipment such as 'oil and gas assets'.

⁶ The IFRS Taxonomy has in the last few years called for external stakeholders to contribute to specific common practice projects. So far, the response rate has been low. We think that this could change if the use of the IFRS Taxonomy by regulators were to become mandatory.

10. It is also our view that the DPOC should re-evaluate after a period of time whether the establishment of such a committee may be useful, in the light of the experiences with the new process and the potential growing usage of the IFRS Taxonomy.
11. Consequently, we are recommending to the DPOC that the final IFRS Taxonomy due process should retain the role of the Board (and the approach to Board engagement) as proposed in the Invitation to Comment.

The timing of public consultation

12. Most respondents agree with the proposal that public consultation on the IFRS Taxonomy should take place for the final Standard only. They expressed the view that consulting on taxonomy content at the Exposure Draft stage could be inefficient and result in additional costs.
13. Consequently, we are recommending to the DPOC that the final IFRS Taxonomy due process should retain the proposals as set out in the Invitation to Comment.

Alignment of the IFRS Taxonomy and Standard-setting due process

14. Many respondents agreed with the proposal that the drafting, Board approval and the ITCG review of the IFRS Taxonomy should happen at the same time as the drafting, Board approval and external editorial review of the related IFRS Standards.
15. Consequently, we are recommending to the DPOC that the final IFRS Taxonomy due process should retain the proposals as set out in the Invitation to Comment.

Concerns about the IFRS Taxonomy impacting Standard-setting

16. Many respondents warned of, or had concerns about, the IFRS Taxonomy constraining the principle-based approach to Standard-setting. We continue to hold the view that this is not the case. The IFRS Taxonomy reflects the IFRS presentation and disclosure requirements, and does not constrain entities in their application of the IFRS Standards.
17. The Invitation to Comment included the phrase that ‘the IFRS Taxonomy is considered during the development of new IFRS Standards’. One accounting firm commented, and we agree, that this phrase could be read by some as implying that the IFRS Taxonomy can potentially change the essence of the IFRS Standards. This was not our intention. We think and our experience has demonstrated that the IFRS Taxonomy can help with the clarity and consistency of the wording of the Standards.
18. Consequently, we are recommending to the DPOC that the phrasing in the final IFRS Taxonomy due process is changed to explain better how the IFRS Taxonomy interacts with standard-setting. We are suggesting the following:

‘The IFRS Standards must be articulated clearly and consistently enough to enable appropriate representation through the IFRS Taxonomy. Consequently, the implications

of the IFRS Standards on the IFRS Taxonomy are considered during the development of new or amended IFRS Standards’

The [Draft] final IFRS Taxonomy due process

19. Appendix A of this Agenda Paper includes a summary of the main proposed revisions between the Invitation to Comment and the [Draft] final IFRS Taxonomy due process.
20. AP 3(iii) includes a clean version of the [Draft] final IFRS Taxonomy due process incorporating these revisions.

Withdrawal of the XBRL Handbook

21. The *Due Process Handbook* covers the due process requirements of the Board and the IFRS Interpretations Committee. At the moment, the IFRS Taxonomy due process is covered by a separate *Due Process Handbook for XBRL Activities* (the ‘XBRL Handbook’). The IASB staff is recommending to the DPOC that:
 - (a) the *Due Process Handbook* is extended to incorporate the IFRS Taxonomy due process in the form of a separate appendix; and
 - (b) the XBRL Handbook is withdrawn.
22. The staff hold the view that merging the two handbooks is consistent with the current organisational structure; under this proposal there will be one single handbook covering the due process for all the technical activities of the Board, which now also includes the activities relating to the IFRS Taxonomy.
23. We recommend that the IFRS Taxonomy due process is fully integrated as a separate section (instead of an appendix) at the time the next revision of the *Due Process Handbook* takes place.
24. The proposed changes to the IFRS Taxonomy due process also resulted in consequential amendments to the existing text of the *Due Process Handbook*. These are mainly editorial such as replacing the currently used term ‘XBRL’ with the generic term ‘IFRS Taxonomy’ or to indicate that the activities of the Board now also include IFRS Taxonomy-related activities.
25. AP 3(iii) accompanying this paper sets out all the proposed amendments to the *Due Process Handbook*. The amendments include both the [Draft] final IFRS Taxonomy due process and the consequential amendments⁷.

⁷ As noted in AP 3B for this meeting, if the Board, the DPOC and the Trustees as a whole agree to extend from three to five years the intervals between Agenda Consultations undertaken by the Board, that will require a further amendment to the *Due Process Handbook*

Staff recommendation and next steps

26. The staff recommend that the DPOC approve:
- (a) the [Draft] Feedback Statement (see AP 3(ii));
 - (b) the proposed staff revisions to the IFRS Taxonomy due process (see Appendix A of this AP);
 - (c) the withdrawal of the XBRL Handbook; and
 - (d) the draft amendments to the *Due Process Handbook*, including both the [Draft] final IFRS Taxonomy due process and the consequential amendments (see AP 3(iii)).
27. Subject to the DPOC approving the above, the proposal is to proceed as soon as possible with the publication of the Feedback Statement and the amended *Due Process Handbook*.

Questions for the DPOC

1. Do you have comments or suggestions on the main proposals as set out in this paper, the [Draft] Feedback Statement and the [Draft] amendments to the *Due Process Handbook*?
2. Do you approve the publication of the documents as set out in paragraph 26 above?

SUMMARY OF SIGNIFICANT PROPOSED CHANGES TO THE PROPOSALS IN THE INVITATION TO COMMENT

Description of proposed revision	Why are we proposing this?	Relevant paragraph(s) draft final IFRS Taxonomy due process
The objective of the IFRS Taxonomy has been explained in more depth. A new section has been added to describe the objectives of the IFRS Taxonomy due process.	One accounting firm thought that the IFRS Taxonomy and the related IFRS Taxonomy due process lack a clear purpose.	A1 to A3 and A5
The description of the <i>IFRS Taxonomy Files</i> has been amended to clarify that these files enable automated processing by computers.	The IFRS Foundation publishes ‘files’ that render the IFRS Taxonomy content for human readability. The Invitation to Comment did not explain the status of these materials. The [Draft] final IFRS Taxonomy due process now states that these materials do not meet the definition of <i>IFRS Taxonomy Files</i> but instead have the status of educational or supporting materials.	A9 and A11
At least one (senior) Technical director is a member of the IFRS Taxonomy Review Panel	This reflects existing current practice, but was not specified in the Invitation to Comment	A12
The Invitation to Comment stated that the <i>IFRS Taxonomy Update</i> document has the status of an accompanying material to the related IFRS Standard. This paragraph has now been deleted.	<p>Not all respondents supported the staff’s view that <i>the IFRS Taxonomy Update</i> document can aid the understanding of the IFRS presentation and disclosure requirements.</p> <p>The staff now recommends that the status of the <i>IFRS Taxonomy Update</i> document should be determined by its primary function which is to enable the tagging of IFRS disclosures within a structured electronic report.</p>	NA
The [Draft] final IFRS Taxonomy due process now states that a reduced comment period (of not less than 30 days) for IFRS Taxonomy changes that are not narrow in scope but urgent	<p>The Invitation to Comment stated that the comment period is normally 60 days but that a reduced period can be considered for matters that are urgent or narrow in scope.</p> <p>One accounting firm queried this approach stating that this</p>	A39

Description of proposed revision	Why are we proposing this?	Relevant paragraph(s) draft final IFRS Taxonomy due process
require DPOC approval.	proposal is not consistent with the <i>Due Process Handbook</i> which stipulates that the DPOC needs to approve a shorter comment period for the Standards. We think that DPOC approval should be required for matters that are urgent but that this approval is not necessary for matters that are narrow in scope.	
The Invitation to Comment included the phrase that ‘the IFRS Taxonomy is considered during the development of new IFRS Standards’. We have amended the wording to explain better how the IFRS Taxonomy interacts with standard-setting (see paragraph 18 of this Agenda Paper).	One accounting firm commented, and we agree, that the phrasing used in the Invitation to Comment could be read by some as implying that the IFRS Taxonomy can potentially change the essence of the IFRS Standards (see paragraphs 16 and 17 of this Agenda Paper).	A25
The Invitation to Comment stated that the publication of the <i>Proposed IFRS Taxonomy Files</i> for proposed content updates is optional. The draft final IFRS Taxonomy due process has qualified this by stating that the staff has to assess whether publication of these files is appropriate.	A few respondents thought that some stakeholders may prefer to view (and therefore are more like to comment on) the proposed content changes using the <i>Proposed IFRS Taxonomy Files</i> . We agree with this.	A28 and A34
Drafting suggestions	One accounting firm provided detailed drafting suggestions. We made amendments where we thought it improved the clarity and consistency of the wording of the IFRS Taxonomy due process.	A variety of paragraphs