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IFRS Foundation's Invitation to comment *IFRS Taxonomy Due Process*

Feedback to constituents – EFRAG Final Comment Letter

February 2016

Summary of contents

Summary of contents....2
Introduction....2
Objective of this feedback statement....2
Background to the Invitation to Comment....2
EFRAG's draft comment letter....3
Comments received from constituents....3
EFRAG's final comment letter....4
Detailed analysis of issues, comments received and changes made to EFRAG's draft comment letter....5
Role of the IASB and the IFRS Taxonomy Review Panel (Question 1)....5
Public Consultation on the taxonomy (Question 2)....9
Appendix 1 List of respondents....12

Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the IFRS Foundation's Invitation to Comment IFRS Taxonomy Due Process (the 'Invitation to Comment') on xx February 2016. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its discussions leading to the publication of EFRAG's final comment letter.

Background to the Invitation to Comment

The IFRS Foundation issued the Invitation to Comment in November 2015 with a deadline for comment of 3 February 2016. The Invitation to Comment addresses the proposed enhanced due process for the development and maintenance of the IFRS Taxonomy. The proposed changes entail giving the IASB a role in reviewing and approving the content of the IFRS Taxonomy.

The development and maintenance of the IFRS Taxonomy, which enables accurate and consistent electronic reporting of IFRS financial statements, was a supporting activity under the IFRS Foundation until 2011, when it became part of the IASB's work.

Further details are available on the EFRAG website.

The Trustees of the IFRS Foundation published in July 2015 a request for views on their latest review of the structure and effectiveness of the IFRS Foundation. This request for views incorporates specific questions on the role of technology and the IFRS Taxonomy. EFRAG published on 21 December its comment letter to the IFRS Foundation and made the following comments in relation to the IFRS Taxonomy:

EFRAG acknowledges the importance of the IFRS Foundation, itself continuing to develop and maintain an IFRS Taxonomy, in order to control the quality of the Taxonomy and the use of the 'IFRS' brand name. However, EFRAG is highly supportive of the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process. EFRAG also welcomes the IASB's shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/ software to a different entity.

In the detailed response to the questions in the appendix to EFRAG's letter of 21 December 2015, EFRAG indicates:

The IFRS Taxonomy should continue to be developed in close co-operation between technical accounting teams and taxonomy teams, so that the standard-setting process can benefit from the questions posed on the draft standard in the taxonomy process, without the taxonomy process driving the standard-setting process.

DRAFT

Regarding how the IASB could best support regulators in their efforts to improve digital access to general purpose financial statements, EFRAG notes that ESMA is at present carrying out consultations on the European Single Electronic Format. In EFRAG's view, a proper coordination and cooperation between the IFRS Foundation, ESMA and other regulators in the world should be ensured, so that no inconsistencies arise with the globally consistent digital implementation of IFRS, when digital reporting is developed in jurisdictions. One example is the European Single Electronic Reporting format that will be required from 1 January 2020 for issuers in the EU.

Further details are available on the EFRAG website.

EFRAG's draft comment letter

EFRAG published a draft comment letter on the Invitation to Comment on 4 December 2015. In the draft comment letter, EFRAG addressed the questions 1, 2 and 4. EFRAG does not comment on question 3 on IFRS Taxonomy Files.

EFRAG's draft comment letter acknowledges the importance of the IFRS Foundation itself continuing to develop and maintain an IFRS Taxonomy in order to control the quality of the Taxonomy and the use of the "IFRS" brand name. EFRAG supports the IFRS Foundation's goal of having the IFRS Taxonomy recognised as the globally agreed standard to tag and intelligently structure IFRS financial information within a digital report. EFRAG is very much supportive of the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process.

After having considered the proposals for changes to the IFRS Taxonomy due process on incorporating IFRS Taxonomy activities in the technical programme of the IASB and notably the role of the IASB Board and the IFRS Taxonomy Review Panel in approving the IFRS Taxonomy content updates reflecting new or amended IFRS, EFRAG was of the opinion that these proposals do constitute a real risk of the IFRS Taxonomy having a too prominent role. The IFRS Taxonomy risk driving the disclosure requirements in the standard-setting process and thereby moving away from a principles-based approach.

Moreover EFRAG observed in its draft comment letter that IASB Board members can only assume the responsibility for a supplementary task as approval of the IFRS Taxonomy at the expense of their other activities such as outreach activities and ensuring the quality of final standards.

EFRAG sought comments by 30 January 2016.

Comments received from constituents

Five comment letters were received from constituents and considered by EFRAG in its discussions. These comment letters are available on the EFRAG website.

The comment letters received came from National Standard Setters, business organisations and one EU regulator.

Constituents broadly supported the messages in the EFRAG draft comment letter on the importance of the IFRS Foundation itself continuing to develop and maintain an IFRS Taxonomy in order to control the quality of the Taxonomy and the use of the "IFRS" brand name. Like EFRAG, constituents were very much supportive of the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process.

However, mixed views were held on the role of the IASB and the IFRS Taxonomy Review Panel in relation to the IFRS Taxonomy.

A few additional comments were made on the length of the comment period of a Proposed Taxonomy Update and a possible assessment

after a certain time whether publishing the Proposed IFRS Taxonomy Update only with the final Standard instead of together with the Exposure Draft has a detrimental impact on the number of comments received.

EFRAG's final comment letter

The EFRAG Board discussed comments from constituents at its 11 February meeting and approved the final comment letter that was published on xx February 2016. The EFRAG comment letter, as submitted to the IFRS Foundation, is available on the EFRAG website.

In the letter, given the variety of views held on the role of the IASB Board and IASB Board members in the governance process on the IFRS Taxonomy, EFRAG developed its views on this matter as discussed below. Also some of the additional comments were included in EFRAG's final letter. [to be updated for final EFRAG Board decisions]

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Detailed analysis of issues, comments received and changes made to EFRAG's final comment letter

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
Role of the IASB and the IFRS Taxonomy Review Panel (Question 1)	
Proposals in the Invitation to Comment The new IFRS Taxonomy due process requirements provide for a specific role for the IASB. Currently, the IASB does not have any formal responsibility for taxonomy-related matters. It is now proposed that the technical programme of the IASB incorporates IFRS Taxonomy activities. • IFRS Taxonomy content updates reflecting new or amended IFRS are approved by members of the IASB; and • IFRS Taxonomy content updates reflecting common practice are subject to review by three to five members of the IASB ('the IFRS Taxonomy Review Panel'). The IASB or the IFRS Taxonomy Review Panel does not approve or review the [Proposed] IFRS Taxonomy Files. *Q1 The role of the IASB and the IFRS Taxonomy Review Panel within the review and approval of the content of the IFRS Taxonomy is described. Do you agree with the way in which the IASB and the IFRS Taxonomy Review Panel will be engaged and the degree of its involvement? Why or why not? If not, please state the reasons why you do not agree and any alternatives you would like us to consider.*	*EFRAG final position* [EFRAG Secretariat proposal to be updated for EFRAG Board decision] Considering the feedback received, EFRAG developed its position expressed in the draft comment letter, reemphasizing the support in its draft comment letter that EFRAG is highly supportive of the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process. The IFRS Taxonomy however should continue to be developed in close co-operation between technical accounting teams and taxonomy teams, so that the standard-setting process can benefit from the questions posed on the draft standard in the taxonomy process, without the taxonomy process driving the standard-setting process. Considering the feedback EFRAG received on its draft comment letter whereby the majority of the respondents would envisage a role of the IASB Board members in the review and approval process of the IFRS Taxonomy, EFRAG has changed its initial position of the IASB Board having no involvement at all. The majority of the respondents acknowledged that IASB Board members may not have the appropriate knowledge and expertise with taxonomies and that therefore a form of committee could play a role.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
EFRAG's tentative position In its draft comment letter EFRAG is very much supportive of the Trustees' statement that Taxonomy considerations should not dictate the standard-setting process. EFRAG is therefore not supportive of the integration of the IFRS taxonomy activities in the technical programme of the IASB. In its draft comment letter, EFRAG believed that the proposed role of the IASB Board and the IFRS Taxonomy Review Panel in approving the IFRS Taxonomy content updates reflecting new or amended IFRS, constitutes a real risk of the IFRS Taxonomy having a too prominent role. The IFRS Taxonomy risks driving the disclosure requirements in the standard-setting process and thereby moving away from a principles-based approach. EFRAG believes that the IASB Board should not have a role in the approval of the IFRS Taxonomy content updates. Approval should take place at competent senior staff level having the appropriate expertise Moreover IASB Board members can only assume the responsibility for a supplementary task as approval of the IFRS Taxonomy at the expense of their other activities such as outreach activities and ensuring the quality of final standards. *Constituents' comments* All respondents supported the Trustees' statement that taxonomy considerations should not dictate the standard-setting process. However two respondents were explicitly not opposed to the integration of the IFRS Taxonomy activities in the technical programme of the IASB. A third respondent, by supporting an approval role of the IASB in the IFRS	Such a committee could be either be composed of IASB Board members (like the proposed IFRS Taxonomy Review Panel) or be composed of other IFRS financial reporting experts. EFRAG notes that ESMA is at present analysing the responses to its consultation on the Regulatory Technical Standards on the European Single Electronic Format (ESEF). In the consultation paper ESMA considers requiring the use of the IFRS Taxonomy (subject to the endorsement process in the EU for the presentation of consolidated IFRS financial statements in a structured electronic format. A robust due process and governance process for the IFRS Taxonomy would be necessary to safeguard the quality and credibility of the IFRS Taxonomy. *Alternative proposal* Instead of having the IFRS Taxonomy Review Panel as a committee, it could be considered to establish a committee similar to the IFRS Interpretation Committee with specific rights and obligations. Different from interpretations which the IASB has to validate, the IASB would only have an oversight role for the IFRS Taxonomy. A specialised committee composed of IFRS financial reporting experts with knowledge and expertise of taxonomies, supported by the relevant technical staff, would approve the Proposed Taxonomy Updates under oversight of the IASB. The establishment of such a committee could be envisaged as part of the Trustees structure and effectiveness review on which the Trustees at present deliberates. Such a proposal would meet on the one hand the concerns that some of the IASB Board members may not have the required taxonomies'

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
Taxonomy process, supported thereby implicitly the integration of the IFRS Taxonomy activities in the standard setting process. Two respondents expressed themselves against involvement of the IASB Board or IASB Board members in decisions and assessments regarding the IFRS Taxonomy and believe that the Taxonomy should be handled at technical staff level. One of these respondents observed however that if requirements for electronic filing in jurisdictions were to make use of the IFRS Taxonomy mandatory in the future, a proper governance structure over the Taxonomy process needs to be established within the IFRS Foundation in parallel to the development of IFRS. This view was shared by another respondent who on balance advised that Proposed Taxonomy Updates should be subject to *review* by the IFRS Taxonomy Review Panel (as proposed by the DPOC for IFRS Taxonomy content updates reflecting common practice) rather than being *approved* by the IASB Board members Two respondent supported the proposals of the IFRS Foundation DPOC on the involvement of the IASB Board and the IFRS Taxonomy Review Panel since it would avoid the risk of the IFRS Taxonomy interpreting standards and enhances the credibility of the IFRS Taxonomy. In order to safeguard the quality and credibility of the IFRS Taxonomy it was important to have a robust due process and proper governance over the IFRS Taxonomy process. A stronger role of thee of the IASB Board members in the approval of the IFRS Taxonomy would not only provide additional oversight but also increase the acceptance and legitimacy of the IFRS Taxonomy. One of these respondents recognised that not all IASB Board members might be deeply involved in the taxonomy practice and could accept that the work would be undertaken by a sub-committee composed only of a	knowledge and expertise and that the proposed involvement would be at the expense of other activities such as outreach activities and the quality of standards. On the other hand it would enhance and formalise the due process and governance over the process that are important for jurisdictions where the IFRS Taxonomy may become the mandatory structured electronic format for the IFRS financial statements. **Question to the EFRAG Board** Would you support this alternative proposal (as at present included in the draft final comment letter (papers 10.02 and 10.03))? If not, would you support that the approval of the Proposed Taxonomy Statement is entrusted to the IFRS Taxonomy Review Panel? If not, what should in your view be the EFRAG position?

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
few IASB Board members who have the necessary expertise before reporting its findings to all IASB Board members.	

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EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments

Public Consultation on the taxonomy (Question 2)

Proposals in the Invitation to comment

In the Invitation to comment it is indicated that under the existing IFRS Taxonomy due process, the Proposed IFRS Taxonomy Update document reflect the presentation and disclosure requirements of the final Standard, and public consultation takes place after the final Standard has been released. The Invitation for Comment proposes that this process should largely be maintained, with the following changes:

- It is proposed that the IFRS Taxonomy due process should make an explicit reference to the fact that the IFRS Taxonomy and more general technology-related matters are considered during standard-setting.
- It is proposed that a change should be made to the timing at which the ITCG (IFRS Taxonomy Consultative Group) review of the proposed IFRS Taxonomy content takes place. Currently, this review normally happens after the final Standard has been published. It is now suggested that the ITCG review should be aligned with the related external fatal flaw review of the final Standard.
- It is proposed that the IFRS Taxonomy Update document should be given the status of accompanying material to the Standard, even though it may be published at a later time than the final Standard and in the form of a separate document.
- It is proposed that the drafting, approval and publication of the Proposed IFRS Taxonomy Update document should normally happen at the same time as the drafting, approval and publication of the final Standard.

EFRAG final position

[EFRAG Secretariat proposal to be updated for EFRAG Board decision]

Considering the feedback received, EFRAG maintained the positions expressed in the draft comment letter, agreeing that the Proposed Taxonomy Update is released at about the same time as the final standard.

In addition, in its final letter EFRAG recommended that the IFRS Foundation DPOC may wish to consider if a longer comment period than the existing 60 days period should be introduced depending on the complexity of the amendments in order to allow sufficient time for the evaluation of the effects of the Proposed Taxonomy Update.

Furthermore EFRAG recommended in its final comment letter assessing after a certain time whether publishing the Proposed Taxonomy Update at about the same time as the final Standard instead of together with the Exposure Draft would have an impact on the number of comments received on the Proposed Taxonomy Update.

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
Q2 Invitation to comment: The DPOC is proposing to maintain the existing process of public consultation on taxonomy content changes after the release of a final Standard. A Proposed Taxonomy Update will normally be released at the same time (or closely after) a final Standard is published and will normally have a comment period of 60 days. Do you agree with this? Why or why not? *EFRAG's tentative position* In its draft comment letter, EFRAG agrees with the IFRS Foundation DPOC that the Proposed Taxonomy Update is released at about the same time as the final Standard for public consultation. EFRAG is of the opinion that it is the most efficient way to consult on the proposed Taxonomy Update only after the Standard is finalised even if the drafting process takes place in parallel with the standard. It is important that the disclosure requirements in the Standard are finalised before public consultation takes place. *Constituents' comments* All respondents agreed to the public consultation process proposed by the IFRS Foundation DPOC to maintain its existing process of issuing the Proposed Taxonomy Update for public consultation at about the same time as the final Standard. One respondent thought that on keeping the existing comment period of 60 days depending on the complexity of the amendments significantly longer period than 60 days might be needed to evaluate the effects of the Proposed Taxonomy Update.	

EFRAG's tentative views expressed in the draft comment letter and constituents' comments	EFRAG's response to constituents' comments
Another respondent recommended assessing after a certain time whether publishing the Proposed Taxonomy Update only with the final Standard instead of together with the Exposure Draft would have a detrimental impact on the number of comments received.	

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Appendix 1 List of respondents

Respondents	Country	Nature
Confederation of Swedish Enterprise (SEAG)	Sweden	Business Organisation
BUSINESSEUROPE	Europe	Business Organisation
Accounting Standard Committee of Germany (ASCG)	Germany	National Standard Setter
European Securities and Markets Authority (ESMA)	Europe	Regulator
OIC	Italy	National Standard Setter

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