EFRAG SECRETARIAT PAPER FOR PUBLIC MEETING

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DRAFT FINAL LETTER TO THE IFRS Foundation

Michel Prada
Chairman
IFRS Foundation
30 Cannon Street
London
EC4M 6XH
United Kingdom

Dear Michel,

Re: Invitation to comment *IFRS Taxonomy Due Process*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am responding to the Invitation to Comment *IFRS Taxonomy Due Process* of November 2015. We welcome the opportunity to share our suggestions and observations on the IFRS Taxonomy due process.

In our [comment letter on the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review* of 21 December 2015, we have acknowledged 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 welcomes the IASB's shift to focus more on the Taxonomy itself, leaving the development of the appropriate computer language/software to somebody else. We support 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. We therefore are not supportive of the integration of the IFRS taxonomy activities in the technical programme of the IASB. 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.

Having considered the proposals for changes to the IFRS Taxonomy due process 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, we are of the opinion that these

proposals constitute 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.

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.

In order to meet the robust due process and governance requirements that jurisdictions may expect and require if they were to adopt the IFRS Taxonomy as the mandatory electronic reporting format for the IFRS financial statements the establishment of a committee similar to the IFRS Interpretation Committee could be considered with specific rights and obligations. This 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.

We have elaborated our comments in the appendix to this letter.

If you would like to discuss our comments further, or if we can assist in any other way, please do not hesitate to contact Saskia Slomp or me.

Yours sincerely,

Roger Marshall

Acting President
EFRAG Board

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Appendix

Role of the IASB and the IFRS Taxonomy Review Panel

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's response

EFRAG does not support the integration of the IFRS taxonomy activities in the technical programme of the IASB and making the IASB members (or a group of IASB members (IFRS Taxonomy Review Panel) responsible for the approval of the IFRS Taxonomy.

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.

1 The IASB's standards are developed on the basis that entities are required to prepare a general purpose financial report whether that report is printed or in electronic format, ranging from a PDF version to one that is 'tagged' (in a computer-readable code that identifies specific items) using a structured data format. EFRAG appreciates that one of the reasons the IASB produces the IFRS Taxonomy is to assist with the accurate digital representation of IFRS in a structured format and to facilitate electronic filing.

2 EFRAG agrees that it is important that the IFRS Foundation itself continues to develop and maintain an IFRS Taxonomy in order to control the quality of the Taxonomy and the use of the "IFRS" brand name. This is the only way the IASB can avoid that the technology sets limitations on the IFRS filing in electronic format. However, developing the IFRS Taxonomy in house should be considered in the context of budgetary restrictions and balanced against other priorities.

3 EFRAG has expressed on several occasions[1] the view that the development of the IFRS taxonomy should not drive the IASB standard-setting process because it risked moving away from a principle-based approach, in particular in the area of disclosures. EFRAG had therefore welcomed the Trustees statement in the *Request for Views Trustees' Review of Structure and Effectiveness: Issues for the Review* of July 2015 that Taxonomy considerations should not dictate the standard-setting process. EFRAG however is not supportive of the IFRS Taxonomy due process proposals as included in the Invitation to Comment proposing that the technical programme of the IASB incorporates IFRS Taxonomy activities.

[1] EFRAG letter of 5 August 2011 on report on the Trustees Strategy Review and EFRAG letter of 21 December 2015 on the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review*

4 Although the purpose of IASB involvement in the development of the IFRS Taxonomy content of protecting the integrity of the Standards by ensuring that the IFRS Taxonomy model and structure only guides reporting practice in line with IFRS and does not stray into interpretation is commendable, we believe it constitutes the risk that the IFRS Taxonomy will drive the standard setting process in terms of disclosures. Needless to indicate that the level of disclosures continues to remain a concern despite the progress made in the Disclosure Initiative project.

5 The Invitation to Comment recognises itself the risk that the IFRS Taxonomy Update documents despite having the status as accompanying material to the standards, be considered as an integral part of the standards and the IFRS Taxonomy common practice content being perceived as additional authoritative guidance on how to apply IFRS.

6 Standards being developed by the IASB should be sufficiently clear to allow the development of a relevant IFRS Taxonomy. The IFRS Taxonomy development could in this respect help to improve the clarity of the definitions and disclosure requirements but should not direct the standard setting process.

7 The IFRS Taxonomy should continue being developed in close cooperation 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.

8 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 for jurisdictions where the IFRS Taxonomy would become the mandatory electronic reporting format for IFRS financial statements.

9 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.

10 EFRAG considers however that involvement of the IASB Board members in the approval of the Proposed Taxonomy Updates would for most members be outside their scope of competence. Moreover such an approval process would constitute a supplementary task for IASB Board members and would be at the expense of their other activities such as outreach activities.

11 Furthermore if the number of IASB Board members were to be reduced as suggested in the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review,* their individual burden will already be increased to carry out the same tasks and their availability in our view should be best used working on enhancing the quality of final standards. IASB Board members would only be able to bear full responsibility for a supplementary task as IFRS Taxonomy approval if they dedicate substantial time and develop their competence.

12 In order to meet the robust due process and governance requirements that jurisdictions may expect and require if they were to adopt the IFRS Taxonomy as the mandatory electronic reporting format for the IFRS financial statements the establishment of a committee similar to the IFRS Interpretation Committee could be considered 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.

Public consultation on the taxonomy

Q2 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 response

EFRAG agrees that the proposed Taxonomy Update is released at about the same time as the final Standard for public consultation.

13 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.

14 EFRAG recommends 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.

15 Furthermore EFRAG recommends to assess 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.

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