

# DIMENSIONS

## EMEA SPOTLIGHT

### Q&A with an expert: Insights from an IASB board member on the IFRS Taxonomy and ESEF mandate

By *DIMENSIONS* staff



Ann Tarca has been on the International Accounting Standards Board since 2017, as a member from the Asia-Oceania region. She joined the IASB from the University of Western Australia's Business School, where she served as Head of Accounting and Finance, and as an accounting teacher, professor, and senior honorary research fellow. Professor Tarca was on the Australian Accounting Standards Board from 2014 to 2017.

She answered questions from *DIMENSIONS* about the International Financial Reporting Standards, the intersection of the IFRS taxonomy and the Inline XBRL requirements of the ESEF (European Single Electronic Format) mandate, and the future of IFRS reporting.

#### **How are the IASB, the IFRS Foundation, and the IFRS Standards related to one another?**

The IFRS Foundation is a not-for-profit, public-interest organisation established to develop a single set of high-quality, understandable, enforceable, and globally accepted accounting standards and to promote adoption of the standards. The IASB [International Accounting Standards Board] is the Foundation's standard-setting body. The accounting standards set by the IASB are called IFRS Standards.

#### **Do you work together with the Financial Accounting Standards Board on any accounting standards or look to it for examples and initiatives? When does the FASB look to the IASB for examples and initiatives?**

The IASB works with national standard-setters across the world, predominantly through the ASAF [Accounting Standards Advisory Forum], the the IASB's advisory body of national standard-setters and standard-setter groups. The FASB [Financial Accounting Standards Board] is also an ASAF member. The IASB and the FASB do not work jointly on technical projects but do share information about projects of mutual interest and usually have a joint meeting every year to exchange views.

## What types of US companies must follow the activities of the IASB and the IFRS standards?

While US domestic companies are not required to use IFRS Standards, foreign companies listed on the US stock exchanges are permitted to use our Standards. Many US companies also operate internationally and have overseas subsidiaries that report using IFRS Standards. These companies need to ensure they stay up to date with developments in IFRS Standards. Many US investors read the financial reports of companies that use the IFRS Standards, so it is also important that the investor community is familiar with our requirements.

## What is the relationship between the IFRS Standards and the IFRS Taxonomy?

The IFRS Taxonomy content fully reflects the presentation and disclosure requirements in IFRS Standards. It contains elements (or codes to tag) for all required IFRS disclosures and for the examples published in materials accompanying IFRS Standards. The IFRS Taxonomy also contains elements for disclosures not specifically required by IFRS Standards but commonly reported in practice.

Members of the IASB discuss electronic reporting and changes to the IFRS Taxonomy during the development of new or amended IFRS Standards. We propose updates to the IFRS Taxonomy content at about the same time the IASB drafts a final IFRS Standard or amendment.

## In the United States, all foreign private issuers (FPIs) that prepare their financial statements in accordance with IFRS must submit their financial statements in XBRL using the IFRS Taxonomy. Is the IFRS Foundation analyzing and using the data in some way from the IFRS XBRL filings by foreign private issuers with the SEC? If so, how?

The IFRS Taxonomy team has been using the SEC's IFRS XBRL filings to assess whether further improvements to the IFRS Taxonomy may be necessary to support high-quality tagging (and therefore to improve the usefulness to investors) of information presented in the primary financial statements. This research has resulted in the staff proposing several changes to the 2020 IFRS Taxonomy. These changes include, for instance, adding new common reporting practice elements or changing element labels to clarify their accounting meaning. These proposed changes should reduce extensions and support accurate tagging.

We are planning to publish a Proposed Taxonomy Update to reflect these changes in the fourth quarter. A Proposed Taxonomy Update is the document we use to publicly consult on proposed changes to the IFRS Taxonomy. We are looking forward to hearing about it from your readers. (All Proposed Taxonomy Updates are available [here](#).)

The IASB pursues an evidence-based approach to standard-setting. Easy access to publicly available IFRS XBRL filings helps us to achieve that. For example, the staff used the SEC's IFRS XBRL filings to identify disclosures relating to IAS 19



MANY US INVESTORS READ THE FINANCIAL REPORTS OF COMPANIES THAT USE THE IFRS STANDARDS



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Employee Benefits that companies commonly report. The IASB is using information from the data gathered to inform its Disclosure Initiative project. This project explores how to improve the way the IASB develops and drafts disclosure objectives and requirements.

As a former academic researcher, I know that academics want to show the practical impact of their research. Providing evidence to the IASB is one way they can do so. The IFRS XBRL filings from the SEC and the future ESEF filings from ESMA open exciting new opportunities for academics. It provides them, for the first time, with real-time electronic access to IFRS information for a large population. Of particular interest to us is that the available electronic data is not standardised but reflects the information reported by a company and tagged using the IFRS Taxonomy.

Use of the SEC's IFRS XBRL filings provides the IASB and staff with hands-on experience of the benefits (and challenges) of using tagged electronic data. The IFRS Standards are designed to provide useful information to investors irrespective of the financial reporting format used to communicate it. Better understanding of how investors access tagged electronic information helps us to achieve that aim.

#### **How does the IFRS Foundation coordinate its activities with the European Securities Market Authority (ESMA)?**

The IFRS Foundation is fully committed to supporting ESMA and co-operating with other stakeholders in making IFRS electronic reporting a success within Europe. We hold regular meetings with ESMA. ESMA is also an observer of the IFRS Taxonomy Consultative Group. I am the chair of this group. Its objective is to provide advice to the IASB on taxonomy-related matters. The IFRS Foundation also works with other regulators to support them in the successful application of the IFRS Taxonomy. Many regulators are members or observers of the IFRS Taxonomy Consultative Group.

#### **Could you explain the role of the IFRS Foundation and the IFRS Taxonomy in the ESEF Inline XBRL requirement?**

For IFRS electronic reporting to be successful, a single global taxonomy is required. If multiple computer codes were to be used across the world to tag the same IFRS disclosures, preparers and users of Inline XBRL filings would incur additional costs to tag and use the data. This is where we think we have an important role to play. The IFRS Foundation produces the IFRS Taxonomy to support electronic reporting and to assist with the accurate digital representation of IFRS Standards. The importance of a single global taxonomy for financial reporting applying IFRS Standards was recognised by the IFRS Foundation as early as 2001. It remains our position today.

The IFRS Foundation is a standard-setting body. I just want to clarify that the Foundation does not mandate the use of electronic reporting, nor does it set listing rules or filing rules that companies need to follow for their XBRL filings.

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THE IFRS XBRL FILINGS  
FROM THE SEC AND  
THE FUTURE ESEF FILINGS  
FROM ESMA OPEN EXCITING  
NEW OPPORTUNITIES FOR  
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This is the role of regulators. Our role is to continue to develop the taxonomy used for financial reporting applying IFRS Standards. Developing the taxonomy is our expertise.

**Our understanding is that the differences between the IFRS Taxonomy and the ESEF Taxonomy are on a technical level, not on a tagging/content level. Can you confirm this and offer commentary?**

This is also my understanding. The ESEF regulatory technical standard and the ESEF taxonomy files contain all the elements of the IFRS Taxonomy. For example, the element that a European company will use to tag “revenue from contracts with customers” comes from the IFRS Taxonomy and is the same element that a foreign private issuer filing with the SEC needs to use.

The IFRS Taxonomy is applicable to all jurisdictions that have adopted the IFRS Standards. The IFRS Foundation permits a jurisdiction to extend the IFRS Taxonomy, for instance, to better reflect local reporting practice or to make the taxonomy more suitable for specific regulatory filing requirements. The ESEF Taxonomy is a limited extension of the IFRS Taxonomy. The main content additions I am aware of are the translation of labels into all European languages and the use of the LEI [Legal Entity Identifier] taxonomy to identify the reporting company.

**The first AFR filings by issuers in compliance with the ESEF Inline XBRL mandate will begin early in 2021. What do you anticipate will be the challenges for filers? How do you expect the process will go in the first filings?**

I expect one of the major challenges is for companies to familiarise themselves with the IFRS Taxonomy, new reporting software, and electronic filing requirements. I appreciate that mapping disclosures to the IFRS Taxonomy can take some time, especially in the first year. For disclosures such as “total assets,” a match is likely to be found quickly. For other disclosures, it may take some time to identify a match or to identify the closest match for anchoring an extension. However, I expect the time it takes to map will narrow significantly in subsequent years when preparers become more familiar with the taxonomy.

**Has there been an improvement in the XBRL quality of IFRS filings from the SEC since the inception of the mandate in 2018? What guidance and recommendations would you give to ESEF filers as they get started to ensure high-quality submissions beginning with their first submission and onward?**

The IFRS Foundation supports the consistent application of the IFRS Taxonomy content in many ways. For example, *Using the IFRS Taxonomy—A preparer’s guide* is a free guide [available on our website](#) that helps a preparer to understand the IFRS Taxonomy content and how to navigate it. The IFRS Foundation has no formal role in the enforcement of the quality of IFRS XBRL

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filings. As such, we are not actively measuring the quality of the SEC filings, and therefore I cannot comment in an informed manner whether improvements to the XBRL quality of the IFRS SEC filings have been made.

However, during their research of the SEC's IFRS XBRL filings, the IFRS Taxonomy team observed tagging errors. It seems that some of these tagging errors are caused by oversimplistic matching of labels reported by companies to the standard labels in the IFRS Taxonomy. We recommend that preparers use all the information available within the IFRS Taxonomy to fully understand the accounting meaning of an element and when to use it. We suggest that preparers use the element references to the IFRS Standards and the documentation and guidance labels. High-quality tagging requires good accounting knowledge and assistance from experts in financial reporting using IFRS Standards.

**There is much discussion about the burden versus the benefit of the ESEF mandate for issuers. From your perspective, how will the ESEF mandate benefit transparency, consistency, and comparability in financial disclosures?**

The IFRS Foundation's mission is to develop IFRS Standards that bring transparency, accountability, and efficiency to financial markets around the world. Transparency and efficiency assume that all IFRS information is available to all market participants and that the data can be accessed in a cost-effective way for all companies. The IFRS Taxonomy supports this mission.

Electronic reporting saves investors time and effort compared to manually entering data from paper or PDF reports. Electronic reporting could increase capital availability, particularly for smaller companies who currently may not be followed actively by investors. Information asymmetry may reduce. However, for these potential benefits to be realised, the electronic data must be of high quality and consistently available for all companies using the IFRS Standards.

Tagging does not make information by itself more or less comparable. But tagging facilitates comparability because it can make it easier for a user to identify and analyse similarities and differences between entities and between periods over time. However, success in improving comparability depends on how electronic reporting is implemented. For example, it remains important that a user of financial statements that apply IFRS Standards can easily access the reporting context of a numeric fact (which may include narrative explanations, accounting policies, or a company-specific disaggregation). Inline XBRL that embeds the tagging in a human-readable document helps to achieve this.

**How is the IFRS Foundation considering consuming and using the XBRL data from the EU issuers required to be in compliance with the ESEF mandate?**

The IFRS Standards are used around the world, and the empirical evidence we use within standard-setting should also be collected from around the world. We expect that the availability of tagged electronic data in Europe and other jurisdictions

will help us to gather this empirical evidence more quickly in a more cost-effective manner and for a larger number of companies.

**The SEC has recently indicated that it will accept Inline XBRL files that include anchoring, and the ESEF rules require it. Could you share your perspective on whether or not anchoring will be beneficial for review and analysis by the SEC, EU regulators, third-party data aggregators who consume filing data, and others?**

Investors and other users of Inline XBRL filings can more easily access and analyse company-specific disclosures tagged using extensions if preparers provide context about the extensions. Anchoring is one way of providing that context. Anchoring provides users with an understanding of the broad accounting meaning of the extension and facilitates both comparisons and deep-dive company research.

**Does the IFRS Foundation have a position on the integration of SEC and EU filer data?**

No, this is a matter for the SEC, ESMA, and listed companies.

**Can you comment on the plans of the IFRS Foundation in relation to IFRS Standards, such as any future financial-statement reporting standards related to ESG or Covid-19 related disclosures?**

Looking at the projects on the IASB's work plan, the Primary Financial Statements project is likely to have the most widespread impact on electronic reporting. In December 2019, the IASB published its proposals for public comment in the *Exposure Draft General Presentation and Disclosures*. The proposals aim to improve how information is communicated in the financial statements, with a focus on the statement of profit or loss. Responding to investor demand, the proposals would require more comparable information in the statement of profit or loss, including a defined "operating profit" subtotal.

The IASB is also proposing a more disciplined and transparent approach to the reporting of some management-defined performance measures ("non-GAAP" measures). We expect that the proposals—in particular, those introducing more structure and comparability to the financial statements—will contribute to the creation of high-quality electronic data.

In relation to ESG reporting, the IASB is updating its non-mandatory guidance on management commentary, where it would expect companies to address material environmental and societal issues, to complement the information in financial statements. Corporate reporting is evolving—investors use financial information published electronically and pay far greater attention to sustainability. Both the Board and the Trustees will seek feedback on these trends in upcoming public consultations.

The IASB and staff share global concerns about the impact of Covid-19 and are actively monitoring financial reporting issues arising from Covid-19. The

“THE IASB HAS TAKEN STEPS TO HELP STAKEHOLDERS BY SUPPORTING APPLICATION OF IFRS STANDARDS IN LIGHT OF COVID-19.



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IASB has taken steps to help stakeholders by supporting application of IFRS Standards in light of Covid-19, updating timelines for projects and consultation documents, and continuing to be available for stakeholders. For example, the IASB has recently issued an amendment to the IFRS Standard on leases to provide optional practical relief for lessees in accounting for particular rent concessions that occur as a direct consequence of the Covid-19 pandemic.

**How do you envision the IFRS Taxonomy evolving in the next one to three years?**

The IASB will continually update the IFRS Taxonomy to reflect new or amended IFRS Standards. In particular, we expect a significant taxonomy update in the next two to three years resulting from the IASB's project on Primary Financial Statements.

The IASB is required to undertake a public consultation on its work plan every five years. The IASB is currently discussing the content of a formal request for information it expects to publish in March 2021. This request for information will include taxonomy-related questions. The public response we get to these questions will inform our plans for the evolution of the IFRS Taxonomy.

**Can you speak about the growth of structured data internationally in financial reporting? Where do you anticipate the biggest benefit in the coming years for investors, auditors, financial reporting professionals, corporate boards, and data aggregators?**

Evidence points to increased use of technology by investors and other users of financial statements created using IFRS Standards. My view is that this technology will not replace but will complement current data collection and analysis and help users in their decisionmaking. The IFRS Foundation, with its advisory bodies, is considering how technology may influence investment processes and what the implications are for the IFRS Taxonomy. But we are still early in our research, so I am unable to say more at this time.

“EVIDENCE POINTS TO INCREASED USE OF TECHNOLOGY BY INVESTORS AND OTHER USERS OF FINANCIAL STATEMENTS CREATED USING IFRS STANDARDS.”



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