

Primary financial statements: cover paper

Review of common reporting practice

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

Aim of this research project

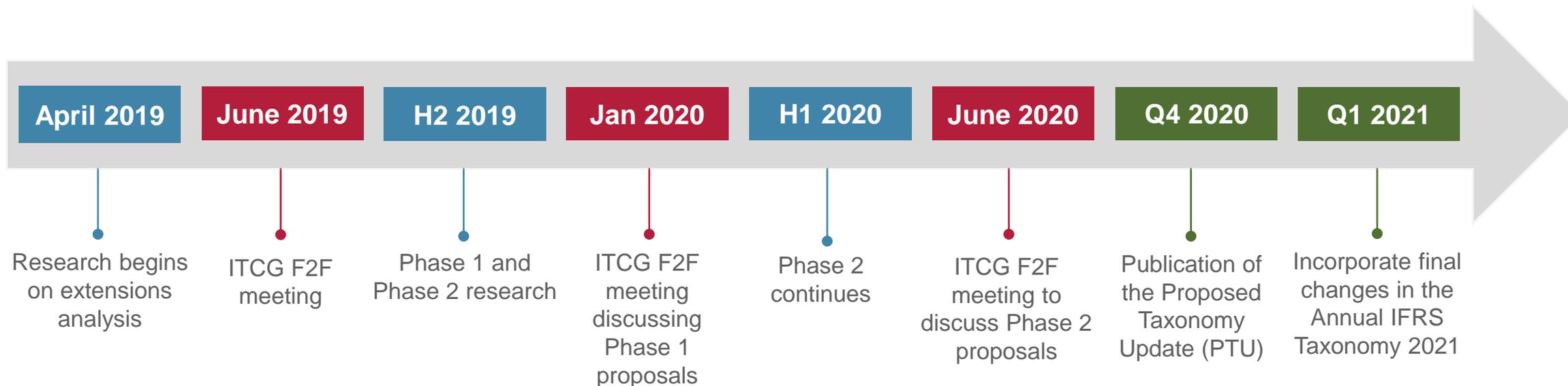
Since April 2019, the IFRS Taxonomy team has been researching the **extensions** created by **foreign private issuers** on their **primary financial statements**, filed under the **US Securities Exchange Commission (SEC)** requirements.

The aim of this research is **to identify improvements** to the IFRS Taxonomy to support high-quality tagging.



- new common reporting practice?
- new implementation guidance?
- improved data modelling?
- new (amended) labels?
- new (amended) calculation–presentation relationships?

Project timeline



Other important dates

Q3 2020	IFRS Taxonomy Review Panel reviews proposals
Q3 2020	IFRS Taxonomy team prepares proposed taxonomy update and files
Q3 2020	ITCG reviews the taxonomy files
Q1 2021	IFRS Taxonomy team Reviews comments on proposed taxonomy update and files

Summary of past ITCG discussions

ITCG meeting—June 2019

The aim of this meeting was to seek ITCG members' views on taxonomy team's analysis relating to entity-specific elements (extensions) created by US SEC foreign private issuers in their tagged primary financial statements.

- Members said such analysis is an **important part of the work of the IFRS Taxonomy team** and provided an **overall support for the research**.

Following the June ITCG meeting, the staff decided to divide the project into two phases:

- **Phase 1**—Extension analysis using a top-down approach, which was discussed at the January 2020 ITCG meeting (*see next slide*).
- **Phase 2**—Extension analysis using a bottom-up approach, and using external stakeholders' feedback (*see slides 6 to 11*).

ITCG meeting—January 2020

The aim of this meeting was to seek ITCG members' feedback on **research findings and proposals on the Phase 1 top-down approach**. This approach focused on:

- extension line items that cause the fundamental calculation relationships between IFRS Taxonomy elements to break. For example, gross profit does not equal revenue minus cost of sales; and
- the use of IFRS Taxonomy and extension axes by foreign private issuers for tagging primary financial statements.

The **Phase 1** research culminated with a range of proposed new elements and improvements ([see Agenda Paper 2 of the January ITCG meeting](#)).

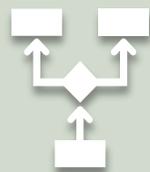
Objective of this meeting

The **aim of this meeting** is to seek ITCG members' feedback on:

A

Phase 2 findings and proposals

Phase 2



Extension analysis using a bottom-up approach *(see slides 7-10)*

- review of extension line items (and members) to identify potential new common reporting practice elements



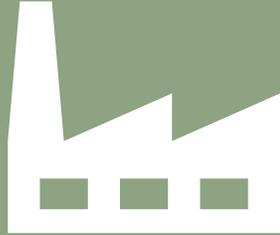
External stakeholders' feedback *(see agenda paper 1A)*

B

proposed improvements to the IFRS Taxonomy to address common tagging errors observed during the extension analysis *(see slide 11)*.

Line-item extensions—foreign private issuers' 2018 primary financial statements

Primary financial statements	% of extensions	Number of extensions
Statement of cash flows	45%	4,217
Statement of financial position	20%	1,857
Statement of profit or loss and other comprehensive income	19%	1,745
Statement of changes in equity	16%	1,483
Total	100%	9,302



Banks and insurance companies have the highest average extension rate. The IFRS Taxonomy team is doing a detailed analysis of **financial sector extensions** as a part of **common reporting practice—Financial Instruments project**

Data on extension line items by industry group

Industry group	Number of FPIs	Number of extensions	Average extensions per FPI	Percentage of extensions
Banks	33	1,496	44	16%
Insurance	6	210	35	2%
Transportation, Communications, Utilities and Sanitary service	85	2,093	25	23%
Extractive activities	113	1,788	16	19%
Manufacturing	169	2,527	15	27%
Services	38	511	13	5%
Others	28	677	24	8%
Total	472	9,302	—	100%

The majority of extensions do not meet the IFRS Taxonomy criteria for common reporting practice, with some exceptions (see next slide).

Category	For example
A total (or subtotal)	Tangible fixed assets
An aggregation of two or more IFRS Taxonomy elements	Loans to business and governments (banks). The IFRS Taxonomy has line items to tag 'Loans to business' and 'Loans to governments'.
A disaggregation of an IFRS Taxonomy element—no dimensional qualified IFRS Taxonomy exists	Inventories relating to the real estate business in Europe
A disaggregation of an IFRS Taxonomy element—a dimensional qualified IFRS Taxonomy element exists	Mining rights. The IFRS Taxonomy has a member for 'Mining rights' but not a line item

An investor can understand the broad accounting meaning of these categories of extensions anchoring and XBRL calculations.

Proposals	ITCG feedback required?	Relevant paper
A few new common reporting practice elements for the statement of financial position, the statement of cash flows, the statement of changes in equity and other comprehensive income	These proposals are relatively straight forward. These proposals will not be discussed at the meeting, but instead we ask for any general feedback you may have	Appendix A of this paper
New common reporting practice relating to IFRS transitioning disclosures within the statement of changes in equity	These proposals are more complex. For example, alternative data models could be used. The staff will discuss the proposals at the meeting and ask for specific feedback on each of these proposals	Agenda Paper 1A
New common reporting practice relating to earnings per share disclosures		Agenda Paper 1B
New common reporting practice for the statement of financial performance		Agenda Paper 1C

*Appendix A also provides criteria used to identify common reporting practice elements



The objective of proposed improvements is to support consistent tagging

Our research uncovered incorrect tagging. For instance, a company used an incorrect IFRS Taxonomy element or an extension for a disclosure where an IFRS Taxonomy element exists.

- Some errors are caused by companies purely matching the label of a reported disclosure to the label of the IFRS Taxonomy element. **Section 3** of [‘Using the IFRS Taxonomy—A Preparer’s guide’](#) recommends that companies use the accounting meaning of an element in deciding which to use.

We reviewed whether we could make improvements to the IFRS Taxonomy to reduce common tagging errors.

- such improvements could include label changes, new calculations or a new presentation to address common tagging errors.
- **Appendix B and Agenda Paper 1C** provides the proposed improvements.



Common reporting practice research project

- a) Do you have any comments on the proposed improvements described in Appendix A and B?
- b) Do you have any general questions you would like to raise about the research?

Appendix A—Common reporting practice

A1. Criteria used to identify common reporting practice elements

Criteria used in the research

For an **extension to be considered common reporting practice**, at least **10% of companies from a sample** should report it. The taxonomy team has used **two approaches to select the samples** to which the frequency criterion is applied:



Total companies sample

Common reporting practice is identified based on the total of all foreign private issuers



Activity-based sample

1. A specific industry
 - For example: all companies engaged in extractive activities
2. A specific transaction
 - For example: all companies that have issued preference shares

A2. Proposed common reporting practice elements

Proposed common reporting practice elements

In the primary financial statements of foreign private issuers, research identified only a few extension line items that meet common reporting practice criteria.

- We propose to add ten elements as common reporting practice elements to the IFRS Taxonomy

Other comprehensive income

1. Other comprehensive income, net of tax, exchange differences on translation of foreign operations, **net of hedges of net investments in foreign operations**

(see slide 29 for addition of a new calculation relationship for this element)

Statement of financial position

1. **Current warrant liability**
2. **Non-current warrant liability**
3. **Warrant liability**
4. **Warrant reserve**

Statement of cash flows

1. Adjustments for decrease (increase) in prepaid expenses
2. Adjustments for decrease (increase) in contract assets
3. Adjustments for increase (decrease) in contract liabilities
4. Proceeds from exercise of warrants

Statement of changes in equity

1. Warrants reserve [member]

Appendix B—Proposed improvements to address common tagging errors

B1. Changes to labels

Issue 1: A few companies (around 10%) have created extensions to tag amounts relating to basic and diluted weighted average number of shares

Proposal 1: Change the standard labels

Proposed standard label changes

Weighted average number of ordinary shares ~~outstanding~~ used in calculating basic earnings per share

~~Adjusted~~ Weighted average number of ordinary shares ~~outstanding~~ used in calculating diluted earnings per share

Weighted average ordinary shares and ~~adjusted weighted average ordinary shares~~ used in calculating basic and diluted earnings per share [abstract]

Issue 2: We reviewed the standard labels of other elements related to earnings per share to determine whether their labels sufficiently clarify whether they need to be used to tag a basic or diluted amount

Proposal 2: Change the standard labels

Proposed standard label changes

Profit (loss) from continuing operations attributable to ordinary equity holders of parent entity, used in the calculation of basic earnings per share

Profit (loss) from discontinued operations attributable to ordinary equity holders of parent entity, used in the calculation of basic earnings per share

Profit (loss), attributable to ordinary equity holders of parent entity, used in the calculation of basic earnings per share

Profit (loss) from continuing operations attributable to ordinary equity holders of parent entity ~~including dilutive effect~~, used in the calculation of diluted earnings per share

Profit (loss) from discontinued operations attributable to ordinary equity holders of parent entity ~~including dilutive effect~~, used in the calculation of diluted earnings per share

Profit (loss), attributable to ordinary equity holders of parent entity ~~including dilutive effects~~, used in the calculation of diluted earnings per share

Issue 3: A few companies (around 10%) present the provision for employee benefits separately from other provisions (**which may have been labelled as provisions**) in the statement of financial position and wrongly use the IFRS Taxonomy element '(Current/Non-current) Provisions' to tag the line item that has an accounting meaning of 'provisions, other than provisions for employee benefits'

Proposal 3: **Change the documentation labels**

Proposed documentation label changes

Standard label (no change)	Documentation label
Non-current provisions	The amount of non-current provisions, <u>including provisions for employee benefits</u> [Refer Provisions]
Current provisions	The amount of current provisions, <u>including provisions for employee benefits</u> [Refer Provisions]
Provisions	The amount of liabilities of uncertain timing or amount, <u>including provisions for employee benefits</u>

Issue 4: A few companies (around 10%) mix up the OCI tags for the following two types of instruments

- financial assets measured at fair value through other comprehensive income; and
- investments in equity instruments designated at fair value through other comprehensive income

Proposal 4: Change the documentation labels and add an implementation note

Proposed documentation label changes and adding implementation note

Standard label	Documentation label	Implementation note
Financial assets measured at fair value through other comprehensive income	This member stands for the financial assets at fair value through other comprehensive income category applying IFRS 9.4.1.2A . [Refer Financial assets measured at fair value through other comprehensive income]	<u>'Do not use this element for disclosures relating to equity instruments designated at FVOCI applying IFRS 9.5.7.5, instead use element 'Investments in equity instruments designated at fair value through other comprehensive income'</u>
Investments in equity instruments designated at fair value through other comprehensive income	This member stands for investments in equity instruments that the entity has designated at fair value through other comprehensive income applying IFRS 9.5.7.5 . It also represents the standard value for the 'Investments in equity instruments designated at fair value through other comprehensive income' axis if no other member is used. [Refer At fair value [member]; Other comprehensive income]	

Issue 5: A few companies (around 10%) incorrectly use the ‘gains (losses) on revaluation’ element for changes in the value of assets other than property, plant and equipment and intangible assets and liabilities for which other elements exist

Proposal 5: Change the standard label and documentation label

Proposed standard label and documentation label changes

Standard label	Documentation label
Other comprehensive income, net of tax, gains (losses) on revaluation <u>of property, plant and equipment and intangible assets</u>	The amount of other comprehensive income, net of tax, related to gains (losses) in relation to changes in the revaluation surplus <u>of property, plant and equipment and intangible assets</u> . [Refer Other comprehensive income; Revaluation surplus]

Issue 6: A few companies (around 10%) are wrongly using the elements relating to investments in subsidiaries, associates and joint ventures reported in separate financial statements for tagging of amounts within their consolidated financial statements

Proposal 6: Change the standard labels

Proposed standard label changes

Investments in subsidiaries, accounted for in accordance with IAS 27

Investments in associates, accounted for in accordance with IAS 27

Investments in joint ventures, accounted for in accordance with IAS 27

Investments in subsidiaries, associates and joint ventures, accounted for in accordance with IAS 27

Issue 7: A few companies (around 10%) are creating unnecessary extensions for net interest income. The IFRS Taxonomy element 'Interest income (expense)' does not have a net label, which is not in accordance with the general policy for such elements

Proposal 7: Add a 'net' label for 'Interest income (expense)'

Proposed addition of a net label

Standard label	<u>Net label</u>
Interest income (expense)	<u>Net interest income (expense)</u>

B2. Other proposed improvements

Includes any presentation or calculation changes

Other proposed improvements

Other comprehensive income

Issue	Proposed improvements
<p>Some foreign private issuers (around 10%) present the aggregate amount of exchange differences on translation of foreign operations + gains or losses on net investment hedges</p> <p>(see slide 17 for addition of new common practice element)</p>	<p>Define calculation relationships between aggregation and separate elements. For example:</p> <div data-bbox="1103 668 2397 1125" style="border: 1px solid #ccc; padding: 10px;"><p>Other comprehensive income, net of tax, exchange differences on translation of foreign operations</p><p>Other comprehensive income, net of tax, hedges of net investments in foreign operations</p><hr/><p>Other comprehensive income, net of tax, exchange differences on translation of foreign operations, net of hedges of net investments in foreign operations (new)</p></div>

Other comprehensive income

Issue

Some companies (around 10%) create unnecessary extensions for types of cost of hedging in OCI

The labels of the IFRS Taxonomy elements do not include the term ‘cost of hedging’ because this term is not used in the Standards. However, the term is used in the Basis for Conclusions and is widely used in practice

Proposed improvements

To facilitate navigation, **add a ‘cost of hedging’ abstract** in the presentation linkbase grouping the following elements in OCI:

Change in value of time value of options [abstract]
Gains (losses) on change in value of time value of options, net of tax
Reclassification adjustments on change in value of time value of options, net of tax
Other comprehensive income, net of tax, change in value of time value of options
Change in value of forward elements of forward contracts [abstract]
Gains (losses) on change in value of forward elements of forward contracts, net of tax
Reclassification adjustments on change in value of forward elements of forward contracts, net of tax
Other comprehensive income, net of tax, change in value of forward elements of forward contracts
Change in value of foreign currency basis spreads [abstract]
Gains (losses) on change in value of foreign currency basis spreads, net of tax
Reclassification adjustments on change in value of foreign currency basis spreads, net of tax
Other comprehensive income, net of tax, change in value of foreign currency basis spreads

Statement of financial position

Issue	Proposed improvements
<p>The staff have observed that some foreign private issuers (around 10%) use the IFRS Taxonomy elements ‘other reserves’ or ‘other equity interest’ to tag a disclosure that has an accounting meaning of ‘accumulated other comprehensive income’</p>	<ol style="list-style-type: none">1. Add a new calculation relationship between ‘Accumulated other comprehensive income’ and the individual classes of other comprehensive income2. Change the IFRS Taxonomy presentation, addition of a new abstract element as follows: <div data-bbox="1210 935 2397 1275" style="border: 1px solid black; padding: 10px;"><p>Subclassifications of assets, liabilities and equity Accumulated other comprehensive income [Abstract] (NEW) Revaluation surplus ... Total accumulated other comprehensive income</p></div>

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