IFRS Foundation

Meeting Summary

IFRS Advisory Council

Date **11 October to 12 October 2022**

Introduction

1. The Advisory Council met in person on 11 and 12 October 2022. In addition to the Advisory Council members, the meeting was attended by Mr. Andreas Barckow (Chair of the International Accounting Standard Board – IASB), several IASB members, Ms. Sue Lloyd (Vice Chair of the International Sustainability Standards Board - ISSB) and IFRS Foundation staff. Mr. Erkki Liikanen (Chair of the IFRS Foundation Trustees) and Mr. Emmanuel Faber (Chair of the ISSB) attended their sessions by videoconference.

2. The agenda and papers for the meeting and the meeting recording are available at: [IFRS - IFRS Advisory Council]

3. The Advisory Council Chair, Mr. Bill Coen, welcomed everyone to the meeting and expressed his gratitude for the engagement of all members. Mr. Coen provided an outline of the topics that will be addressed over the two days.

Update on the Trustees' activities

4. Mr. Liikanen provided an update on Trustee activities since he last met with the Advisory Council in April.

5. He summarised recent activities as follows:

   - **The IFRS Foundation Trustees:**
     - The Trustees met in Montreal at the end of June. This included a meeting with the Monitoring Board where engagement continues to be positive and constructive. In addition, there were a number of engagements with key Canadian stakeholders, in particular those that formed the consortium to provide seed capital for the ISSB.
     - The Trustees will next meet in Seoul at the end of October.
   - **The IASB:**
     - The IASB is close to achieving its full complement of Board members.
     - On 29 July 2022 the IASB published its feedback statement on its agenda consultation to inform the workplan for the next five years. Mr. Liikanen noted that Mr. Barckow would provide further detail on this.
     - On 8 September 2022 the IASB published proposals to update the *IFRS for SMEs* Accounting Standard, an important development considering SMEs are a major part of the economy in many jurisdictions.
   - **The ISSB:**
     - There continues to be great progress and momentum. With thanks to the work of the Nominating Committee, all inaugural ISSB member appointments have been completed, including the appointment of the second Vice-Chair Mr. Jingdong Hua.
     - The two Exposure Draft consultations have been completed and approximately 1400 responses were received. Further detail will be provided on this by Mr. Faber and Ms. Lloyd.
     - The creation of the IFRS Foundation's multi-location model continues with offices created in Frankfurt and Montreal and ongoing support through Tokyo, San Francisco and London. Memoranda of Understanding (MoUs) have been concluded with the public and private sectors in Canada and Germany.
     - The consolidation with the Value Reporting Foundation (VRF) was completed on 1 August 2022 bringing substantial assets of intellectual property (ie SASB standards,

    - Integrated Thinking Principles and Integrated Reporting Framework), cash as well as talented and experienced staff.
    - There continues to be strong support for the work of the ISSB from many key organisations, including the Financial Stability Board and IOSCO.

6. In the ensuing discussion, the Advisory Council considered the following points:

- **Reprioritisation of IASB technical projects to facilitate speedier progress on the *Goodwill and Impairment* project:** It was noted that the Trustees are responsible for oversight of the IASB and the ISSB but the responsibility for technical matters relating to IFRS Standards rests solely with the boards.
- **IASB appointments:** The recent appointment of two further IASB members was welcomed and the Trustees were encouraged to continue their efforts to appoint the final IASB member required to bring the board to full membership.
- **The importance of a globally representative ISSB:** It was emphasised that climate change can only be tackled if the ISSB is globally representative. The Global South is particularly important to this. It was further noted that the creation of a global baseline should be the focus regardless of global political events.

Update on the IASB's activities

7. Mr. Andreas Barckow provided an update since the Advisory Council's April 2022 meeting. In his presentation, Mr. Barckow highlighted significant developments since the last Council meeting, in particular:

- Final amendments issued on *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16), which relate to subsequent measurement of a lease liability in a sale and leaseback transaction
- Other documents published, which are documentary in nature and do not contain IFRS accounting requirements:
    - Project Summary *Pension Benefits that Depend on Asset Returns*
    - Feedback Statement *Post-Implementation Review of IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities*
    - Feedback Statement *Third Agenda Consultation*
- Enhanced clarity in the description of the objective and process of post-implementation reviews. Mr. Barckow noted that the articulation of the objective and process of IASB's post-implementation reviews has been updated and is now published on the website.
- Consultation document published—Exposure Draft *Third Edition of the IFRS for SMEs Accounting Standard,* with comment period ending 7 March 2023. Mr. Barckow noted this Exposure Draft proposes some fundamental changes to the Accounting Standard, including changes on accounting for financial instruments, consolidation principles and revenue recognition, and thus the longer comment period to enable stakeholders sufficient time to provide feedback.
- Forthcoming publications including:
    - Two consultation documents to be published in first half of 2023 on the post-implementation review (PIR) of impairment requirements in IFRS 9 *Financial Instruments* and PIR of IFRS 15 *Revenue from Contracts with Customers*
    - Feedback Statement on PIR of classification and measurement requirements in IFRS 9, expected in December 2022. It was noted that feedback on this PIR suggested the requirements overall work well but there is a need for specific application guidance about financial instruments with ESG features. An exposure draft setting out proposals about this particular area is expected to be published in early 2023
    - Amendments to IAS 1 on non-current liabilities with covenants, expected in November 2022

- Changes to the work plan, namely:
  - Activities that resulted from the PIR of classification and measurement requirements in IFRS 9—addition to the work plan of a maintenance project on contractual cash flows of financial assets, including questions on ESG-linked financial assets (see above), and an addition to pipeline of a maintenance project on amortised cost measurement
  - Movement of the project on Dynamic Risk Management from research to standard-setting programme
  - Exploring possibility of standard-setting on electronic transfers of cash.
  - Exploring need for standard-setting on OECD Pillar Two Model Rules on international taxation. If pursued, this would be an urgent project to provide guidance on application of IAS 12 during this international tax reform.
- The engagement with other bodies, namely:
  - Working with the ISSB—a process recently put in place to assist connectivity between the IASB and the ISSB, noting that a group consisting of IASB and ISSB technical staff has been created which will liaise with the technical leadership teams, the IASB and the ISSB to ensure the work of the two Boards is connected, where appropriate. This group will also review staff papers prepared for the IASB and for the ISSB to identify potential cross-cutting issues.
  - IFRS Foundation Conference, held in June 2022 in a hybrid format, with over 400 participants from nearly 60 jurisdictions.
  - World Standard-Setters Conference, held in September 2022 using an in-person format with on-line streaming, with over 100 participants from over 60 organisations.
  - Joint FASB-IASB educational meeting, held on 30 September 2022.
- Changes to the IASB, noting that the tenure for an IASB member ended in August 2022 and two new IASB members appointed effective September 2022.
- Key messages obtained from the IASB's agenda consultation, including:
  - Keep level of focus on activities, with slight increase in digital and understandability/accessibility
  - Progress existing work programme
  - Continue/launch post-implementation reviews (Financial Instruments, Leases, Revenues)
  - Add new projects that respond to significant changes in the economic environment
  - Work with the ISSB
- In response to these messages, the IASB decided to:
  - Add two new projects to the research project pipeline (Intangible assets, Statement of cash flows and related matters)
  - Add a project to the maintenance project pipeline to investigate whether narrow-scope standard-setting is needed in relation to climate related risks
  - Create a reserve list of two projects that could be added to the work plan only if additional capacity becomes available (Operating segments, Pollutant pricing mechanisms)

8. The ensuing discussion among Advisory Council members focused on several issues, including:

- **Goodwill and Impairment:**
  - The IASB's Goodwill and Impairment project and the progress on the equivalent FASB project—Mr. Barckow noted that the FASB has now stopped this project, highlighting some of the challenges related to developing an accounting model for amortisation of goodwill. The IASB's consultation process which involves multiple jurisdictions was said to explain the slower pace by the IASB on this project and more broadly when compared to the FASB's projects.
  - Whether the fact that the goodwill amounts reported by entities are seemingly continuously increasing suggests the IASB need to work on changing the requirements for impairment of goodwill—Mr. Barckow mentioned that research by the UK Endorsement Board indicated that, as a percentage of total assets, goodwill amounts have been constant, not increasing. Nonetheless, an approach that better depicts the nature of intangible assets that are currently accounted within goodwill may be useful.

  - Whether improvements to the goodwill impairment testing are being considered—Mr. Barckow noted that the IASB will, in the near future, deliberate feedback on the Discussion Paper related to this topic.
  - Whether the IFRS Accounting Standard requirements that contemplate the goodwill impairment testing consider the effect from climate and related risks—Mr. Barckow highlighted the principles-based requirements which avoid prescribing consideration of each specific risk and hence are future-proof. However, additional illustrative examples or educational material may need to be considered by the IASB.
- **Connectivity between IASB and ISSB:**
  - Consistency in the language used in IFRS Accounting Standards versus in IFRS Sustainability Standards—the example of the use of the word ‘significant’ was provided to illustrate potential inconsistency. Ms. Lloyd acknowledged it and explained that the process previously described (see above) is put in place to also address these types of inconsistencies.
  - Potential publications explaining the interaction of the Standards issued by both Boards—it was acknowledged that Standards issued by the ISSB are designed to be able to interact with different GAAP, ie not only with the IFRS Accounting Standards. Furthermore, the two Boards are in different maturity stages and the adoption of the IFRS Accounting Standards by jurisdictions is widespread whereas the process for adoption of IFRS Sustainability Standards has just begun.
  - The intangible assets project has the potential to cover aspects that seemingly fit in the remit of IFRS Sustainability Standards, for example human capital.
- **Projects that respond to significant changes in the market:** for example, in light of the current economic conditions such as high inflation many economies may be faced with lack of exchangeability for their currencies. This may necessitate the IASB to consider projects to respond to these changes.
- **Dynamic risk management (DRM):**
  - Enhancing understandability and accessibility for technically complex projects such as DRM, the IASB may need to assist stakeholders in their understandability of the topics involved by way of education materials. Mr. Barckow said the IASB and its technical staff are conscious of these areas and in fact, a webcast explaining the DRM model aiming to assist stakeholders in understandability of the model has just been released.
  - A discussion on the interaction between the definition of an asset and liability in the Conceptual Framework with the recent IASB’s tentative decision on accounting for the DRM adjustment. Mr. Barckow said in the light of long history of this project and all approaches considered, the IASB, after long debate, decided to prioritise faithful representation of risk management against compliance with the Conceptual Framework.
- **Cryptocurrencies:** During deliberation of feedback on the Agenda Consultation the IASB considered whether a project about cryptocurrencies should be added to its work plan. However, it concluded that the matter is not pervasive across all jurisdictions and therefore not prioritised. The IASB will nevertheless keep monitoring changes in economic environment and continue dialogue with FASB on this topic. The future research project on intangible assets might also be an opportunity to consider interaction between the intangible assets project and the cryptocurrencies topic.
- **Statement of cash flows project:** providing meaningful and decision-useful information through the statement of cash flows is currently challenging for financial institutions such as insurance companies and banks. Therefore, this issue may need to be considered as part of the future statement of cash flows project.
- **PIR of IFRS 17**: whether this is planned to be done later in isolation to the PIR of IFRS 9. Acknowledging that for many companies IFRS 17 will be effective on 1 January 2023, Mr. Barckow noted PIRs start no earlier than 24 months after the effective date of the Accounting Standard. This is to provide sufficient time for implementation but also gather academic research on the effects from applying the new requirements.

Update on the ISSB's activities

9. Mr. Faber and Ms. Lloyd provided an update of the ISSB's activities since the Advisory Council's April 2022 meeting. The update included a summary of the high-level messages emerging from the exposure drafts consultations on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures.* Mr. Faber and Ms. Lloyd also presented the next steps, following the conclusion of the consultation period (Agenda Paper 3).

10. In the ensuing discussion, the following themes were raised:

- **Comment letter analysis:** The extent to which stakeholders can be sure that there has been thorough analysis of the comment letters received, despite the high volume, and the pressure to maintain momentum and deliver the Standards at speed. It was noted that all comment letters, papers, deliberations and feedback are in the public domain so the ISSB can be held to account regarding whether the feedback has been accurately reflected and appropriately considered.
- **Interoperability:** The interaction between the draft European Sustainability Reporting Standards, published by EFRAG, and the proposed IFRS Sustainability-related Disclosures. It was confirmed that EFRAG and the IFRS Foundation are doing a side-by-side analysis to identify opportunities to bring the disclosures together where there are disclosures relevant to both sets of standards, including aligning terminology and identifying where one proposal has a disclosure that the other does not, and considering whether the disclosure should be included. The objective is to achieve as many common disclosures as possible and to facilitate interoperability for those considering the application of both sets of standards. As a demonstration of its commitment to this process, the ISSB has changed its deliberation timetable to better facilitate the process of achieving interoperability between the two sets of disclosures.
- **Scalability:** The ISSB has discussed two main mechanisms to address the scalability topic (see agenda paper 3c and agenda paper 4c for the September 2022 ISSB meeting):
    - An entity should disclose quantitative information but if it is unable to do so it can provide a qualitative disclosure. It is important to ensure both disclosures are high-quality for investors.
    - Considering whether jurisdictions can ask their smaller companies to begin with qualitative disclosures and implement quantitative disclosures at a later date. Care must be taken not to undermine the global baseline but it is hoped that such phased approaches will simply represent a different path to the same goal.
- **Disclosure requirements:** How to reconcile the different requirements whereby, for example, the Task Force on Climate-related Financial Disclosures (TCFD) requires the reporting of Scope 1, 2 and 3 greenhouse gas (GHG) emissions, but SASB industry-specific standards only require disclosure of Scope 1 emissions for oil and gas and extractive industries. In particular, many investors are looking for oil and gas industries to report on Scope 3. It was highlighted that there is a spectrum of solutions recommended by various standard-setting organisations and methodologies, but TCFD remains the reference point. Therefore, at the ISSB meeting in October 2022, the board will decide whether it will require, as recommended in the staff papers, company disclosures of Scope 3 emissions when material (see agenda paper 4B for the October 2022 ISSB meeting).
- **Industry-specific versus cross-cutting Standards:** When considering each topic, it is anticipated that the ISSB will identify what disclosures might be relevant for investors from both a cross-industry and an industry-specific perspective. It will then determine which is the most appropriate approach for the particular topic under consideration. This is likely to result in a combination of approaches, some industry-specific and some cross-industry.
- **Integrated Reporting (IR) Framework:** The ISSB is already considering how particular elements of the Standards can build on the IR Framework (see agenda paper 3B for the October 2022 ISSB

meeting). More generally, communication materials are being developed to illustrate how the work of the IASB and the ISSB corresponds with the existing IR Framework.

- **Advisory and consultative bodies:** It was noted that, like the IASB, the ISSB will be supported by a body providing technical advice, the Sustainability Standards Advisory Forum (SSAF). This is distinct from the IFRS Advisory Council, which provides strategic advice to the two boards. It was further noted that the ISSB Technical Reference Group represents nearly 200 different entities, most of whom are preparers.
- **Industry-based versus the segment-based approach:** How to bridge the gap, when considering connectivity, between the ISSB industry-based approach to carbon emissions versus the IASB segment-based approach, which looks at how management conducts its business. It was acknowledged that further consideration needs to be given to this issue.

Feedback from previous Advisory Council meetings

9. Ms. Nili Shah, Executive Technical Director, updated the Advisory Council on how strategic advice provided by members at previous meetings has been considered and applied to the work of the IASB, the ISSB and the IFRS Foundation (Agenda Paper 4).

10. In the update, Ms. Shah highlighted the following points:

- Two topics in the report, *Monitoring adoption* and *Digital financial reporting*, were on the agenda for this meeting, reflecting the importance of the Advisory Council's input on these issues.
- At the Advisory Council's April 2022 meeting there was a discussion on organisational culture. The output from that session has been received and discussed by the Trustees, both in the Human Capital Committee and by the full Trustee body.
- With the creation of the ISSB, sustainability-related matters are now considered business as usual. Therefore, going forward, the feedback report will address them topic by topic, rather than under a single sustainability section.

13. In the discussion that followed, the following topics were raised:

- ***Financial Instruments with Characteristics of Equity* project:** Whether reclassifying these items from equity to liability could create problems and whether improving disclosure of this financial instrument could be more useful for market participants than reclassification. It was noted that this project is in its early stages and there are further IASB discussions and consultations to take place that will provide opportunities for enhancements to address this issue.
- **Connectivity and talent management:** It was noted that challenges persist in attracting talent, but that the establishment of the ISSB has not increased those challenges for the IASB. Rather, to an extent, the creation of the ISSB has raised the profile of the IFRS Foundation and interest in its work. In terms of growth and development, existing mechanisms continue to work well but there is an increasing focus on points of connectivity between the two boards and this will be built into the training programmes.

Update on the IFRS Foundation Monitoring Board's activities

14. Mr. Jean-Paul Servais, Chair of the IFRS Foundation Monitoring Board, provided the Advisory Council with an update on the ongoing engagement between the Monitoring Board and the IFRS Foundation.

15. In the update, Mr. Servais noted, amongst other items:

- The frequent, constructive and transparent interaction between the Monitoring Board and the IFRS Foundation, including with the Chairs of the Trustees, the IASB, the ISSB and the Due Process Oversight Committee.
- The regular bilateral engagement between the Chair of the Trustees and the Chair of the Monitoring Board.
- The excellent management of the IFRS Foundation and its ability to deliver on a timely basis in accordance with appropriate due process.
- The importance of the Advisory Council in providing strategic advice to the Trustees, IASB and ISSB.
- The impressive progress achieved by the ISSB since the announcement to establish it at COP26 in November 2022, and the role of the Board of Trustees in providing it with a running start.
- The importance of the dialogue, through the Jurisdictional Working Group (JWG), to achieve the global baseline.
- The Monitoring Board's support for the strong momentum to establish the IFRS Sustainability-related Disclosure Standards.
- The Monitoring Board has frequently emphasised the importance of a complete and inclusive ISSB, achieved in October 2022.

16. With specific regard to the ISSB, Mr. Servais noted the perspectives of the Monitoring Board, including:

- Its support for the strong momentum to establish the IFRS Sustainability-related Disclosure Standards.
- Its appreciation that the newly appointed ISSB Vice Chair, Jingdong Hua, will take a lead on global capacity building outreach, with a particular focus on emerging and developing economies.
- Its encouragement for the ISSB to continue its global outreach efforts and its appreciation of the outreach efforts that have been made so far.
- Its appreciation of the consultation process for IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.
- Its interest in the approach that will be taken with respect to the application of the industry-based disclosure requirements, derived largely unchanged from SASB Standards, as outlined in Appendix B of the IFRS S2 *Climate-related Disclosures* Exposure Draft. The Monitoring Board will pay close to attention to the due process undertaken by the IFRS Foundation to ensure it provides appropriate challenge.
- Its recognition of, and interest in, the importance of ensuring there are appropriate mechanisms in place to address the range of capabilities and preparedness of entities around the world to apply IFRS S1 and IFRS S2.
- Its focus on the ISSB's timely delivery of the Standards, without compromising due process.

17. With regard to the IASB, Mr. Servais noted that the Monitoring Board:

- Is vigilant to ensure there is balance between the ISSB and IASB topics that it discusses, and ensuring it engages equally with the IASB and the ISSB around their respective governance and due process.
- Frequently discusses the importance of the connectivity between the IASB and the ISSB, and that they consider it important that the IASB has set aside capacity to work jointly with the ISSB around topics such as Management Commentary and digital reporting.
- Note the recent appointments to the IASB and continue to monitor its membership to ensure a full and representative board.

18. Mr. Servais recognised the importance of the interaction between the Monitoring Board and the Due Process Oversight Committee, chaired by Ms. Teresa Ko.

19. In conclusion Mr. Servais highlighted the following:

- An open dialogue between the Monitoring Board and the IFRS Foundation is essential to ensure the sustainability-related disclosures, like accounting standards, are responsive to the public interest.
- IOSCO will be assessing the potential for an endorsement process, as soon as the sustainability-related disclosures are finalised.
- The next Chair of IOSCO will welcome the opportunity to engage with the Advisory Council next year to continue this dialogue.

[NB: On 19 October 2022 Mr Servais was appointed IOSCO Chair.]

ISSB Agenda Consultation

20. Mr. Greg Bartholomew, ISSB Technical Staff, presented an overview of the planned approach for the ISSB consultation on agenda priorities to inform the ISSB's initial two-year work plan. The related request for information (RFI) will seek stakeholder input on two primary categories of work:
    - activities to build on the foundation established by IFRS S1 and IFRS S2, once finalised; and
    - proposals for new research and standard-setting.

    The activities to build on the foundation established by IFRS S1 and IFRS S2, once finalised, will be outlined in the RFI. However, the ISSB will not specifically seek input on such activities as the activities represent committed, essential work to ensure the effective adoption and implementation of the ISSB's initial standards, IFRS S1 and IFRS S2. These activities will commence upon the finalisation of IFRS S1 and IFRS S2, and thus, prior to the completion of the consultation on agenda priorities. The RFI will instead focus stakeholder input on a short list of new research and standard-setting work. The ISSB is planning to publish the RFI in the first half of 2023.

21. The presentation also included an overview of the pre-RFI outreach and research activities that the staff is conducting.

22. The ensuing Advisory Council discussion focused on a number of issues, including:

- **Timeframe of the consultation**: the two-year timeframe of the ISSB's initial work plan is adequate given the urgency and evolution of sustainability-related reporting, but there is a need for the ISSB to consider and communicate a longer-term vision of the future of the ISSB and IFRS Sustainability Disclosure Standards;
- **Scope of the consultation and prioritisation of activities**: given the wide scope of sustainability-related matters the ISSB could consider in its initial workplan, it will need to be clear on its aim and scope of its new research and standard-setting activities within the RFI to maximise the effectiveness of consultation responses. On the prioritisation of new research and standard-setting activities, the ISSB should:
    - focus on information that creates the highest value for stakeholders;
    - build on existing resources and materials, especially when considering environmental and social matters, including building upon and evolving existing standards and frameworks in addition to academic research, in order to minimise the risk of neglecting topics that are not yet in the interest of investors;
    - potentially collaborate with other bodies to build upon existing materials to establish new standards;
    - consider the development of a conceptual framework to set the foundations of the IFRS Sustainability Disclosure Standards; and
    - consider the balance between short-term and long-term sustainability-related needs;

- **Outreach**: As part of its outreach efforts, in addition to discussion with the ISSB's advisory and consultative bodies, it would be beneficial to organise (1) roundtables with stakeholders with different viewpoints, and (2) organise discussions with preparers based on relative size and complexity; and
- **Governance**: the development and addition of requirements/standards on governance and board responsibilities would improve transparency.

23. Rommie Johnson, ISSB Technical Strategy Lead, summarised some of the challenges in establishing priorities (eg consideration of multiple issues that are interconnected and not clearly separable, and the needs of different stakeholders) and emphasised the need to find the balance between urgency and due process.

24. Sue Lloyd, ISSB Vice-Chair, elaborated on the activities that have been undertaken to date aimed at ISSB member education, including a series of ongoing educational sessions on existing resources of the ISSB (including the Sustainability Accounting Standards Board – SASB – Standards and Climate Disclosure Standards Board – CDSB – frameworks) as well as the sustainability reporting ecosystem. Ms. Lloyd also underlined the support provided by different advisory groups as well as the ISSB's legacy of collaborating with other bodies, including the work of the Technical Readiness Working Group.

Digital financial reporting

25. Ms. Shah shared some introductory remarks and noted this session is focused on:

- Foundational thinking needed to develop a digital financial reporting strategy for the IASB—and possibly ISSB; and
- Laying the groundwork for more detailed discussions at the Advisory Council's April 2023 meeting.

26. Ms. Shah introduced Agenda Paper 7A, which set out the objectives and questions for the session, and provided an overview of previous IFRS Advisory Council discussions on the topic, noting:

- Technology (eg big data) has not eliminated the need for financial reporting;
- The level of interest in digital financial reporting has significantly increased over the last five years;
- As part of its Third Agenda Consultation the IASB agreed to slightly increase its level of focus on digital financial reporting for the next five years; and
- The ISSB has not yet discussed its digital financial reporting strategy.

27. Mr. David Bassett, IASB Technical Staff, highlighted four key messages from Agenda Paper 7B:

- Digital financial reporting can improve capital market efficiency and reduce cost of capital.
- Investors are already consuming information digitally to make their investment decisions, with over 90% of global market capitalisation requiring some form of digital financial reporting.
- The current global approach is fragmented and does not realise the full benefit of digitalisation.
- Global adoption of the IFRS digital taxonomies is fundamental to achieving globally comparable digital financial reports.

28. Mr. Bassett refuted two misperceptions, clarifying data aggregators, while contributing to the overall financial reporting ecosystem, do not eliminate the need for digital financial reporting; and artificial intelligence does not eliminate the need for a digital taxonomy.

29. Ms. Shah introduced Agenda Paper 7C and the possible IASB digital financial reporting strategic framework. Ms. Shah commented that the strategic framework could help:

    - Establish structure and boundaries for possible digital financial reporting activities—and help with the prioritisation of these activities; and
    - Provide common and consistent language to describe the strategy.

30. Ms. Shah provided some background behind the development of the strategic framework and outlined the questions in Agenda Paper 7C.

31. IFRS Advisory Council members provided the following feedback (grouped by theme):

Possible IASB digital financial reporting strategic framework

- Several members expressed support for the digital vision. A few members said it would be helpful to clarify the IFRS Foundation's role in achieving the vision.
- One member questioned what other stakeholders, such as stock exchanges and IOSCO are doing in this space, and if there is overlap with the IFRS Foundation's current or possible future activities.
- Two members commented it would be helpful to distinguish between activities related to the IFRS digital taxonomies from those activities that sit with other stakeholders in the digital ecosystem. Those members questioned whether the IFRS Foundation should focus on wider ecosystem activities, which would be subject to various jurisdictional remits.

Accessibility

- Several members emphasised the importance of centralised accessibility of digital financial reports and commented that the IFRS Foundation has a role to play in facilitating global accessibility. One member suggested partnering or collaborating with a platform provider could be a possible option.
- Some members cautioned against the IFRS Foundation providing or developing a platform/database itself—challenging whether this would be within the IFRS Foundation's skillset/scope. However, one member suggested the IFRS Foundation could replicate databases around the world and provide a basic search function. Another member suggested a requirement to upload financial reports to a specific database could be a prerequisite for compliance with IFRS.
- Two members stressed the need for tools to allow investors to easily access and process machine-readable/XBRL files.

Data quality and assurance

- A few members mentioned data quality as a challenge. One member emphasised the importance of being able to trust the integrity of data and cautioned against facilitating misleading data.
- Another member commented that embedding tagging into the legally adopted/approved financial statements, using iXBRL technology, would help enhance the reliability of data.
- One member questioned whether the same people who take responsibility for compliance of the annual report are also taking responsibility for the tagging.
- One member suggested artificial intelligence might be more efficient/accurate than humans at tagging reports—especially qualitative sustainability disclosures.

Education and awareness

- Several members commented that educational initiatives would be helpful, including materials on the use of extensions, and how analysts can access and use digital information.
- One member said it would be helpful to understand the digital financial reporting approach taken in each jurisdiction, including information about the taxonomies used.
- Two members said the use of the word 'taxonomy' can be confusing.

Updating and maintaining the IFRS Accounting Taxonomy

- One member said it was important to continue developing the IFRS Accounting Taxonomy, including updates for common practice elements—to reduce the use of extensions.
- Two members asked whether the scope of the IFRS Accounting Taxonomy could be expanded to capture wider corporate reporting (such as Integrated Reporting and non-GAAP disclosures).

Preserving contextual information

- Several members commented on the importance of maintaining the contextual information which can be lost in a digital format. One member noted the advantage of iXBRL, where disclosures are available in both digital and human-readable format. Another member commented that digital has a role to play in large scale screening, but once companies have been identified for further analysis contextual information provided in paper or PDF format is important.

Compliance with IFRS digital taxonomies

- Some members suggested exploring the concept of compliance with IFRS digital taxonomies—for example, to assert compliance with the IFRS digital taxonomies an entity would need to apply the taxonomies in full. If the notes are not tagged an entity would not be able to assert compliance.
- Two members said there may be a need for separate 'branding' (level of compliance) for jurisdictions that don't apply the IFRS digital taxonomies in full.
- One member commented that the current ability for stakeholders to decide how the IFRS Accounting Taxonomy is applied creates brand risk for the IFRS Foundation.

ISSB related matters

- Several members said it would be a missed opportunity for the ISSB not to embed digital financial reporting into its work and that the strategic framework should extend to the ISSB.
- One member stated that it will be important for companies to be able to tag sustainability disclosures from when they first apply ISSB standards, stating this will allow companies to build digital into their reporting process from the onset and avoid having to transition at a later stage.
- Some members expressed caution, commenting sustainability reports will be complex, there will be challenges in digitalising qualitative disclosures, and it will be important to allow practice to develop before considering how best to digitalise those reports.
- Some members commented on the need for interoperability between a future IFRS Sustainability Disclosure Taxonomy and taxonomies for other sustainability standards. Two members said that it will be important for the IFRS Sustainability Disclosure Taxonomy to have the same structure/architecture as the IFRS Accounting Taxonomy, and other sustainability taxonomies, such as a taxonomy for the European Corporate Sustainability Reporting Directive (CSRD) or Global Reporting Initiative (GRI). Another member stressed the urgency of the ISSB's work on interoperability—with the CSRD requirement soon to be published. Ms. Lloyd, ISSB Vice-Chair, said that interoperability is on the ISSB's radar and is important but emphasised achieving alignment at the standards level is a necessary foundation. Ms. Lloyd stated that it will be important to avoid the use of the same tags for items that may look similar but are not.

- Two members proposed the IFRS Foundation perform a scan for new technology that could better facilitate the digitalisation of sustainability disclosures.
- One member highlighted that there are existing platforms/portals where companies provide raw sustainability data and users can access this information and structure for their own needs. This member questioned if this would be a better approach.

Other

- One member cautioned against digital financial reporting being seen as an opportunity to require more granular information, emphasising granular information may not be relevant information.
- One member commented that digital is an important topic and suggested it may warrant its own separate agenda consultation. This could help the IFRS Foundation identify the 'big' issues that need to be considered and help obtained feedback from digital ecosystem stakeholders.

32. Mr. Zach Gast, IASB member, a former analyst and user of digital financial data, said that high-quality, comparable digital information made it much more time efficient to develop models, compared to jurisdictions where data had to be manually extracted. Mr. Gast further commented that:

    - Qualitative information is equally as important as quantitative data points; and
    - Understanding the digital ecosystem and how digital data is extracted, processed and used, helps to create accounting standards that provide efficient, visible and transparent disclosures for investors to make better investment decisions.

Capacity building

33. Mrs. Mardi McBrien, Director of Strategic Affairs, updated the Advisory Council on the rationale and proposed approach to build capacity in developing and emerging economies to adopt IFRS Sustainability-related Disclosure Standards (Agenda Paper 8).

34. In the discussion that followed, the Advisory Council emphasised the **importance** of:

    - **High quality standards** that are easy to understand, scalable and proportional as a starting point
    - Sufficient IFRS **resources on the ground** in Africa, Asia and Latin America to coordinate, motivate and mobilise engagement
    - **Working with universities/academia** to:
        - tap into the passion youth has for sustainability;
        - address skills' deficit through curriculum development (= long term benefit); and
        - capitalise on proven capacity for research, training and conferences that bring people together.
    - **Accessibility**, in terms of, for example, an extensive range of educational and training materials available via portal for local use and adaptation, including webinars, videos and translations
    - **Inclusivity**, in terms of engaging on capacity building needs with a broad range of stakeholders (including at a firm's board level where required, to secure necessary commitments and buy in), mindful of their specific market circumstances
    - **Flexibility**, in terms of accepting that jurisdictions are at different levels of maturity and capacity, have different requirements and will move forward at a different pace (eg voluntary/partial rather than mandatory/total approach)
    - Demonstrating that adoption of standards is **truly global** - emerging economies moving in step with developed economies
    - **Alignment with other standards**, to the extent practicable
    - **Partnerships**, acknowledging that the calibre of partners is equally important (i.e. to ensure they do not compromise the 'brand of IFRS Sustainability-related Disclosure Standards')

- **Leveraging existing knowledge and experience** (e.g. insurance industry's understanding of climate risk)
- **Measuring success** of implementation using meaningful indicators
- Emphasising benefits to be realised from adoption due to **improved access to/lower cost of capital**

The IFRS Foundation's sustainability strategy

35. Mrs. McBrien also provided an overview to the Advisory Council on the planned approach to ensuring sustainability matters are built in to the IFRS Foundations operations (Agenda Paper 9). In particular she noted:

    - The methodology that will be taken by the Foundation including actively involving staff, board members and Trustees, implementing a strategy that is fit for purpose now but looks towards the future needs and ambitions of the Foundation, and integrating sustainability across all operations as business as usual.
    - The timeline of the project activities between September 2022 and March 2024.
    - The formation of a Task Force and working group.

36. Mrs. McBrien asked the Advisory Council members to share their thoughts on the most important sustainability topics to help inform the development of the sustainability roadmap and deliver the Foundation's mission. The discussion among members considered the following:

    - The importance of GHG emissions, air pollution from transport, looking beyond Scope 1 and avoiding green washing within the topic of environmental.
    - The importance of diversity and inclusion, employee turnover and employee mental health within the topic of social.
    - The importance of organisation mission/purpose, legislative compliance, risk and opportunity identification, ethical business practices and anti-corruption within the topic of governance.
    - The importance of resilience and supply chain/procurement within the topic of economic.
    - Managing expectations around what is in scope for this project and what can/cannot be achieved.
    - Focusing on both the macro and the micro impact are important for both the organisation and wider system change.

Meeting close

37. Mr. Coen confirmed that two in-person meetings were scheduled for 2023 (4 and 5 April 2023 and 7 and 8 November 2023). However, the staff will explore opportunities for interim virtual meetings in order to maintain the positive momentum.

38. Mr. Coen also noted that Mr. Giuseppe Ballochi had completed his final term as a member of the Advisory Council. He offered Mr. Ballochi the Advisory Council's sincere thanks for his constructive and active engagement with the Council and wished him well for the future.

39. In concluding the meeting, Mr. Coen thanked the Advisory Council members for their time and active participation to achieve a successful meeting.