IFRS Taxonomy Consultative Group (ITCG) meeting

Date	1 February 2024
Project	IFRS Accounting Taxonomy 2023 Proposed Update 2—*Common Practice for Financial Instruments, General Improvements and Technology Update*
Topic	Summary of feedback received
Contacts	Jatin Garach (jgarach@ifrs.org) Vivek Baid (vbaid@ifrs.org)

Objective of this session

- Provide the ITCG with:
    - a summary of the public feedback received on the IFRS Accounting Taxonomy 2023 Proposed Update 2—*Common Practice for Financial Instruments, General Improvements and Technology Update* and our proposed response; and
    - the next steps in the publication of the final IFRS Taxonomy Update 2
- Seek advice on the finalisation of IFRS Taxonomy Update 2.

Background—Proposed IFRS Taxonomy Update 2

- IFRS Accounting Taxonomy 2023—Proposed Update 2 *Common Practice for Financial Instruments, General Improvements and Technology Update* was published for public comment on **6 November 2023**.
- This project includes:
  - a **common practice review** of extensions relating to the presentation of financial instruments in digital financial statements prepared by banking institutions using IFRS Accounting Standards;
  - **general improvements** to support the high-quality tagging of financial information, including proposed changes to the tagging of reconciliation of property, plant and equipment, including right-of-use assets and the introduction of categorical elements to the IFRS Accounting Taxonomy; and
  - changes to the IFRS Accounting Taxonomy's **technology**.

Background—Feedback

- The comment period ended on **5 January 2024**.
- We received letters from:[1]
    - PricewaterhouseCoopers International Limited
    - XBRL France
    - Mo Chartered Accountants (Zimbabwe)
- Letters were **generally supportive** of most proposals, with some **suggested improvements**.
- We aim to publish the final IFRS Taxonomy Update at the **end of March**, together with the annual IFRS Accounting Taxonomy 2024.

1 Comment letters may be accessed here

Common practice for financial instruments

Common practice on financial instruments—Proposals

This Proposed IFRS Taxonomy Update focuses on common reporting practice relating to financial instruments in the banking industry.

Banking entities commonly **disaggregated financial assets and liabilities by characteristics** that describe those financial instruments in the statement of financial position. These characteristics commonly included by **class**, by **category** and by **counterparty.**[1]

The Proposed IFRS Taxonomy Update introduces:

- **new monetary elements** for commonly reported combinations of shared characteristics that describe financial assets and financial liabilities in the statement of financial position and related elements in the statement of cash flows; and
- **minor improvements** to the presentation structure and documentation labels of specific elements relating to financial instruments.

As set out in IFRS 7 *Financial Instruments: Disclosures*, the **category** of a financial instrument refers to how that instrument is measured and the basis by which the entity has applied that **measurement method**. Paragraph 6 of IFRS 7 describes the **class** of a financial instrument as those groupings that are appropriate to the **nature** of the information disclosed and take into account the characteristics of those financial instruments.

Common practice on financial instruments—Feedback

One respondent suggested **adding limited additional disaggregation** separately from other related elements:

- Financial assets (and liabilities) at fair value through profit/loss, excluding derivatives;
- Financial liabilities at amortised cost, excluding subordinated liabilities

E.g.

In our view, the limited additional disaggregation could be achieved as follows:

Financial assets at fair value through profit or loss, mandatorily measured at fair value
Financial assets at fair value through profit or loss, classified as held for trading
Derivative financial assets held for trading
Financial assets at fair value through profit or loss, **excluding derivative financial assets,** held for trading
Loans and advances at fair value through profit or loss, classified as held for trading
Loans and advances to banks at fair value through profit or loss, classified as held for trading
Loans and advances to customers at fair value through profit or loss, classified as held for trading
Debt instruments held at fair value through profit or loss, classified as held for trading
Equity instruments held at fair value through profit or loss, classified as held for trading
Other financial assets at fair value through profit or loss, excluding derivative financial assets, classified as held for trading

Add existing derivative financial asset element into this presentation structure

Create one new element for financial assets excluding derivatives

Re-organise proposed elements below the new element for financial assets excluding derivatives

Common practice on financial instruments—Feedback

The respondent also suggested **adding similar disaggregation for financial assets and liabilities,** excluding insurance activities. This would then be applied to all proposed combinations of classes and categories of financial assets and liabilities.

We reviewed the suggested additions to common practice elements and noted:

- There was **little evidence** that these suggested elements were commonly presented in the statement of financial position in our sample of banking entities.
- The decision to present certain classes of financial assets or liabilities separately from other classes **might seem arbitrary to preparers**. For example, some preparers might present loans and advances separately from other financial assets, whereas other preparers might present derivative financial assets separately from other financial assets.
- We observed the presentation of financial assets and liabilities excluding insurance activities in a few banking entities, from a single jurisdiction, in our sample and **did not observe similar reporting practice across filers from other jurisdictions**.
- Accordingly, we do not plan to add further disaggregation classes of financial assets or liabilities separately from other classes of financial assets or liabilities, or a disaggregation of financial instruments excluding insurance activities. We will consider whether such disaggregation occurs in the note disclosures as part of future analysis on financial instruments.

Common practice on financial instruments—Feedback

Other feedback received	Staff response
• To add elements reflecting the current and non-current portions for **debt instruments held, equity instruments held**, and **subordinated liabilities**, which could be presented by non-financial entities.	• The PTU focussed on banking entities, which commonly present items in the statement of financial position based on the order of liquidity. • Our initial observation is that non-financial entities can use existing elements to reflect the current and non-current portions of financial assets and liabilities, presented by category (for example—Non-current financial assets at amortised cost).[1] • We will perform further analysis on these suggestions as part of a future common practice project.
• To clarify **intended use of subordinated liabilities** and consider additional elements for put options granted to non-controlling interests	• There is an ongoing project on *Financial Instruments with Characteristics of Equity (FICE)*. • We will address these suggestions as part of the Taxonomy development related to the ongoing FICE project.

[1] As set out in IFRS 7 *Financial Instruments: Disclosures*, the category of a financial instrument refers to how that instrument is measured and the basis by which the entity has applied that measurement method.

Common practice on financial instruments—Feedback

Other feedback received	Staff response
• To add elements and clarify existing elements relating to the **presentation of financial debt** for non-financial entities. • There is **diversity** in how financial debt is disaggregated and existing elements do not fully capture different presentation structures	• The PTU focussed on banking entities and has not analysed presentation of financial instruments in non-financial entities. • We plan to analyse how non-financial entities present their financial debt and will address these suggestions as part of a future common practice project.
• To add **generic elements for concepts that are not financial instruments** (e.g. NonFinancialAssets and NonFinancialLiabilities). • This would allow more **accurate anchoring** of extensions relating to non-financial assets and liabilities.	• We observed that banking entities do not commonly present a sub-total for non-financial assets or liabilities. • The elements for FinancialAssets & FinancialLiabilities relate to a defined subset of assets and liabilities, whereas non-financial assets and liabilities are defined by exclusion. • Adding these elements would require reordering the presentation linkbase for the statement of financial position to group the appropriate concepts together. • Further analysis would be required on whether this would be useful to preparers and users and may be included as part of a future General Improvements consultation.

General improvements

Categorical elements—Proposals

This Proposed IFRS Taxonomy Update proposes introduction of categorical elements to the IFRS Accounting Taxonomy.

The Proposed IFRS Taxonomy Update:

- **proposes** to have a parent narrative element for every categorical element. This will enable preparers to tag additional contextual information (using the parent narrative element) and capture the fundamental information in a categorical format to simplify analysis and screening (using the child categorical element);
- **proposes** to include the guidance '*When using this element, the entity should also use the parent text element to capture the full disclosure provided*.' in the guidance labels of the proposed categorical elements; and
- **is not proposing** to include an option representing 'other' for extensible enumeration elements where the list of options provided is not exhaustive, but to simply rely on the extensibility features of such elements.

Categorical elements includes two types of elements- 'Boolean' and 'extensible enumeration'.

Categorical elements—Feedback (1/3)

Feedback received	Staff response
• An option representing 'other' could be included in the extensible enumeration elements with a text field to include what exactly the 'other' represents.	• We are **not proposing to add an 'other' option** in the extensible enumeration elements. • Extensible enumerations intrinsically allow the creation of entity-defined options, along with full labelling features for those options. • If we created an 'other' option and an associated explanatory text field, it would lead to the addition of extra narrative element with many extensible enumeration elements, and may encourage false comparison of "other" entries from different entities. • Further, we think the proposed approach is consistent with the Sustainability Disclosure Standards Taxonomy and with the general approach of explicit dimensions in the IFRS Accounting Taxonomy.

Categorical elements—Feedback (2/3)

Feedback received	Staff response
• For jurisdictions making the use of categorical elements mandatory (as well as in other jurisdictions for entities that would voluntarily decide to report 'false' values), the guidance labels would encourage the corresponding narrative tags to be applied in those jurisdictions even for 'false' values.	• The proposed guidance label is '*When using this element, the entity should also use the parent text element to capture the full disclosure provided.*' • The intention was to provide the guidance to tag the full disclosure provided in the financial statements. • As with all IFRS taxonomy elements, categorical elements and their related text elements should only be used to tag information disclosed in a report. • We **propose refining the guidance label** to '*When using this element, the entity should also use the parent text element to capture the related narrative disclosure if provided in the financial statements.*'

Categorical elements—Feedback (3/3)

Feedback received	Staff response
• To add a boolean element for the taxonomy element '*Explanation of change in name of reporting entity or other means of identification from end of preceding reporting period*'.	• The provided element has a reference of IAS 1.51(a) which requires an entity to disclose '*the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period*' • The disclosure requirement itself is not necessarily categorical in nature, but we agree that the **information disclosed to meet this requirement is expected to be categorical** (i.e. there has/has not been a change to the name of the reporting entity). • Therefore, we **propose to create a categorical element** to capture whether an entity has changed its name or other means of identification during the reporting period.

Tagging of fair value of investment property measured at cost—Proposals

Paragraph 79(e) of IAS 40 *Investment Property* requires an entity to disclose the fair value of investment property when the entity applies the cost model to measure their investment property. There is no specific taxonomy element for this disclosure requirement.

The Proposed IFRS Taxonomy Update **proposes** a monetary element to tag the disclosure of the fair value of the investment property when an entity applies the cost model as required by paragraph 79(e) of IAS 40.

Tagging of fair value of investment property measured at cost—Feedback

The respondent suggested two separate elements to capture different measurement methods, that is ‘Investment property at cost’ and ‘Investment property measured at fair value’. That way if, say, entity A presents ‘Investment property’ at fair value and entity B presents ‘Investment property’ at cost and disclose its fair value in the notes, the tagging of fair value of investment property will be done with same element irrespective of its location, making it comparable.

We considered the suggestion and rejected it because:

- The concept of Investment property as measured in the financial statements is more fundamental irrespective of its measurement method. Using same element for an amount such as fair value of investment property regardless of whether this is recognised in the financial statements may make analysis by users more difficult
- If we create separate elements to be used in the statement of financial position, we may also need to create separate reconciliations of those classes of assets. For example, we may need to create separate reconciliation elements for ‘Investment property at cost’ and ‘Investment property measured at fair value’.
- Changing the policy to create separate elements for different measurement method may also impact other elements like ‘Property, plant and equipment’, etc.
- We also think, from an accounting perspective, that the value of the ‘Investment property’ as presented on the statement of financial position is arguably more fundamental irrespective of its measurement method and users may generally not want to accidentally compare a value presented on the face by one entity with a fair value disclosed in the notes by another.

Next steps

Next steps

- The IFRS Taxonomy Update will be reviewed by the Taxonomy Review Panel (TRP) in February 2024 incorporating any changes discussed.
- We plan to issue the final IFRS Taxonomy Update, along with final taxonomy files, with the release of the 2024 IFRS Accounting Taxonomy in March 2024.

?

Question 1—Do you have any comments/suggestions on our responses to the feedback received and on the finalisation of the IFRS Taxonomy Update 2?