IFRS Taxonomy Consultative Group (ITCG) meeting

Date   30 September 2024

Project   Formula Linkbase

Topic   Evaluating the IFRS Taxonomy formula linkbase

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Objective of the session

1	**Background**

2	**Current use of the IFRS Formula Linkbase**

3	**Invite feedback from the ITCG members on the proposed short-term direction for IFRS Formula Linkbase**

Background - Recap of Previous Discussions

February ITCG:

- Provided a comprehensive overview of the structure and usage of the IFRS Taxonomy Formula Linkbase. Emphasised that the formula linkbase is not part of the main taxonomy but is provided as a form of 'illustrated examples'.
- Discussed the key aims, such as enhancing data quality and consistency in financial reports.
- Identified the main challenges, including high maintenance costs, complexity, and limited reusability the formula linkbase.

Cost-Benefit Analysis of Updates:

- Some members suggested that annual updates for minor changes might not be cost-effective, as the benefits may not justify the high costs. Conversely, others noted that not updating could harm data quality in jurisdictions relying on the formula linkbase.

Background - continued

Spreadsheet Format for Business Rules:

- Members discussed whether providing formula business rules solely in a spreadsheet format would be sufficient. Some ITCG members expressed concerns about this approach, suggesting it could lead to data quality issues due to inconsistent implementation across various software platforms.

Considering Alternative Solutions:

- It was recommended to explore other solutions to improve the process. Also to consider the possibility of migrating to a text-based XBRL Formula, known as 'XF'.

At meeting and subsequently:

- Received stakeholder feedback highlighting a preference for more user-friendly formats and the need for better customisation of validation rules.
- Discussed the topic with several of the primary "users" of our formula linkbase materials.

Feedback on current use of the Formula Linkbase

Guidance and Utilisation:

- Validations offer significant guidance for enhancing financial reports quality, with extensive use of rules addressing positive/negative sign errors and scaling issues.
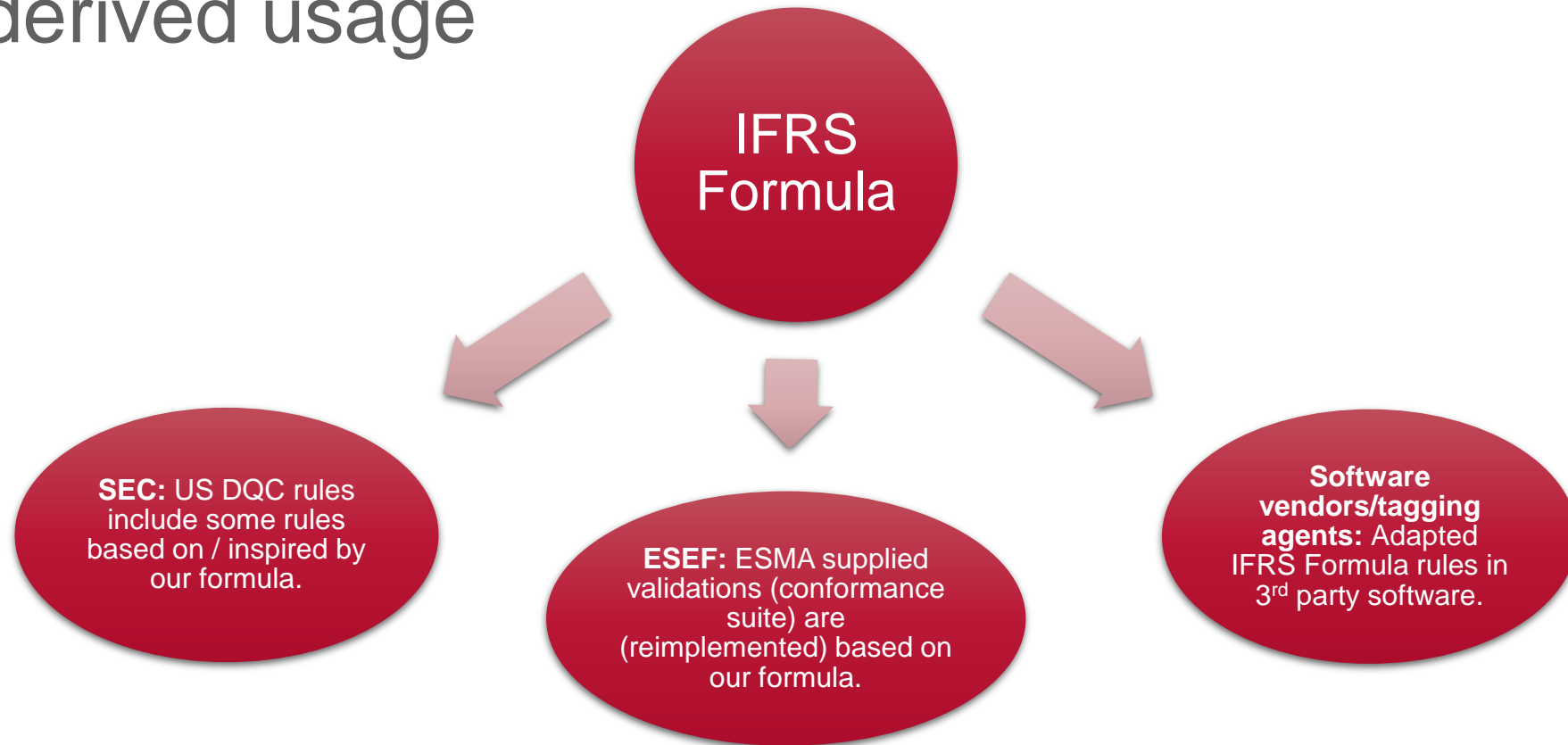
Customisation and Reusability:

- While validation rules require adjustments to meet specific jurisdictional requirements, current design limitations hinder reusability, highlighting the need for user-friendly formula implementation e.g. use of XULE instead of Formula Linkbase 1.0.

Stakeholder Practices:

- Jurisdictions, preparers, vendors, and auditors frequently develop and maintain their own validation sets and quality controls, which are more aligned to capture local jurisdictional requirements.

Main derived usage

IFRS Formula

SEC: US DQC rules include some rules based on / inspired by our formula.

ESEF: ESMA supplied validations (conformance suite) are (reimplemented) based on our formula.

Software vendors/tagging agents: Adapted IFRS Formula rules in 3rd party software.

- We understand that none of these directly utilise our formula linkbase files, so could be updated based on material in another format (for example Excel). However, the clarity, unambiguity and reproducibility of XBRL formula is beneficial.

Proposed Direction – change to update cycle

To free resources to focus on critical tasks related to the IFRS Accounting and Sustainability Taxonomies, we intend to shift from an annual update to a longer cycle. This new cycle will align with major IFRS Taxonomy updates (estimated as approximately every 3–4 years).

Major updates:
Formula linkbase packages will only be created for the annual IFRS Accounting Taxonomy when major updates significantly change business validation rules. Implementing formulas will provide clear guidance and ensure consistent application of these rules.

Annual Releases:
Changes (except when considered unnecessary that year) would be provided in Excel spreadsheet format which would be simpler to produce.

IFRS Formula linkbase publication timeline
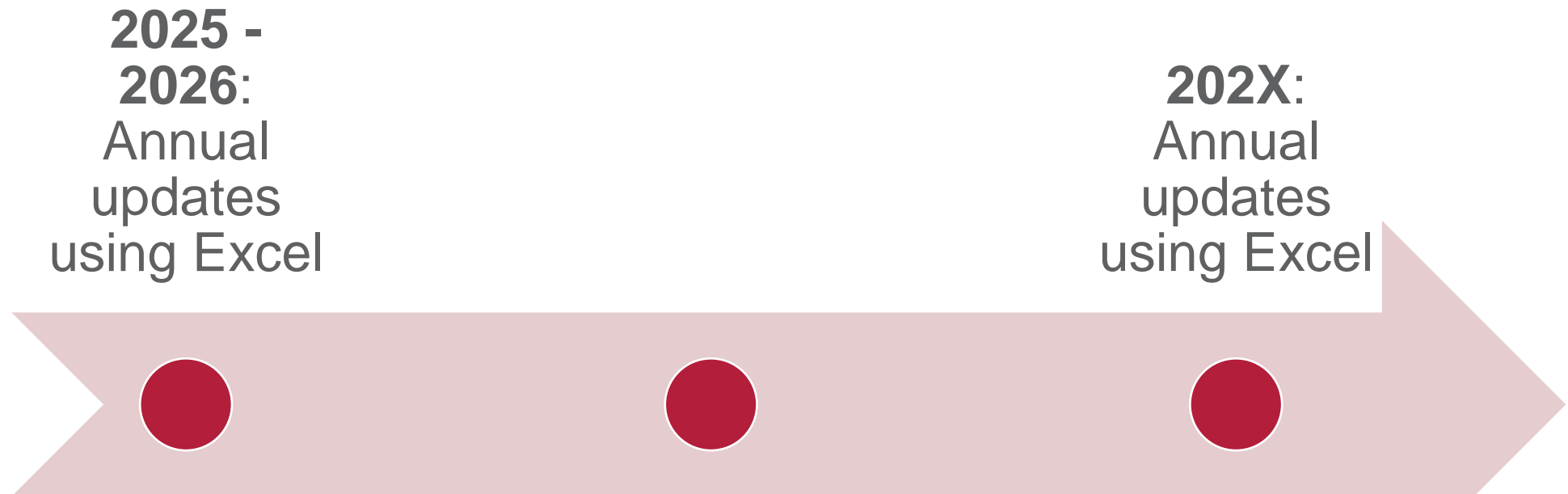
2025 - 2026: Annual updates using Excel

202X: Annual updates using Excel

*IFRS 18 changes may be difficult to implement in parallel with existing IAS1 formula. Given limited expectation of early adoption of IFRS 18, we plan to update formula for IFRS 18 in line with the IFRS 18 effective date in 2027. That will be a major update, because significant changes are expected, and so we will update the formula linkbase files.

2027: Update for IFRS 18 Standard*

(Formula Linkbase implementation + Excel)

Next steps

Provide Updated Excel Files as an Interim Solution:

- Focus on updating and providing business rules in Excel format to address immediate stakeholder needs.
- Simplify validations by removing irrelevant, outdated or low value rules and reconsider adding new rules only if they provide clear benefits.

Reduce Update Frequency of the IFRS Formula Linkbase:

- Shift from an annual update cycle to an approximately 3-4 year cycle, aligning with major taxonomy updates.*

Continue Discussions on Quality Improvements:

- Review strategy for quality, including possibility of migrating Formula Linkbase to a text based XBRL Formula (XF), XULE or XBRL Rules and Query language 3.0

* – the timing of major updates and the 3-4 year cycle may not always align perfectly. Major updates generally refer to significant changes, often due to new IFRS Standards.

Questions to ITCG members

Question 1	Given our current focus on providing updated Excel files as an interim solution, do you feel this approach is sufficient?

Question 2	Do the current validation rules effectively ensure the accuracy and quality of financial reports? If not, what changes would you suggest?

Questions to ITCG members – continued.

Question 3	Considering various IFRS taxonomy activities, please rank the following activities in terms of priority to reflect the importance of work on data quality in the medium to long term:

1. Updating the IFRS Taxonomies.
2. Maintaining and enhancing the Formula Linkbase.
3. Providing user support and guidance.
4. Stakeholder engagement and feedback.
5. Ensuring compatibility and integration with tools and technologies.
6. Data quality and consistency initiatives.
7. Training and education for users.

Appendix

Appendix – content

Current Implementation of the IFRS Formula Linkbase:

- Overview of the XBRL Formula limitations

- Types of business rules and their utilisation within the IFRS Formula Linkbase.

Future enhancements to the IFRS Formula Linkbase:

- List of potential new business rules in response to changes introduced by the IFRS 18

  Standard, contingent on the capabilities of the XBRL Formula Linkbase specification.

Limitations of XBRL Formula

Limitation	Description
Limited Viability for Certain Checks	Current XBRL formulas cannot handle some checks, particularly those requiring validation of preparer's extension taxonomies.
Emerging Solutions	Noteworthy efforts like the U.S. Data Quality Committee's development of XULE are addressing these limitations. XBRL International Public Working Draft on XBRL Rules and Query language 3.0 – successor to the formula linkbase.
Varying Tagging Expectations	The issue of "complete" accounts and differences in expected tagging levels necessitate different validation rules based on tagging expectations.
Principle-Based Rules	Principle-based rules allow for considerable legitimate variation in disclosures, making it challenging to establish strict, universal validations.
Response to Warnings	Preparer's overly cautious responses to "warnings" can be problematic. For instance, rules for percentages and signs typically identify true errors but may also flag correct reporting. This has led to instances where reports are altered to avoid warnings, even if the changes result in incorrect reporting.

Types and use of IFRS Formulas

Type	Issues	
	Over-precision	**Elements typically not used**
Adjusted Axis Aggregation Validations – only one case implemented.	✓	
Cross-Period Validation – extensively used 32 rules implemented.	✓	✓
Earnings Per Share (EPS) Validations – 12 rules implemented; an indirect adaptation used in ESEF reporting.	✓	
Equivalency Validations – 132 rules, all in use in ESEF reporting.	✓	
Percentage Validations – 1 rule, used in ESEF reporting, easy to reuse as it covers all reported facts using percent item type.		
Positive/Negative Validations – set of 3 rules used in ESEF reporting, capturing simple mistakes in wrong sign applied in reported values. This issue still occurs in many ESEF reports.		

Possible checks to consider in updating for IFRS 18

Consistency Check	Description	Can implement in Formula
Label Consistency for Income/Expense Items	Ensure that the label of every income and expense item used on the face of financial statements ends with 'operating', 'investing', or 'financing'.	No
Mandatory Profit & Loss (P&L) Subtotals	Validate that all mandatory subtotals for the Profit & Loss statement are present.	Yes
MPM Reconciliation Consistency	Verify that every line item used in the Management Performance Measure (MPM) reconciliation is also used in the P&L statement.	No
Categorical and Narrative Element Consistency	Ensure that for every categorical element, the corresponding narrative element is also tagged.	Yes
Use of 'Expired' Reference Elements	Elements with an 'Expired' reference note should only be used to tag comparative or 'old' numbers.	Yes

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