IFRS Foundation

Staff paper

Agenda reference 3

IFRS Taxonomy Consultative Group (ITCG) meeting

Date **05 March 2025**

Project **Digital Financial Reporting**

Topic **Text Elements Review**

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Purpose of this session

To provide ITCG members an opportunity to comment on contemplated areas of research for future general improvements to the narrative elements within the IFRS Accounting Taxonomy.

Narrative information

- **Narrative information encompasses qualitative disclosures that have no prescribed format and that might be either purely textual in nature or might include some quantitative information.**
- Narrative elements should provide users with distinct pieces of information that are appropriate for efficient analysis and facilitate comparability between preparers and across time periods.

Element types used in the IFRS digital taxonomies:

Text elements	Text block elements	Categorical elements
• Used for information expected to be expressed in free text format • Considered appropriate for information expected to be only one to two sentences or a short paragraph	• Used for larger chunks of information with unspecified content, structure, or format • Theoretical ability to maintain formatting of disclosures—however, in current practice this has not proven to be reliable	• Reflect information disclosed in a categorical format—provides structure to narrative information • Examples: *Boolean*, *extensible enumerations*

Proposals for future general improvement research

To facilitate improved ease, consistency and cost benefit of tagging, consider whether to:

1. Lean into SEC ‘levels’ and new ESMA rules, split text blocks explicitly into:
    1. **Note** Text Block
    2. **Policy** Text Block
    3. **Table** Text Block
    4. (other granular text elements – see next slide)
2. Identify these via labels and/or (Trait) metadata

?

Question 1—Do the ITCG members have any comments, questions or suggestions regarding these proposed areas of general improvement analysis on text blocks?

Proposals for future general improvement research

(To facilitate improved ease, consistency and cost benefit of tagging, consider whether to:)

3. Develop related guidance (such as any intended ‘mutual exclusivity’ of note text blocks) and included in preparer guide, labels or formula.
4. Remove unnecessary granular text blocks and string elements
5. Replace (some or all) granular text blocks with string elements or replace some or all string elements with text blocks.

Question 1—Do the ITCG members have any comments, questions or suggestions regarding these proposed areas of general improvement analysis on text blocks?

Appendix A
Accounting policies and notes

“The IFRS Taxonomy contains a number of text block elements”

Using the IFRS Taxonomy *A preparer’s guide*

The IFRS Preparers guide

91 Rules vary among filing system owners as to the specific groups of disclosures to which text block tagging can apply. ***The IFRS Taxonomy contains*** *a number of* ***text block elements for*** *tagging:*

(a) … ***individual significant accounting policies****;*

(b) … ***individual notes****; and*

(c) the entirety of ***disclosures presented in a table****.*

94 The IFRS Taxonomy includes text block elements to support tagging of individual notes. These elements are sourced primarily from common practice, as IFRS Standards do not prescribe the individual notes an entity should provide. In addition, the IFRS Taxonomy includes a text block element for each Standard that has a disclosure section. This permits text block tagging of all disclosures an entity provides in an individual note directly related to that Standard.

Location

The IFRS Accounting Taxonomy has always included text blocks intended for accounting policies and whole notes. These are included in two groups:

- ELR 800500 Notes – List of Notes (see slide 10)
  - Containing elements labelled ‘Disclosure of …’*
- ELR 800610 Notes – List of material accounting policy information (see slide 11)
  - Containing elements labelled ‘Description of accounting policy for …’ †

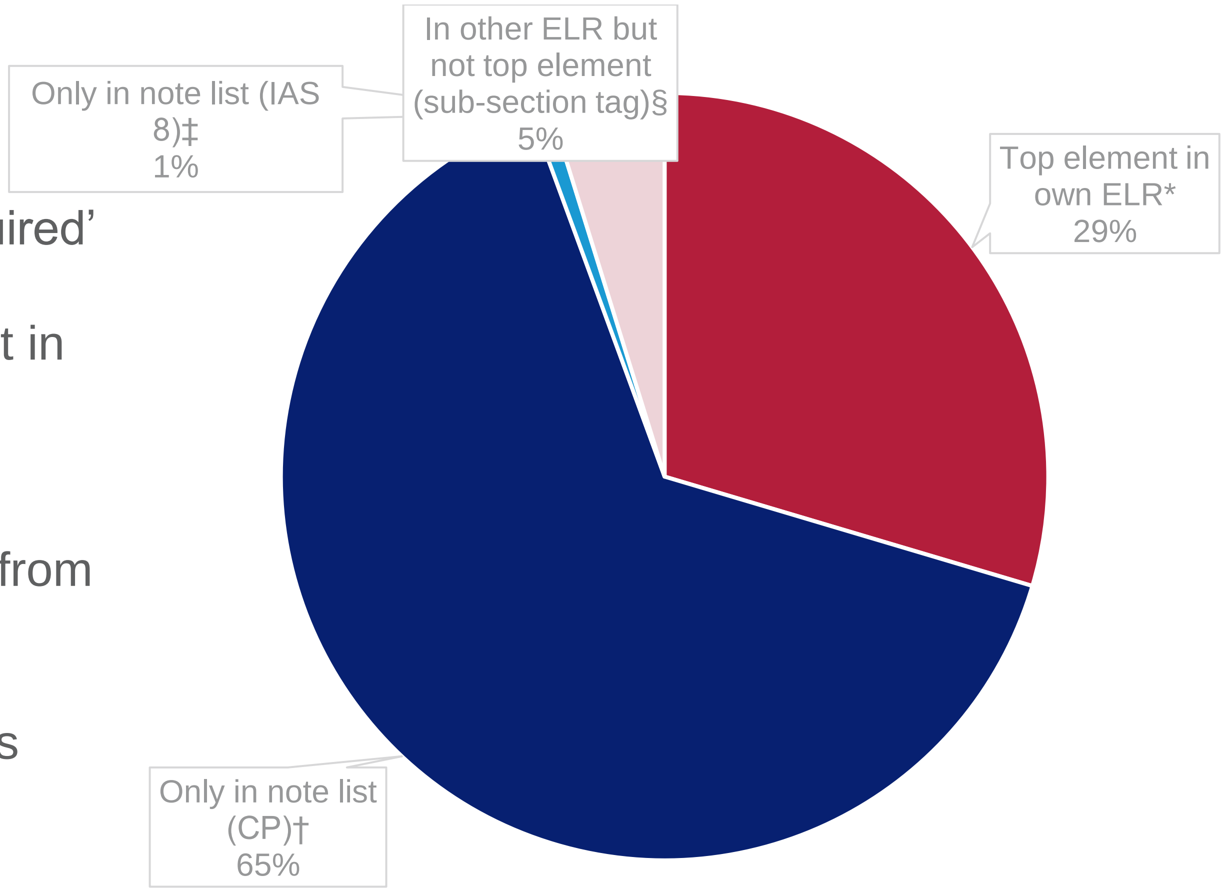
* example documentation label: ”The disclosure of the allowance relating to impairments of financial assets due to credit losses. [Refer: Financial assets]”

† example documentation label: “The description of the entity's material accounting policy information for decommissioning, restoration and rehabilitation provisions. [Refer: Provision for decommissioning, restoration and rehabilitation costs]”

List of notes (800500)

One third represent a ‘note’ that is ‘required’ by a specific standard (have disclosure references and are also the top element in another ELR)*.

Two thirds are CP elements, almost all from earliest CP work. Were intended to represent historically observed titles of notes, to facilitate the SEC tagging rules (‘one tag per note’) .



*For example, Disclosure of Employee Benefits [text block]
† For example, Disclosure of deposits from customers [text block]
‡ Disclosure of basis of preparation of financial statements [text block]
§ For example, Disclosure of joint ventures [text block]

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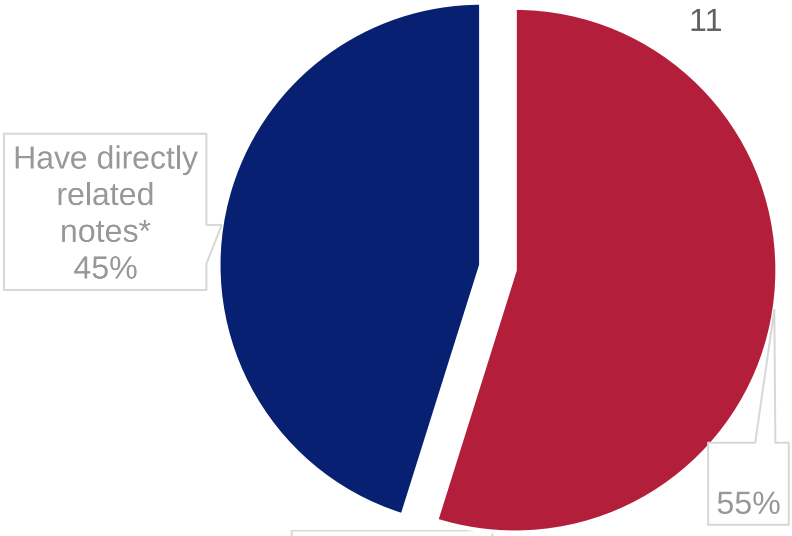
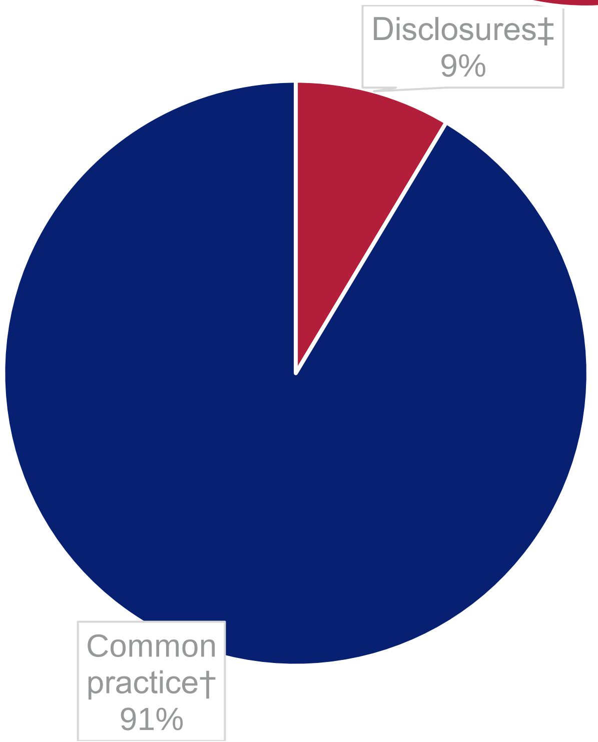
List of material accounting policies (800610)

Almost all policy text blocks are common practice items, based on IAS 117 (-> IAS 8.27A):

An entity shall disclose material accounting policy information (see paragraph 5). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

At least 45% of policy elements have a 'corresponding' note text block(s)*.





*For example, Disclosure of accounting policy for employee benefits [text block] and Disclosure of employee benefits [text block]
† For example, Disclosure of accounting policy for financial instruments [text block]
‡ For example, Description of accounting policy for government grants [text block] (IAS 20.39a)

“rules vary among filing system owners as to which text block tagging should apply to groups of disclosures”

Using the IFRS Taxonomy *A preparer’s guide*

SEC Tagging rules ("levels")

For EDGAR, footnotes† to financial statements must be tagged as follows:

(1) Each **complete footnote** must be block-text tagged;

(2) Each **significant accounting policy** within the significant accounting policies footnote must be block-text tagged;

(3) Each **table** within each footnote must be block-text tagged; and

['one tag per note, policy, table']

(4) Within each footnote … Each **narrative disclosure** <u>may</u> be tagged separately to the extent the electronic filer chooses*

[Filers generally do the minimum permitted, so essentially no narrative tagging at level 4 is done]

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† that is, 'notes to the financial statements'.

* US GAAP taxonomy includes simple text items, suffixed "Description". Some text blocks are possibly ambiguous as to whether they are whole notes, but the US GAAP taxonomy appears to have no level 4 text blocks as children of other level 4 text blocks.

Example of SEC Approach

One text block per note. Element expected to match note 1:1

Typically, no nesting

MOCK-UP EXAMPLE
(all content is fictitious)

Disclosure of material accounting policy information [text block]

> 5: Summary of Significant Accounting Policies

Description of accounting policy for fair value measurement [text block]

>> 5.1: Fair value measurement

Fair value measurement is an essential aspect of financial reporting under IFRS. It ensures that assets and liabilities are reported at their appropriate fair values, reflecting current market conditions.

The entity is disclosing information that helps users of financial statements assess both:
1. The valuation techniques and inputs used to develop those measurements.
2. The effect of fair value measurements on profit or loss or other comprehensive income.

Description of accounting policy for recognition of revenue [text block]

>> 5.2: Revenue from Contracts with Customers

Revenue recognition under IFRS is governed by IFRS 15, which provides a comprehensive framework for recognizing revenue from contracts with customers. The entity provides disclosures about revenue recognized from contracts with customers.

>>> Disaggregation of revenue

Disaggregating revenue into these categories provides valuable insights into:
1. How various economic factors affect revenue streams.
2. The variability and predictability of revenue and cash flows.
3. The risks and opportunities associated with different revenue sources.

>>> Information about performance obligations

The entity provides detailed disclosures regarding performance obligations, including:
1. A description of the nature of the goods or services promised.
2. When the entity typically satisfies its performance obligations (e.g., upon shipment, as services are rendered).
3. Significant payment terms.
4. The transaction price allocated to the remaining performance obligations, indicating the amount expected to be recognized as revenue in future periods.

Description of accounting policy for employee benefits [text block]

>>5.3: Post-employment benefits

Post-employment benefits are employee benefits that are payable after the completion of employment. This note provides details on the types, recognition, and measurement of post-employment benefits under IFRS. The entity maintains both defined contribution plans and defined benefit plans.

Page 1

MOCK-UP EXAMPLE
(all content is fictitious)

Contributions are recognized as an expense when employees have rendered service entitling them to the contributions. For the financial year ending [Year-End Date], the entity contributed $X,XXX to the defined contribution plans. This amount has been recognized as an employee benefit expense in the profit or loss for the year.

The entity uses the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The discount rate is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds. Actuarial gains and losses are recognized in other comprehensive income and are not reclassified to profit or loss in subsequent periods.

Description of accounting policy for income tax [text block]

>>5.4: Income Taxes

Income taxes are accounted for under IAS 12, which outlines the accounting treatment for current and deferred tax. This note provides detailed information on the recognition, measurement, and disclosure of income taxes of the entity.

>>>Current income tax

Current tax liabilities or assets for the current and prior periods are recognized to the extent that they are unpaid or refundable. The current tax is measured using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

>>>Deferred income tax

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

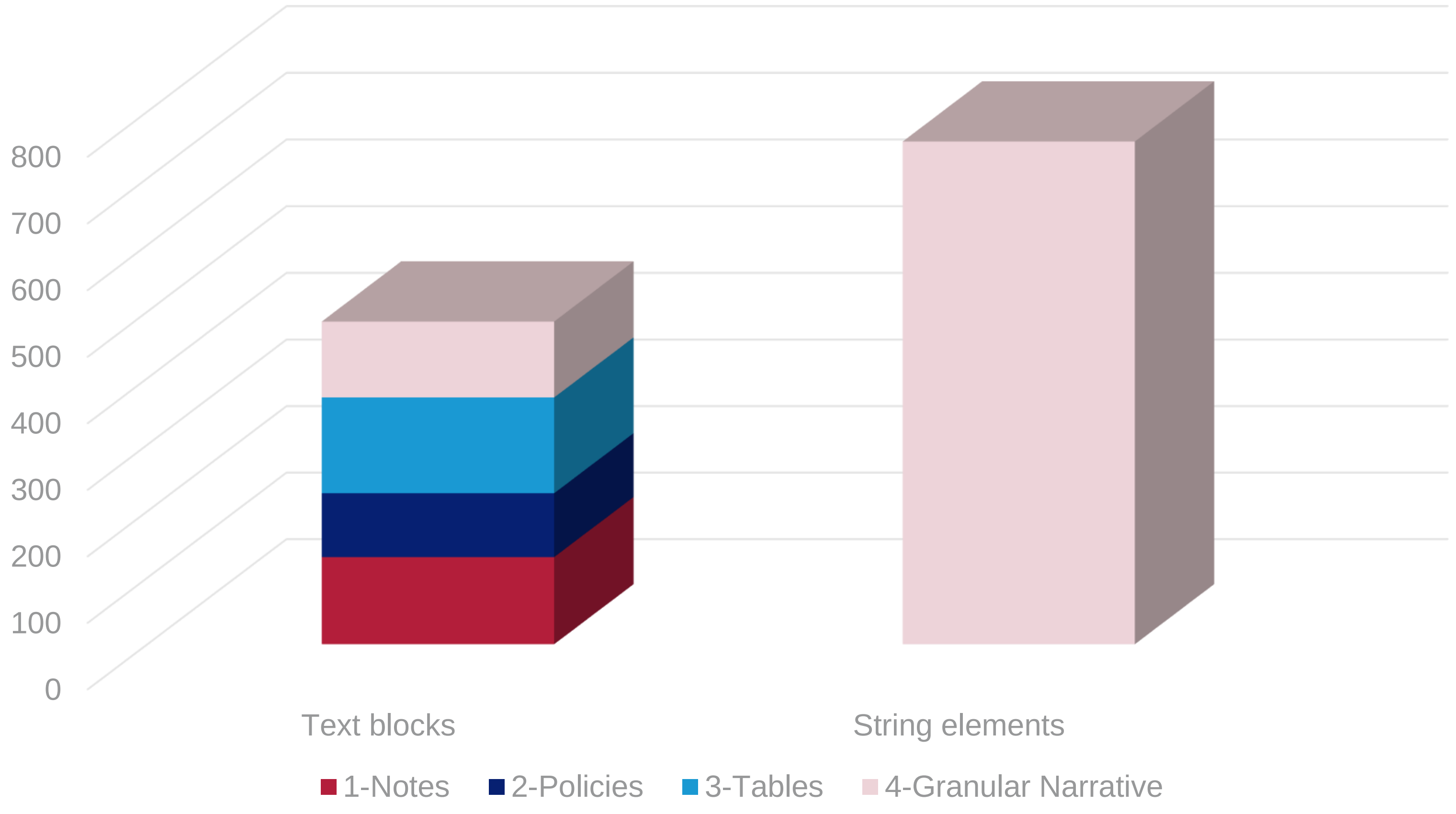
Description of accounting policy for taxes other than income tax [text block]

>> 5.5 Other Taxes

VAT is a type of indirect tax that is levied on the value added to goods and services at each stage of production or distribution. Output VAT is recognized at the point of sale when the goods or services are delivered to the customer. Input VAT is recognized when the purchase occurs and can be recovered from the tax authorities to the extent it relates to taxable supplies. [...]

Page 2

Text Elements in the IFRS Accounting Taxonomy



Current ESMA Tagging rules

Require text block tagging of specified *mandatory elements*.

This list includes most/many of our text blocks, including many that might be expected to be *mutually exclusive* under the SEC approach, for example ‘Disclosure of intangible assets and goodwill [text block]’ versus ‘Disclosure of intangible assets [text block]’ and/or ‘Disclosure of goodwill [text block]’

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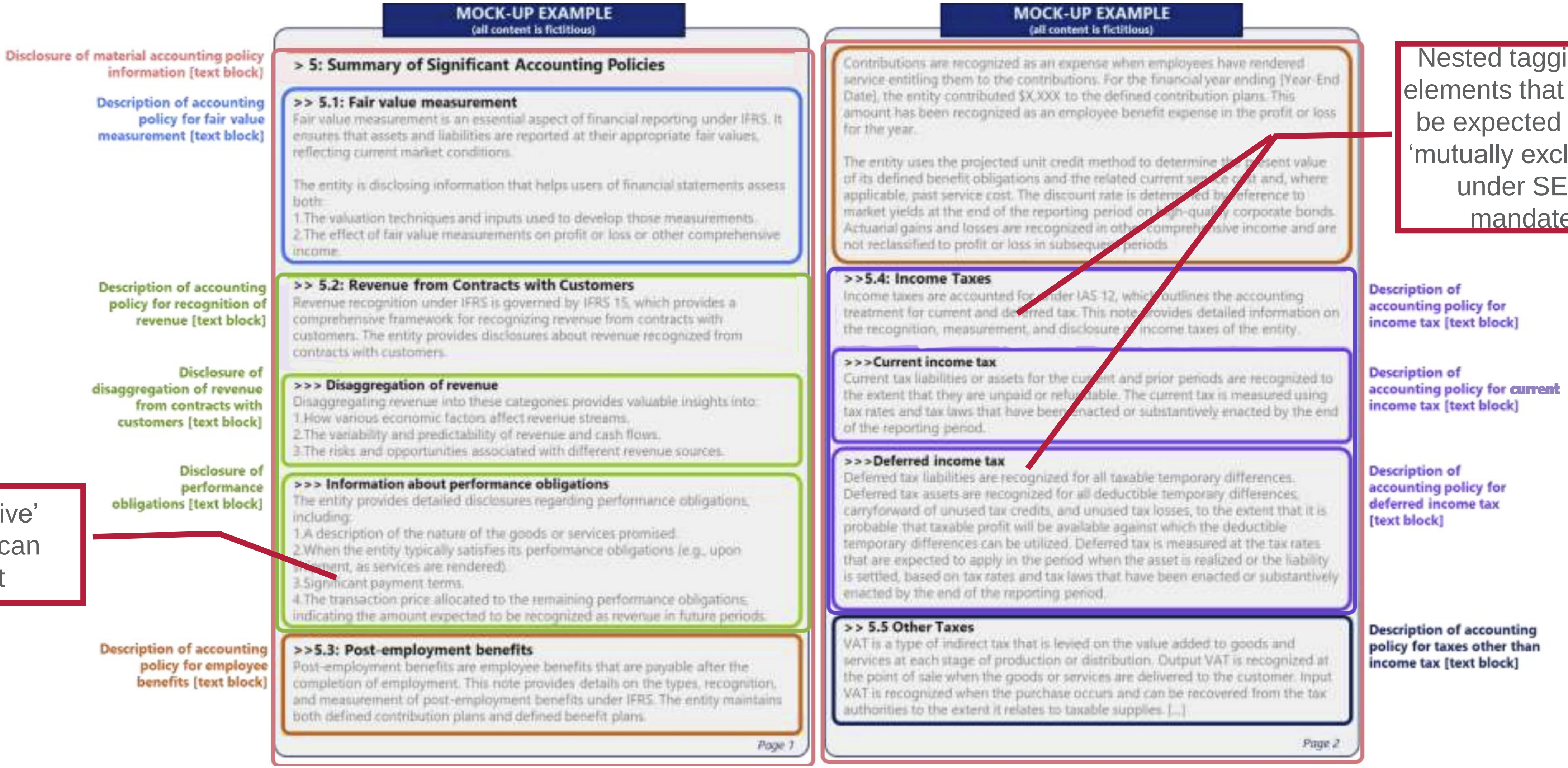
Example of Current ESMA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1. The valuation techniques and inputs used to develop those measurements.
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Description of accounting policy for recognition of revenue [text block]

>> 5.2: Revenue from Contracts with Customers

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Disclosure of disaggregation of revenue from contracts with customers [text block]

>>> Disaggregation of revenue

Disaggregating revenue into these categories provides valuable insights into:
1. How various economic factors affect revenue streams.
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Disclosure of performance obligations [text block]

>>> Information about performance obligations

The entity provides detailed disclosures regarding performance obligations, including:
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Description of accounting policy for income tax [text block]

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Description of accounting policy for current income tax [text block]

>>>Deferred income tax

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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Description of accounting policy for taxes other than income tax [text block]

Page 2

Nested tagging of elements that would be expected to be ‘mutually exclusive’ under SEC mandate

‘Excessive’ nesting can result

Future ESMA Tagging rules (2027+)

Require text block tagging of

- **‘each accounting policy and other explanatory note that is individually and separately identifiable in the Notes**’

Largely equivalent to SEC levels 1 & 2, but note the ‘Separate subheading’ principle: *“each accounting policy and other explanatory note that is individually and separately identifiable in the Notes (e.g. by setting up sections, sub-sections or sub-sub-sections in a note) should be marked up with one core taxonomy element (including common practice elements) that best represents the closest/narrowest accounting meaning and/or scope.”*

- **‘Separate and individual mark up of each table disclosed in the Notes** to the IFRS consolidated financial statements that provides structured, granular information related to an accounting policy or other explanatory note.’*

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*Proposals for table markup are unclear - we assume the intention is to require a text block for each table, ensuring XHTML fragment is displayable, and linking of the text block fact from relevant primary financial statement facts via fact-to-fact relationships (such as fact-explanatoryFact)

Example of ESMA Proposal

Elements may have no actual content if all allocated to subheadings

Content of parent element could depend on presence/absence of explicit subheadings

No nesting

Distinct sections **without** subheadings **not** separately tagged

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Description of accounting policy for taxes other than income tax [text block]

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Appendix B
Granular narrative elements

Policy for granular narrative information

- **Historic approach—separate elements were created for each distinguishable narrative disclosure or presentation requirement that was identifiable from the wording of a Standard.**

Historically the same approach to identifying elements was applied to narrative as was applied to quantitative elements – each separate concept that could be identified in the disclosure or presentation requirements of a Standard would typically be assigned an element in the taxonomy.

Policy for granular narrative information

- **Current approach—separate elements should be created for requirements that are expected to be:**

  separately understandable to users of general purpose financial reports; and

  readily identifiable for tagging.

  at the most granular level(s) at which both requirements are met

- Determining the appropriate level of granularity often requires judgement—balancing the usefulness of distinct narrative elements with the costs to tag multiple nested narrative elements. More nested narrative elements do not necessarily contribute to usefulness of digital financial information.

Applying the policy to IFRS Accounting Taxonomy

- During work on the IFRS Sustainability Disclosure Taxonomy, we developed this policy for granular narrative elements.
- We have implemented this approach in taxonomy updates since then and plan to review the narrative elements in the rest of IFRS Accounting Taxonomy in accordance with this policy and deprecate the narrative elements which are too narrow.

Granular narrative elements in the IFRS Accounting Taxonomy

858 granular narrative elements

Approximately 623 are ‘**siblings**’ – granular narrative elements that are at the same level as another granular narrative element (and so possibly could be merged with each other into a compound element)

Approximately 126 are ‘**children**’ – granular narrative elements that are children of other granular narrative elements (and so possibly could be incorporated into their parent).

Example of sibling narrative elements

IAS 37 - Disclosure

85 An entity shall disclose the following for each class of provision:

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;

(b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Description of expected timing of outflows, other provisions	String	IAS 37.85(a)
Description of nature of obligation, other provisions	String	IAS 37.85(a)
Description of major assumptions made concerning future events, other provisions	String	IAS 37.85(b)
Indication of uncertainties of amount or timing of outflows, other provisions	String	IAS 37.85(b)

Applying our recent policy on granular narrative elements, we may conclude that some granular elements can be merged into their sibling narrative elements because distinct granular elements may not be separately understandable to users of general purpose financial reports, or may be not readily discretely identifiable for tagging.

Example of child narrative elements

IFRS 7 – The risk management strategy

22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):

(a) how each risk arises.

(b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.

(c) the extent of risk exposures that the entity manages.

22B To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of:

(a) the hedging instruments that are used (and how they are used) to hedge risk exposures;

(b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and

(c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.

Explanation of risk management strategy related to hedge accounting [text block]	TB	IFRS 7.22A
Description of hedging instruments used to hedge risk exposures and how they are used	String	IFRS 7.22B a
Description of how entity determines economic relationship between hedged item and hedging instrument for purpose of assessing hedge effectiveness	String	IFRS 7.22B b
Description of how entity establishes hedge ratio and what sources of hedge ineffectiveness are	String	IFRS 7.22B c

Similarly, we may conclude single narrative element is sufficient here for the same reasons

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