Invitation to Comment: IFRS Taxonomy Due Process

Dear Mr Prada,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Invitation to Comment (hereafter ItC) *IFRS Taxonomy Due Process*, issued on 9 December 2015.

We had participated in the trial carried out on the IAS 7 amendment proposals and are pleased to note that, as we had suggested, the process of bringing the taxonomy for consultation is now proposed to be on a separate track than the consultation on a standard itself, by being made during the time between when the standard is published and its effective date.

We do however have the following concerns and proposals.

First of all, we would like to reiterate the fact that in our view the IFRS Taxonomy should be developed in such a way that other systems than XBRL may also use it. We note to that effect that ambiguity as regards how the IFRS Taxonomy is developed still exists: we understand that currently the taxonomy is developed solely on the basis of XBRL (based on the IASB website’s project pages) whilst the document refers to “a reporting syntax such as the XBRL” (in the ItC) or to “using the XBRL syntax or any other taxonomy delivery mechanism or syntax the IFRS Foundation considers appropriate” (paragraph A9). We think the Trustees ought to bring more clarity to this aspect.

We remain concerned with the place this taxonomy update will take in relation to the IFRS technical content. We do not disagree with consideration of the taxonomy having for possible effect the “improvement of the clarity and consistency of the wording of the final standard, which in turn supports the consistent interpretation and implementation of the standards”. However, what are the safeguards to ensure that this does not unduly constrain the standard setting process both as regards the principle-based character of IFRS as well as the IASB’s resources and timing entailed by such process?

We strongly disagree with the statement that the Taxonomy would “also aid the understanding of those [the presentation and disclosure] requirements” (see page 7 and paragraph A22). Such requirements should in and by themselves be understandable in the standard and its related guidance.
We also disagree with giving the IFRS Taxonomy Update the same status as accompanying material to the Standard. In our view, it is not because IFRS Taxonomy content changes reflecting new or amended IFRS are the object of a consultation coming from a new standard or amendment, that it is accompanying material to that standard. In addition, we note that the Foundation publishes yearly the annual IFRS Taxonomy, which is updated through either content changes reflecting new or amended IFRS and/or new common practice and other content changes not reflecting new or amended IFRSs. It is therefore not clear to us what the articulation between accompanying material to a standard and the annual IFRS Taxonomy would be. We consider that the relevant document to be considered is the annual IFRS Taxonomy, the status of which could be similar to that of the IASB’s Practice Statements, in that it is non-mandatory guidance which the IASB considers would improve financial reporting (Paragraph 6.39 of the Due Process Handbook) and preserves the discretion left to individual jurisdictions of adopting these documents, as well as of referring to them or not.

On the process itself, it follows from the status we propose above that the IASB should be involved in approving the proposed IFRS Taxonomy. Whilst we agree that the IASB should approve with a supermajority content changes reflecting new or amended IFRS, we consider that the proposed IFRS Taxonomy Review Panel (as in paragraph A10) should play a more prominent and formal role than proposed:

- In the case of new or amended IFRS, the IFRS Taxonomy Review Panel should review the staff’s proposals prior to the IASB’s vote;
- In the case of new common practice and other content changes not reflecting new or amended IFRS, the IFRS Taxonomy Review Panel should formally approve these and not just provide oversight as proposed in paragraph A10.

We note that the proposed Handbook remains very vague as to the criteria and process by which common practice and other content changes not reflecting new or amended IFRSs would be selected. We consider that both such aspects need to be better described and formalised in the Handbook.

Our detailed comments to the questions raised in the ItC are set out in the Appendix.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix

**Question 1**

The role of the IASB and the IFRS Taxonomy Review Panel within the review and approval of the content of the IFRS Taxonomy is described. Do you agree with the way in which the IASB and the IFRS Taxonomy Review Panel will be engaged and the degree of its involvement? Why or why not? If not, please state the reasons why you do not agree and any alternatives you would like us to consider.

We agree that, as an organisation, the IFRS Foundation needs to be in charge of the IFRS Taxonomy.

It follows from the status we propose for the annual IFRS Taxonomy in our answer to question 4 that the IASB should be involved in approving the proposed IFRS Taxonomy. Whilst we agree that the IASB should approve with a supermajority content changes reflecting new or amended IFRS, we consider that the proposed IFRS Taxonomy Review Panel (as in paragraph A10) should play a more prominent and formal role than proposed:

- In the case of new or amended IFRS, the IFRS Taxonomy Review Panel should review the staff’s proposals prior to the IASB’s vote;
- In the case of new common practice and other content changes not reflecting new or amended IFRS, the IFRS Taxonomy Review Panel should formally approve these and not just provide oversight as proposed in paragraph A10.
**Question 2**

The DPOC is proposing to maintain the existing process of public consultation on taxonomy content changes after the release of a final Standard. A Proposed Taxonomy Update will normally be released at the same time (or closely after) a final Standard is published and will normally have a comment period of 60 days.

Do you agree with this? Why or why not?

We agree that public consultation on a Taxonomy Update should take place around the finalisation of a standard.

Without disagreeing with a 60-day consultation period, which we understand could be longer, we consider that the length of the consultation period should depend on:

- The pervasiveness of the changes brought by the new or amended standard, and
- The timing of the consultation.

In other words, the more pervasive the changes are, the longer the consultation period should be but also the later the timing of the consultation after publication of the standard, so that commentators have the time to appropriately read and understand the related standard before having to comment on the proposed taxonomy.

The comments we make above equally apply to the review period by the ITCG of new and amended IFRS Taxonomy updates which is proposed to be aligned with the fatal flaw review period of the drafting of the final standard or interpretation: having in mind that members of the ITCG would have to get an understanding of the standard or interpretation to review the proposed IFRS Taxonomy update, we think that the proposed period could be too short.

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**Question 3**

The DPOC is proposing that the publication of the IFRS Taxonomy Files should be an optional step for proposed content updates. This is a mandatory step under the current process. Publication of the IFRS Taxonomy Files will remain a mandated step for proposed technology updates and for the publication of the final IFRS Taxonomy update.

Do you agree with these changes? Why or why not?

We have no particular opinion on whether publication of the IFRS Taxonomy Files ought to remain a mandated step or be optional for proposed content updates.

Our primary concern in respect of technology is that, in our view, the IFRS Taxonomy should be defined independently of a prescribed technology. We noted and welcomed in this respect that the IFRS Foundation has sought to separate content from technology. We however regret that ambiguity still remains as to the technology the Foundation is promoting: we understand that currently the taxonomy is developed solely on the basis of XBRL (based on the IASB website’s project pages) whilst the document refers to “a reporting syntax such as the XBRL” (in the IIC) or to “using the XBRL syntax or any other taxonomy delivery mechanism or syntax the IFRS Foundation considers appropriate” (paragraph A9). We think the Trustees ought to bring more clarity to this aspect.
Question 4
Are there any other matters relating to our proposals for the IFRS Taxonomy due process that you wish to comment on, including matters that are not covered but that you think should be?

Relationship between IFRS technical content and the IFRS Taxonomy
We remain concerned with the place this taxonomy update will take in relation to the IFRS technical content. We do not disagree with consideration of the taxonomy having for possible effect the “improvement of the clarity and consistency of the wording of the final standard, which in turn supports the consistent interpretation and implementation of the standards”. However, what are the safeguards to ensure that this does not unduly constrain the standard setting process both as regards the principle-based character of IFRS as well as the IASB’s resources and timing entailed by such process?

We strongly disagree with the statement that the Taxonomy would “also aid the understanding of those [the presentation and disclosure] requirements” (see page 7 and paragraph A22). Such requirements should in and by themselves be understandable in the standard and its related guidance. We note in particular that paragraph 6.34 of the Due Process Handbook states: “As a principle, Standards should be able to be applied without the accompanying material”.

We also disagree with giving the IFRS Taxonomy Update the same status as accompanying material to the Standard. In our view, it is not because IFRS Taxonomy content changes reflecting new or amended IFRS are the object of a consultation coming from a new standard or amendment, that it is accompanying material to that standard. In addition, we note that the Foundation publishes yearly the annual IFRS Taxonomy, which is updated through either content changes reflecting new or amended IFRS and/or new common practice and other content changes not reflecting new or amended IFRSs. It is therefore not clear to us what the articulation between accompanying material to a standard and the annual IFRS Taxonomy would be. We consider that the relevant document to be considered is the annual IFRS Taxonomy, the status of which could be similar to that of the IASB’s Practice Statements, in that it is non-mandatory guidance which the IASB considers would improve financial reporting (Paragraph 6.39 of the Due Process Handbook) and preserves the discretion left to individual jurisdictions of adopting these documents, as well as of referring to them or not.

IFRS Taxonomy Due Process
Our proposal on the IFRS Taxonomy Due Process is described in our answer to question 1 on how approval of the Updates should be obtained.

We also note that the proposed Handbook remains very vague as to the criteria and process by which common practice and other content changes not reflecting new or amended IFRSs would be selected. We consider that both such aspects need to be better described and formalised in the Handbook.

Finally, the proposed Handbook should be reviewed to:
- Ensure consistency of terminology with that used in IFRS: for instance, the distinction between presentation and disclosure and paragraph A1 referring solely to disclosures.
- Ensure internal consistency: for instance, the role of the ITCG on the review of the IFRS Taxonomy Updates and of the IFRS Taxonomy Files may appear contradictory when reading paragraphs A17 and A41 or by including references to other parts of the Due Process Handbook such as on translation (paragraph A43).