

**Mr Michel Prada  
Chairman  
IFRS Foundation  
30 Cannon Street  
London  
EC4M 6XH  
United Kingdom**

## **Ref: Invitation to Comment - IFRS Taxonomy Due Process**

Dear Mr Prada,

DEAR MICHEL,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to comment on the proposed IFRS Taxonomy Due Process published by the IFRS Foundation in November 2015. We are pleased to provide you with our comments with the aim of contributing to improve the due process of the IFRS Taxonomy and the wider goal of making financial reporting easier and financial information more accessible and comparable.

ESMA received the mandate to specify the electronic reporting format in which issuers listed on European regulated markets shall prepare their annual financial reports from 2020. In the recently issued *Consultation Paper on the Regulatory Technical Standards on the European Single Electronic Format (ESMA CP on ESEF)*<sup>1</sup>, ESMA considers to require the use of the IFRS Taxonomy issued by the IFRS Foundation (subject to the endorsement process in the European Union (EU)), for the presentation of consolidated IFRS financial statements in a structured electronic format. As ESMA is seeking stakeholders' views on this proposal, we are not yet able to foresee the outcome of this consultation. In this context, ESMA appreciates the IFRS Foundation's work related to the IFRS Taxonomy over the last years as we believe it will improve the analysis and comparability of financial information of issuers.

In order to address the needs of electronic reporting and to safeguard the quality and credibility of the IFRS Taxonomy, ESMA believes it is important to give due consideration to the IFRS Taxonomy and apply a robust due process for its adoption. ESMA attaches high importance to the governance of the process and as such, giving a stronger role to the IASB Board members in the approval of the IFRS Taxonomy would not only provide additional oversight but also increase the acceptance and legitimacy of the taxonomy. As this due process would necessarily play an important role in Europe if the IFRS Taxonomy were to be used for ESEF purposes, ESMA believes that incorporating IFRS Taxonomy related activities

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<sup>1</sup> Consultation Paper on the Regulatory Technical Standards on the European Single Electronic Format, 25 September 2015, ESMA/2015/1463



in the technical programme of the IASB and strengthening the respective roles of the IASB Board and the IFRS Taxonomy Review Panel in the approval of the updates of the IFRS Taxonomy would be beneficial to enhance its credibility.

The alignment of the timing for the drafting, approval and publication of any Proposed IFRS Taxonomy Update with that of any final standard seems to be an efficient way to engage the IASB Board members and to increase stakeholders' participation in the public consultation on the taxonomy.

Given the need to integrate taxonomy activities within the standard setting process and the speed of new technological developments, ESMA understands the suggested focus of the IFRS Foundation on the IFRS Taxonomy itself and not on the technology. While setting financial reporting standards for listed entities should remain the main focus and priority of the IASB, we believe that the IFRS Foundation has an important role to play in developing a taxonomy that can be recognised as the global standard to tag and structure IFRS financial information within electronic reporting. However, as explained in our response on the Request for Views on the Trustees' *Review of Structure and Effectiveness* of the IFRS Foundation of 19 November 2015<sup>2</sup>, the IFRS Foundation should make sure that the proposed IFRS Taxonomy is only a by-product of the standard-setting process and does not influence the way principles-based standards are developed.

Our detailed responses to the *Invitation to Comment* are set out in the Appendix to this letter. Please do not hesitate to contact us should you wish to discuss further all or any of the issues raised.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S. Maijoor', written over a horizontal line.

Steven Maijoor

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<sup>2</sup> ESMA response to the Trustees Review of Structure and Effectiveness: Issues for the Review, 19 November 2015, ESMA/2015/1738

## Appendix – ESMA’s detailed answers to the questions in the Invitation to Comment

### ***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.*

1. ESMA agrees with the proposed engagement of the IASB and the IFRS Taxonomy Review Panel in the review and approval of the content of the IFRS Taxonomy. The incorporation of IFRS Taxonomy activities in the technical programme of the IASB on the one hand and the clarification of the role of the IASB and the IFRS Taxonomy Review Panel in approving the IFRS Taxonomy content updates on the other hand will, in our view, contribute to further improving the oversight of the development of the IFRS Taxonomy.
2. Considering that Article 4(7) of the Transparency Directive<sup>3</sup> requires the implementation of an ESEF for the annual financial reports of issuers listed on EU regulated markets and that the ESMA CP on ESEF proposes to require the use of the IFRS Taxonomy in this respect, ESMA believes that a robust and transparent due process of the IFRS Taxonomy is necessary to obtain relevant feedback from stakeholders and ensure accountability is achieved.
3. ESMA considers that a high level involvement of the IASB Board members would enhance credibility of the IFRS Taxonomy and protect the integrity and principle based character of the standards. As not all members of the IASB Board might be deeply involved in the taxonomy practice, we agree that part of this work might be undertaken by a sub-committee composed of only a few members who have the necessary expertise to undertake the relevant assessment before reporting its findings to all IASB Board members.
4. As such, ESMA agrees that the IFRS Taxonomy should be integrated into the standard-setting process as early consideration of taxonomy issues might contribute in improving the clarity of the wording of the standards. However, as explained in our letter on the Trustees’ Review of Structure and Effectiveness of 19 November 2015, ESMA is of the opinion that the IFRS Taxonomy is a by-product of the financial reporting standards and that it should not drive the standard setting process.

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<sup>3</sup> Directive 2013/50/EC of the European Parliament and of the Council amending Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market

**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?*

5. Considering the potential use of the IFRS Taxonomy for electronic reporting (in the context of the ESEF) in Europe, ESMA believes that an appropriate public consultation process of taxonomy content changes is necessary to integrate new and amended standards into the IFRS Taxonomy and should be designed in the most efficient way to receive feedback from stakeholders. For that reason, we appreciate that the IFRS Foundation duly considers modalities for consulting on taxonomy content changes to ensure its well-functioning process.
6. The experience of publishing the proposed changes to the IFRS Taxonomy together with the Exposure Draft setting out the proposed amendments to IAS 7 *Statement of Cash Flows* seems to indicate that this procedure led to a significant increase in the number of responses. However, we acknowledge that proposing amendments to the IFRS Taxonomy at the time of the issuance of an Exposure Draft based on proposed amendments to the standards that are still subject to change could result in additional costs and be burdensome.
7. Therefore, ESMA preliminarily agrees with the suggested due process to only launch a public consultation on the *Proposed IFRS Taxonomy Update* after the release of a final standard. For example, in the case of complex standards, challenges might arise in the latest stage of the adoption process resulting in changes between the Exposure Draft and the final standard. In addition, numerous consultations might result in less interest of stakeholders in responding to them. However, ESMA recommends assessing after a certain time whether publishing the *Proposed IFRS Taxonomy Update* only with the final standard instead of together with the Exposure Draft has a detrimental impact on the number of comments received.

**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?*

8. Considering the DPOC's proposal that the publication of the IFRS Taxonomy Files should be an optional step, ESMA thinks that the expression 'where prepared' in

paragraph A33 would need to be clarified, as it is unclear in this paragraph under which conditions the *Proposed IFRS Taxonomy Files* are the subject of public consultation.

9. As the IFRS Foundation has been progressively shifting its focus from the technology to the IFRS Taxonomy, we believe it should clarify whether, despite this shift in focus, it still intends to have some form of control over the technological implementation of the IFRS Taxonomy.
10. ESMA holds the opinion that the *IFRS Taxonomy Files* can have a very beneficial role for the implementation of structured electronic reporting and therefore urges the IFRS Foundation to continue to provide the *IFRS Taxonomy Files* and to subject them to the necessary scrutiny and to a regular consultation process in order to ensure their good functioning in practice. Therefore, ESMA considers it opportune that the *IFRS Taxonomy Files* are publicly consulted and field tested to ensure their quality and robustness.

**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?**

11. We have no further comments.