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Dear Olivier

**Due Process Handbook for XBRL Activities**

Thank you for the opportunity to comment on the Due Process Handbook for XBRL Activities. The Department of Accounting and Finance at the Birmingham Business School has recently formalised an ongoing interest in digital reporting for a group of staff. Members of the *Information Systems and Accounting Research Group* (web page under construction) have recently completed studies on XBRL for the ICAEW and the ACCA and have previously undertaken research for the ESRC into internet reporting supply and usage. As well as providing a forum for our research activities, the Research Group is a base for co-ordinating and facilitating responses to invitations to comment and to organise and participate in other 'knowledge exchange' opportunities such as seminars.

We believe that the IASC Foundation's leadership in providing IFRS taxonomies is vital for the wider adoption of both IFRSs and XBRL. We hope you find our comments constructive and we are happy to explore any of the points with you in more depth.

Yours sincerely,

Dr. Joanne Locke  
for the Information Systems and Accounting Research Group

## INTRODUCTION

The Information Systems and Accounting Research Group (ISARG) has included feedback on the items identified in the request for comments, but has also addressed five other issues we consider to be of concern. For clarity the responses to the questions are listed first and the additional comments follow.

## QUESTION 1- EVALUATION AND ALIGNMENT

We agree that evaluation is a descriptive term since the purpose of the XBRL team does not currently include the development of XBRL technologies. In relation to the term ‘alignment’ there are two types of taxonomies to consider. First is the core IFRS Taxonomy and second is the taxonomy extensions required to meet industry needs.

### *Core Taxonomy*

ISARG believes that it is important for the XBRL team to have a focus on producing core IFRS taxonomies that embody the IFRS bound volume. The mapping between the IFRSs and the Taxonomy is intended to be complete – that is - no concept is included in the Taxonomy unless it is in the standards and all concepts in the standards are represented in the Taxonomy. While this is not always straight forward in cases of disclosures required to meet the ‘true and fair’ requirement, this is the intention.

‘Alignment’ is defined as ‘a state of agreement or cooperation among persons, groups, nations, etc., with a common cause or viewpoint’ or ‘an adjustment to a line’ ([www.dictionary.com](http://www.dictionary.com)). This suggests agreement, but not the stronger relationship possibly intended. In information technology terms the process may be termed coding the requirements into the software (grammar in this case), The process could be more accurately titled ‘Coding IFRSs into the Taxonomy.’ One concern about this is that it implies a mechanical process that does not capture the sometimes subjective nature of representing complex concepts in the classification. Another possible term is the one used in paragraph 19; ‘incorporation.’ The title for Stage 2b would then be something like ‘Incorporation of IFRSs into the Taxonomy’.

### *Industry extension taxonomies*

The due process document is not intended to cover the creation and maintenance of industry extensions. However, it is timely and important to note that the adoption and implementation of IFRSs in XBRL tagged format will be jeopardised if standard industry extensions are not available. The IASC Foundation’s XBRL team is ideally placed to produce and maintain the extensions and so provide an authoritative source of IFRS extensions to provide the basis for comparability which is so important to the effective implementation of both IFRSs and XBRL. These extensions would be closely *aligned* to the IFRSs, but include concepts particular to specific industries, not currently represented in IFRSs.

## **QUESTION 2 – IASB INVOLVEMENT IN THE DUE PROCESS FOR XBRL ACTIVITIES**

The close relationship with the IASB is important to ensure the accuracy of the mapping of the IFRSs into the Taxonomy. As understanding of the implications of digital reporting develop, it will also be valuable for the IASB to gain insight into how they may best formulate standards to function in a digitized reporting environment. An ultimate goal should be for the relationship between the IASB, the IFRSs and the XBRL Taxonomy and Team to be so close that the IASB's authority attaches as much to the Taxonomy as to the bound volume standards.

## **QUESTION 3 – TAXONOMY DEVELOPMENT IN ALIGNMENT WITH THE IFRSs**

This question relates to the previous two questions. It is likely in the future that the question of whether standards based on a paper 'paradigm' should drive the digital representation of accounting standards will become redundant as the two converge as intimated at Question 2. In the meantime, it is important that the core IFRS Taxonomy is seen as a legitimate representation of the IFRSs because of the legal and institutional framework surrounding corporate report preparation based on IFRSs. So at this time maintaining that close link is important. It is also important as mentioned in our response to Question 1 that the implementation of the core taxonomy does not result in the need for every company to create extensions for anything but a minimal number of items. This means that industry extensions that are not as closely mapped to the IFRSs are also required.

## **QUESTION 4 – DRAFT TAXONOMIES**

The 'draft taxonomies' are assumed to be taxonomies that are not produced through the full due process since they only relate to exposure drafts of proposed IFRSs. Making such draft taxonomies available may have benefits for preparers and software vendors in the situation in which neither the final IFRS nor the Taxonomy is expected to change significantly. The XBRL team would need to explicitly warn those using the draft that it may change and ultimately all users would need to base their 'products' (software; instance documents) on the final version. The benefit to early adopters may therefore not outweigh the costs of producing draft taxonomies, especially when the Team's resources are stretched.

A consideration for the future is that producing draft taxonomies has the potential to prejudice the agreement on standards should digital reporting become dominant and where a minor change to an ED would need a fundamental change to a draft taxonomy.

## **QUESTION 5 – ADDITIONAL REPORTING COMPONENTS OUTSIDE IFRSs**

We believe that such information can be excluded as it is subject to the requirements of each filing agency (e.g. SEC). However, the Team's involvement with ITA project and

consultation with other groups (currently including the XAC and XQRT) could be useful in helping to co-ordinate and standardise such information.

## **QUESTION 6 – ANNUAL CYCLE**

In line with our comments about the draft taxonomies, the focus will be on the annual cycle of the bound volume and this should be the key requirement to be met. Difficulties may arise with jurisdictions that have year ends close to the production of the bound volume, but that is true with or without the need for a taxonomy. Where the resources are available to issue a revised taxonomy to incorporate a new IFRS it should be considered in the context of the significance of the standard and perceived demand. It should be noted that a decision to update the Taxonomy for a new standard before the annual cycle means that there is no stable use period guaranteed then for those reliant on the Taxonomy for analysis tools etc. This would put further pressure on careful versioning of the Taxonomy. A trade-off against the available resources and other demands will be necessary.

In the future the emphasis on the Bound Volume is likely to diminish as digital reporting becomes the norm.

## **QUESTION 7 – UNDERLYING CONSIDERATIONS**

Paragraphs 39 and 40 discuss the stakeholders in the IFRS Taxonomy development process and their needs are ‘identified’ in paragraph 43. The discussion of stakeholders is relevant in this question but is picked up in Question 10. The whole section titled ‘underlying considerations’ covers a range of points including the identification of investors in particular as the primary stakeholders of the Taxonomy and the application of general business, functional (stakeholders’ needs) and technology considerations. What is not clear is how these were established in line with the XBRL team’s mission.

### **Establishment of the ‘underlying considerations’**

If these are to form the framework which drives all the due process activities and decision making of the XBRL Team they need to be coherent and complete in relation to the mission.

There is a conflict in the mission at this point in the development of XBRL. The focus for the Team is on ‘consistent adoption and implementation’, and this is linked to the adoption and implementation of IFRSs (para 2). It is true that the two are linked, but the problem at the current stage of development is that for XBRL the stakeholders currently driving implementation are regulators and preparers (and as markets develop, software vendors become involved).

The IFRSs aim to satisfy the general purpose reporting needs of investors and creditors according to the Conceptual Framework. It is assumed that meeting the needs of investors will also meet the needs of creditors for general purpose reporting. While ultimately investors and creditors are the *de facto* primary stakeholders for the IFRS

Taxonomy, at this point they are unaware of XBRL and its implications. In terms of stakeholder consultation (including both the XAC and XQRT) and field trips non-investor representatives dominate. (See also Question 10).

The IASC Foundation has recently taken steps to increase investor representation potentially to reduce the perception that despite the emphasis on investors it was mainly accountants and preparers dominating standard setting (Cooper & Robson, 2006; Young, 2006). The difficulty in relation to an emerging technology combined with accounting standards is much greater.

This means that a significant effort is required to establish with global investor representatives (professional analysts and retail investors) what their business, functional and technological requirements are. At this point the XBRL Team have provided an initial view of the requirements, but there is no description of how these were established or the approach to be adopted to refine them as investors become more aware of the technology. This is not part of the regular due process procedure but is a strategic level activity which should be put in place to ensure that the due process is attuned to the needs of the stakeholders (see Locke, Lymer and Lowe, 2009).

While we wish to argue that a process of engagement with investors should be undertaken, we believe that two important factors have been omitted from the list of ‘underlying considerations’:

### ***Availability***

Paragraph 43 includes four functional needs attributed to stakeholders of the Taxonomy, but does not include ongoing open availability. We believe that this should be included as an ‘underlying consideration’ because it is absolutely essential that the Taxonomy is openly and freely available. In order to ensure that the instance document generated in 2008 can still be interpreted correctly in 2012 and beyond, that Taxonomy must continue to be available. Thus there is a need for an open repository with appropriate versioning to be maintained.

### ***Convergence***

The technical considerations specify an adherence to XII’s specifications. However, the interests of the stakeholders of the IASC Foundation’s XBRL team are likely to be best served by reducing the potential proliferation of XML based data standards in the business domain. An additional consideration that should be included is the impact of decisions on the potential for convergence with other standards. This is not antithetical to XII policies, but should be actively considered by XBRL team in consultation with their stakeholders.

### ***Naming***

The first two paragraphs (39 and 40) of this section are different in nature to the following four in this section. These two paragraphs discuss and define the stakeholders in the Taxonomy development (see Question 10). The remaining paragraphs set out more specific principles or criteria derived from approaches used by the IASB and XII and the

perceived interest of the primary stakeholder – investors (and creditors). We suggest that the heading on paras 39 and 40 could be changed to ‘Frame of Reference’ or ‘Identification of Stakeholders’ to indicate the broader nature of the decision guidance there and the remaining paragraphs could be titled ‘Decision Criteria’ as they are derived from the frame of reference and are more specific in nature. Note this would suggest that the last word in paragraph 41 should be criteria rather than considerations.

## **QUESTION 8 – ITA AND THE DUE PROCESS HANDBOOK**

The ITA project is important to harmonising taxonomy structures between major regulatory projects and in the longer term may have a role in data standards convergence mentioned above. The ITA presumably has its own due process arrangement for agreeing on the common approach to be adopted.

Since the ITA project can potentially influence the development of IFRS taxonomies, the relationship should be explicitly included in the due process handbook. We also note that Appendix 1.1 appears to show that the XAC will consider convergence with US-GAAP and Japan without reference to the ITA. This could be reconsidered when the consultation bodies are evaluated (2010).

## **QUESTION 9 – TRANSLATIONS**

At the XBRL conference in Madrid the process that has been developed by the Translation team was described. It was very well developed and despite the tremendous difficulty of the task – appeared to be working well. An important point is the connections between the work programmes of the XBRL and translation teams so that the ability of both teams to jointly deliver translated taxonomies is maximised. This is a matter of the working arrangement within the IASC Foundation. It may be worth including an explicit link in the process to formalise the expectation that the Teams will co-operate in a timely way to achieve as many translations as early as possible.

## **QUESTION 10 – STAKEHOLDERS**

Data standards are complex technologies constructed through socio-technical arrangements by people who may have competing and compatible interests and technology objects. It may often be difficult to isolate the interests of one particular group. In the response to Question 7 we briefly described the difficulties with giving primacy to investors as stakeholders. In response to this question we would like to expand on this to discuss the difficulty with identifying investor’s needs and the interlinked nature of even competing stakeholder’s requirements of the technology.

The main problem is that ‘investors’ are not a homogeneous group. Broadly they may be dichotomised into professional analysts and non-professional, retail investors. While the former group are trained and have access to sophisticated databases and data modelling techniques, retail investors are very diverse and may have capabilities similar to analysts or lack any clear investment decision making model (Maines & McDaniel, 2000).

Analysts have a platform from which to interact with the IASC Foundation's XBRL team – primarily through membership of the XAC. It is more difficult however to field test or consult with sufficient numbers of retail investors to understand their needs. One approach is to request the assistance of shareholder representative groups such as; the United Kingdom Shareholders' Association (UKSA), Euroshareholders, and the World Federation of Investors Corporations. Since retail investors are largely unaware of the issues surrounding XBRL – the difficulty is that until the data becomes available and issues start to emerge for such users their ability to identify their own interests are limited. It is vital that these difficulties are not used as a reason to not seek to engage with them however. It is also important to not simply rely on proxies (e.g. accountants acting as investment advisors) – since the presumption that these groups share a common understanding of their interests in the technology is unfounded. Research on their approaches to investment decision making suggest that there are significant differences between professional investment decision makers and retail investors (Maines & McDaniel, 2000; SRI International, 1987). References to some interesting studies, including one by ASIC, are listed at the end of this document.

Because the interests of all stakeholders are entangled with the technology, it may not always be clear cut whose best interest is being pursued in the medium term. For example the SEC lowered the legal liability on XBRL tagged data for mandatory submission for companies submitting tagged data for the first time. This reduces the reliability of the data and was the basis on which one of the Commissioners dissented from the decision, however, it may have been perceived as a necessary concession to facilitate the enrolment of filers into the system and in the longer term this would be in the best interest of investors. These sorts of trade-offs are unavoidable, but risky and must be evaluated carefully.

Ultimately if investors and creditors are to be the focal point, usability should mean usability to them, and not to those parties that are able to have more influence in the early stage of the development of the Taxonomies because of their vested interest and greater knowledge of the implications.

We suggest therefore that:

- The XBRL Team retain investors and add creditors as the primary stakeholders in the Taxonomy to maintain consistency with the conceptual foundation of the IFRSs,
- The Team should actively pursue engagement with a range of investor representatives so that the stakeholder input is real and the tendency to have others speak on behalf of investors (retail and professional) is minimised (this should be undertaken as soon as possible and could be linked in the future to the review of the XAC in 2010),
- The need for compromise between competing stakeholder interests be recognised in the due process document, from the perspective that this may be necessary in the short to mid-term to achieve outcomes in line with longer term investor interests,

- Any trade-offs between stakeholder groups in decisions made or discussion documents produced by the Team be explicitly identified and evaluated. This would be an important element in the cost/benefit analysis (see also additional points).

## **ADDITIONAL POINTS**

### **1. Mandatory stages in the due process**

There are five stages in the due process. The first four of them are explicitly described as mandatory, while the last one, publication and maintenance of the Taxonomy is not. As mentioned in the response to Question 7, the open publication of the taxonomies is fundamental to the successful implementation of XBRL for IFRSs. We suggest that all the stages be described as mandatory unless a case can be made by the Team to the IASC Foundation for a particular exemption in a specific situation.

### **2. Constant consistency with IFRSs**

Paragraph 42 (b) requires the Taxonomy to maintain consistency with IFRSs – this requirement should be modified in line with the outcome of the requirement discussed at Question 6 for either annual consistency with the bound volume or consistency with final issued IFRSs or including exposure drafts (not recommended).

### **3. Consultation**

To properly represent stakeholder interests, consultation is very important. We have recommended that the Team seek to consult with investor representatives about the decision criteria specified in 42 to 44 and that they should develop this relationship to enable them to obtain ongoing input on issues as they emerge.

The key bodies currently operating to provide systematic feedback to the Team are the XQRT (on technical matters) and XAC (on strategic issues). It is of concern that the Appendix to the document indicates that these two consultative committees are not expected to continue beyond the 2010 ‘expiry date’ built in when the committees were created. We suggest:

- A commitment to an ongoing, effective and open consultation process with stakeholders (beyond *ad hoc* liaison activities) be built into the due process of the Team in this document to allay concerns that after 2010 formalised consultation will ‘drop out’ of the due process, and
- A clear statement about how the consultation activities are to be evaluated and improved should be included as part of the due process handbook. This should include a statement demonstrating a commitment to inclusive representation of the heterogeneous stakeholder groups.

#### 4. Comment platform

Currently the comment platform for XBRL material is fragmented, with some requests appearing among IASB material (like this request for comments) and some accessible from the IASB/XBRL page. A more integrated and accessible platform is required to engage with investors and other stakeholders.

#### 5. Cost/benefit analysis

It is true that it can be difficult to explicitly 'value' costs and benefits to different stakeholders or even to a heterogeneous group like investors. However, it is likely that in seeking comments on proposals for architecture changes, for example, that it is possible to identify the ways in which particular choices deliver benefits to one group over another and to offer an 'impact statement' from the perspective of investors and creditors. This approach is beneficial in that it facilitates feedback from investors.

#### REFERENCES

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