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M. Olivier Boutellis-Taft, AcE
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Dear Olivier

XBRL International welcomes the opportunity to comment on the Accountancy Europe paper, *Interconnected Standard Setting for Corporate Reporting*.

In summary:

- We agree with the analysis and much of the prescription.
- We agree with and have some specific reinforcing comments regarding the importance of digital reporting and the need for high quality global XBRL taxonomies to be developed and maintained as a key part of this initiative. In particular:
    - A single set of high quality global NFI standards must be developed with accompanying taxonomies.
    - Having a single set of taxonomies to facilitate comparable NFI digital disclosures is almost as important as having a single set of standards.
- We agree that NFI standards setting needs to be on a global level to be and remain relevant. We are therefore supportive of Approach 1 set out in the paper, while recognising that this is a question for the IFRS Foundation Trustees and the Monitoring Group. A single NFSB body, operating under the same governance structure, monitoring framework and global foundation as the IASB makes eminent sense. Existing assumptions about the main users of financial and non-financial reporting must continue under this model.
- At the same time, it is more appropriate to harmonise and unite existing NFI standards than to attempt to create new standards from scratch. We agree with other commentators that it will take significant time to form a global NFI standards setter. We suggest that prioritising specific areas, such as first placing the TCFD framework into a new global standards setter, would be a useful way to start.
- Initially creating EU-specific standards under the NFRD would only be beneficial in the long term if their creation facilitated the alignment of existing relevant global NFI standards.

- The use of XBRL taxonomies to provide rigorous and granular disclosure models that can act as a foundation for collaboration should be considered in the context of that alignment.
- Implied in the paper is the importance of the accountancy profession in NFI reporting and assurance. We agree.

About XBRL International

XBRL International is the global not-for-profit standards development organisation that has developed, maintains and improves the XBRL specifications. Our purpose is to enhance transparency and accountability in business performance by providing global data exchange standards for business reporting. Our specifications are freely licensed and are an important part of the fabric of reporting in more than 60 countries around the world for securities, financial and business regulators, as well as tax authorities and a host of other reporting functions. There is a large ecosystem of expertise, software and services that exists to support this standards-based shift from "paper to data".

The XBRL standard is content neutral. It is the *de facto* technical standard used by standards setters to digitise their disclosure rules and facilitate machine and human-readable digital reporting where paper or PDF was previously used. In Europe, the ESEF mandate commenced on 1 January 2020 to require the production of annual financial reports in Inline XBRL going forward. ESEF is an EU framework and other areas of analogue reporting – such as Non-Financial Information (NFI) can be digitised in this manner.

Defining the Problem

We believe that the paper succinctly and correctly summarises the issues associated with implementing effective corporate reporting. The sheer number of different NFI frameworks and standards is self-defeating. Questions associated with forum shopping, or at least forum diversity, are well put. The resulting lack of comparability means that investors and other decision makers need to rely on ESG proxies rather than accurate and independently reviewed disclosures from reporting companies.

Global Scope Required

We strongly agree with the view expressed in the paper that this work needs to be addressed at a global level. Quotes in the paper from the IFAC 2019 report and Corporate Reporting Dialogue Chair Ian Mackintosh are self-explanatory.

There is a clear need for a global scope to NFI standards and reporting. In addition to the arguments made in the paper, we would like to add that there is a very real risk that a different approach would lead to:

- the compartmentalisation of reporting in different countries or regions;
- uneven or inappropriate adoption mechanisms;

- lack of comparability, and therefore *a lack of trust overall* in different regional or national implementations by investors and other users.

In other words, NFI disclosure standards seek to reinforce existing reporting arrangements. They will only be successfully used in decision making if they are globally consistent and fully comparable.

We are also of the view that while reaching consensus around global standards for NFI will take time, commencing with this effort now is both realistic and urgent.

Integrating the now widely known TCFD framework into a new global standard overseen by a global NFI standards setter could be a useful place to start. Various key NFI standards initiatives contributed to and then integrated the TCFD, and major regulators and policy makers seek to adopt it. This broad familiarity with the TCFD could make it a useful starting point. Further, carbon related financial disclosures are arguably the most urgent aspect of NFI, and present a quantifiable metric with which to begin.

A Lengthy Process

While TCFD standards might be a useful starting point, all those involved in corporate reporting must expect that reaching the necessary consensus around other aspects of NFI will take a significant amount of time. In some fields relevant best practices are still being developed and require ongoing experimentation. In others, reaching consensus between existing divergent standards and frameworks will be a lengthy and likely expensive process. In others, even where there is useful work in place, the steps involved in making new disclosure ideas "stick" will take a significant amount of time across the global community.

One aspect raised by the paper that will certainly take time is any shift from "shareholder protection" to "stakeholder protection". While there have been major announcements (eg: from the Business Roundtable) internationally about the transition to stakeholder capitalism, the process of bringing this about is a long one. High quality reporting involves aligned incentives and commonly understood needs.

Existing financial standards setting and securities regulation ground rules require that standards and reporting primarily support investment and credit provision, while still being useful for other stakeholders. This approach will, and likely should, hold true for many years. New material risks associated with reputation and market conduct, the measurement of intangibles and the impact of climate change all, more or less automatically, ensure the financial relevance of a range of new reporting approaches.

Therefore, "Approach 1", creating truly interconnected reporting under the auspices of an expanded group of IFRS trustees, and existing monitoring arrangements, with the IASB and an NFSB under them, can still be carried out with the existing (investor first) philosophy for many years. We are supportive of this proposal, while fully recognising that this is a question for the IFRS Foundation Trustees and the Monitoring Group.

Implied in this model is the assumption that standards setting remains a voluntary and private sector international initiative, which reporting policy and rule makers can apply in the design of relevant reporting mandates.

Digital Reporting

Every major securities regulator, including ESMA, the SEC, the JFSA, UK FCA and a host of others have moved or are currently moving to shift financial reporting onto a digital footing, mandating the use of Inline XBRL for reporting. Financial reporting suffers from competing financial standards setting. While the differences are largely well understood, the costs imposed on investors and other stakeholders associated with this failure to converge is not. In many respects the lack of comparability between different financial reporting standards is thrown into sharp relief by the shift to digital reporting.

Failure by policy makers to adopt a single set of high quality global *and digital* NFI standards would be highly undesirable.

The solution Accountancy Europe has recommended would harness the existing IFRS taxonomy, connecting a new NFI taxonomy or taxonomies[1] to the already available IFRS taxonomy.

XBRL is a widely used global standard for the digital transformation of reporting. It can be freely licensed by anyone. It is used by regulators around the world to implement different reporting requirements across nearly 200 mandates in 60 countries. More than 20 million companies report to their regulators using the XBRL standard every year. It is developed and managed by XBRL International, a not-for-profit organisation made up of members drawn from both the public and private sectors.

It is worth explaining some of the key features of an XBRL taxonomy:

- Taxonomies provide a machine and human readable definition of all of the reporting concepts used in a related field.
- Concept definitions include links to authoritative reference literature (such as hyperlinks to the underlying paragraph of the reporting standard).
- Concept definitions cover any kind of disclosure – numeric, monetary, physical, scientific, text and even graphics.
- Concept definitions include labels that might be used in disclosures.
- Those labels can take account of different situations (labels used in headings, labels used as captions, labels used for positive values, labels used for negative values etc)
- Summary descriptions of each concept are also generally included.
- Labels can (and usually are) created in multiple languages.
- The relationships between concepts are captured in taxonomies, as are the dimensional structures used in reporting.

[1] In this context, it is important to differentiate between an XBRL taxonomy and the EC's ESG taxonomy. An XBRL taxonomy is a machine readable, standards-based set of fine-grained disclosure definitions that model a normative set of reporting requirements. For example, the IFRS taxonomy models each of the disclosure requirements contained in the IFRSs. On the other hand, the EU's ESG Taxonomy is a sustainable finance tool developed by a Technical Expert Group to help investors make decisions about the relative carbon, environmental and societal impact of different investment vehicles.

To demonstrate, the attached image of an Inline XBRL document contains a viewer (on the right-hand side) that helps users understand the manner in which a report has been marked up with concepts defined in a taxonomy. The selected language is English, but because this example uses ESMA's ESEF taxonomy, it is possible to see the relevant labels in 23 different languages.

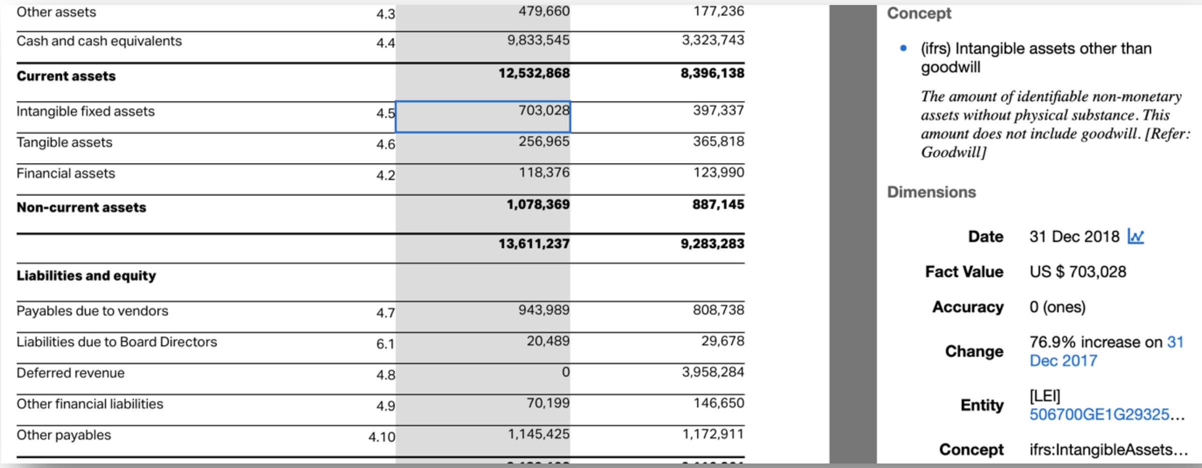

Figure 1 - Excerpt from 2018 GLEIF Annual Report (click image to explore more).

The IFRS Foundation has developed, over more than a decade, relevant skills and processes to allow the creation and maintenance of the IFRS taxonomy concurrent with the creation and maintenance of its disclosure standards.

Similarly, and in support of the proposals set out within the paper, we encourage the embedding of this "taxonomy modelling" capability within the ongoing development of NFIs under the proposed NFSB.

We recommend that the solution includes building a global taxonomy to facilitate comparable, useful NFI disclosures in Inline XBRL. It is essential that a single taxonomy and framework is developed to ensure data is properly comparable and decision-useful.

If a single taxonomy is not developed, and instead multiple taxonomies are used for different jurisdictions, international comparability for data on these global issues will be severely affected.

As a hypothetical example, if Japan and the EU independently modelled the TCFD framework and created identical reporting elements, but published them independently inside their own taxonomies, the level of comparability would be immediately impaired.

A human can quickly discover that EU:GHG-ELEMENT1 is the same as JP:GHG-ELEMENT1. Computers are rather more literal, so would treat facts marked up with the two different tags as being entirely unrelated. The example is unrealistic, as in all likelihood the disclosure elements would be modelled in different ways within different regional settings, making comparison significantly more complex.

To summarise:

1. A single set of high quality global NFI standards must be developed with accompanying taxonomies.
2. Having a single set of taxonomies to facilitate comparable NFI digital disclosures is almost as important as having a single set of standards.

EU-specific Standards

Naturally, given the policy priorities of the European Union, some thought must be given to the potential for there to be EU-specific standards (and an accompanying taxonomy) in relation to NFI.

We are strongly of the view that this would only be sensible in the event that this was used as a mechanism to build global co-ordination and collaboration amongst existing major NFI standards organisations. Initiatives outside of the EU, such as environmental reporting efforts in Japan and the standards developed by the SASB, must not be overlooked.

It may be that Europe seeks to adopt TCFD relatively quickly, while providing a longer timeframe for other NFI mandates. This, clearly, would be manageable, although again we note the importance of a single global accompanying taxonomy.

Collaboration Process – A Taxonomy Registry

The process of bringing together different standards is, as previously identified, complex and time consuming. The XBRL community has significant experience in this area, including within multi-year efforts, such as the Dutch SBR initiative.

The use of XBRL taxonomies for modelling and harmonising existing standards may prove effective. XBRL taxonomies could provide a starting point for rigorously modelling existing standards. Following this, it would then be possible to collaboratively discover and add connections between different existing NFI models. This could be an effective method to compare, contrast and in many cases harmonise existing standards. We would be happy to provide additional information.

Role of the Accounting Profession and Audit

We agree that the accountancy profession has a significant role to play in relation to reporting of all kinds. We note that through the use of consistent and thoroughly developed disclosure standards in any field, internal and external reporting professionals within the enterprise (public or private) provide a level of professional discipline and rigour that may not always otherwise be evident.

Accountancy professionals are generally best placed to develop disclosure procedures and controls that will provide accurate, reliable, consistent and comparable information. Equally, in due course, independent external auditors have an important role to play in relation to NFI, in terms of the overall corporate governance that will be necessary to ensure the decision-usefulness of interconnected reporting.

We note that accountants and auditors should be thinking, from the outset, about ways that digital disclosure with Inline XBRL can enhance reporting processes, rather than treating digitised reporting as a compliance burden.

Digitised reports - particularly “native digital” reports that are a by-product of the internal reporting processes that exist within an organisation, clearly make consumption by a wide range of stakeholders simpler and more accessible. That includes peer comparison and benchmarking to help management understand their relative performance.

Digital reports can simplify, review and expand the controls universe available to auditors for audit and/or assurance purposes. Professionals in this field should be thinking of the many ways digital reports can enhance their roles as a new era of interconnected reporting arrives.

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This paper has been developed by the XBRL International ESG Task Force, with input from a range of volunteer members and staff. My particular thanks go Juan Carlos Rodriguez, of Reporting Standard and Ashok Patel of DFIN Solutions. By its nature it may not represent the consensus view of the Board of XBRL International or its standards making governance bodies.

We would be pleased to discuss this subject further with you or your colleagues in due course.

Yours sincerely

John Turner
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XBRL International, Inc