

STAFF PAPER

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IASB® meeting

Project	Management commentary		
Paper topic	Feedback summary—Overview		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

Purpose of paper

- 1 The papers for this meeting summarise feedback on the International Accounting Standards Board (IASB)'s proposals for a revised Practice Statement on management commentary (Practice Statement), as set out in the Exposure Draft Management Commentary (Exposure Draft).
- 2 This paper provides an overview of the feedback received on the proposals, as well as a discussion plan for the topics covered in other papers.

Structure of paper

- 3 The paper includes:
 - (a) the background to the project (paragraphs 5–10);
 - (b) an overview of engagement (paragraphs 11–16);
 - (c) an overview of the key messages in the feedback (paragraphs 17–38); and
 - (d) a discussion plan (paragraphs 39–42).

- 4 An appendix to this paper explains how we have quantified feedback received on the proposals.

Background

- 5 Management commentary is a report prepared for an entity's investors to complement the entity's financial statements. It helps explain the amounts reported in those financial statements and it gives management's insights into factors that could affect the entity's prospects.

Note on terminology—investors

- The Exposure Draft used the term 'investors and creditors' to refer to the primary users of an entity's general purpose financial reports as defined in the *Conceptual Framework for Financial Reporting*—existing and potential investors, lenders and other creditors.
- For simplicity, the agenda papers use the term 'investor' to refer to those primary users and to analysts and other professionals acting on their behalf.

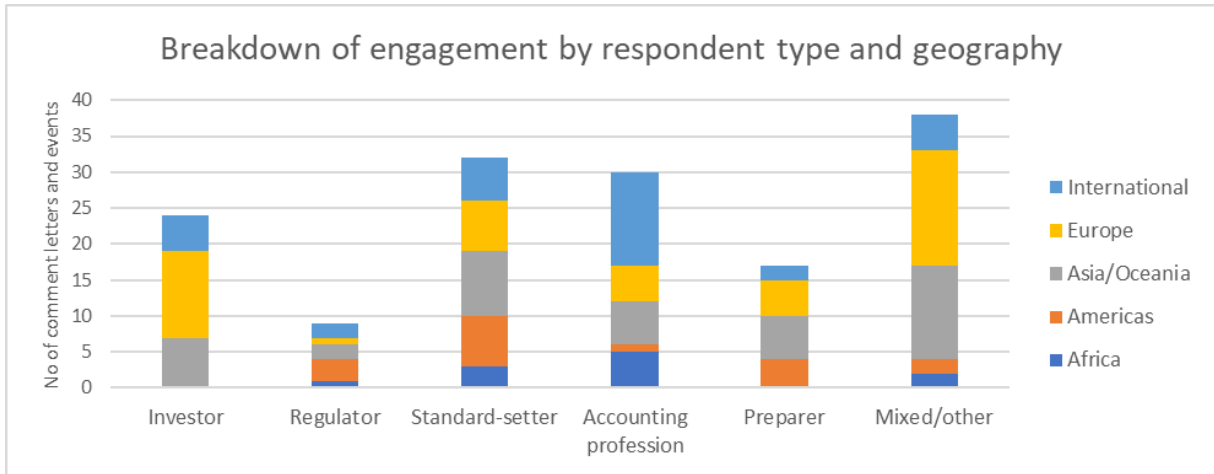
- 6 IFRS Practice Statement 1 *Management Commentary* provides guidance to assist entities in preparing management commentary. However, since the IASB issued the Practice Statement in 2010, investors' information needs have evolved. The IASB's research indicated that management commentaries do not always provide investors with the information they need. In particular, management commentaries sometimes:
- (a) fail to focus on matters that are important to the entity's prospects;
 - (b) contain too much generic information with not enough entity-specific information; and
 - (c) provide insufficient information about:
 - (i) matters that could affect the entity's long-term prospects;
 - (ii) the entity's intangible resources and relationships; and
 - (iii) environmental, social and governance (ESG) matters affecting the entity.

- 7 There have also been multiple innovations in narrative reporting introduced by national standard-setters and other bodies such as the International Integrated Reporting Council (IIRC, now Value Reporting Foundation) and the Task Force on Climate-related Financial Disclosures.
- 8 Building on these innovations, the IASB aimed to develop a comprehensive set of requirements and guidance that would enable entities to bring together in management commentary the information investors need to enhance their understanding of the entity's financial statements and to assess an entity's long-term prospects.
- 9 The IASB's objectives-based proposals were designed to provide both:
- (a) sufficient flexibility for an entity to be able to tell its unique story, focusing on what is important to the entity's long-term prospects; and
 - (b) an effective basis for regulators to enforce the Practice Statement and for auditors to assess compliance with it.
- 10 The Exposure Draft was published before the announcement of the creation of the International Sustainability Standards Board (ISSB). However, the Exposure Draft asked respondents to comment on matters relating to sustainability reporting that the IASB should consider in finalising the Practice Statement.

Overview of engagement

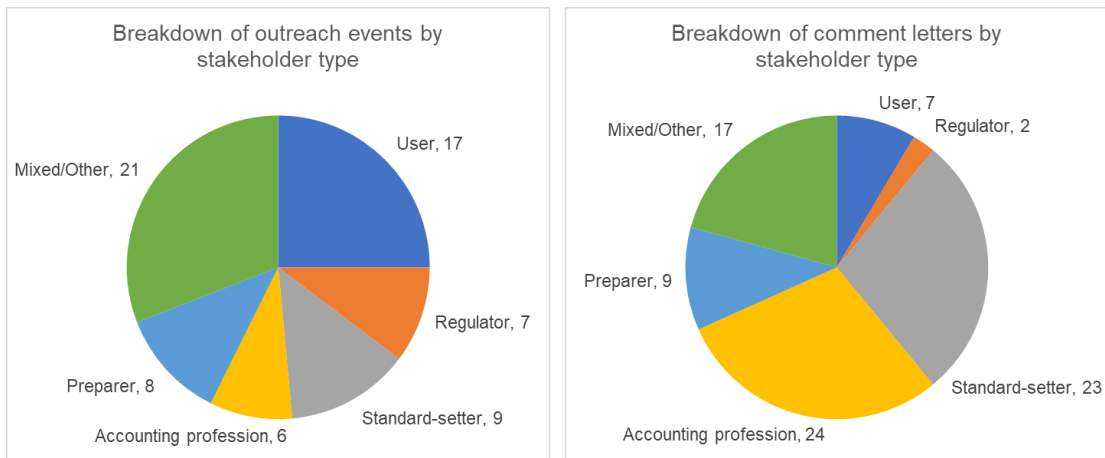
- 11 The IASB received feedback on its proposals from both outreach events and comment letters. In some cases, the stakeholders that submitted a comment letter had also participated in an outreach event. The appendix to this paper explains how we quantified the feedback received.
- 12 The graph below provides a snapshot of engagement with stakeholders on the proposals in the Exposure Draft, consisting of:
- (a) 68 outreach events; and

(b) 82 comment letters (all available on our [website](#)).



Engagement by stakeholder type

13 The pie charts below provide a breakdown of outreach events and comment letters by stakeholder type:



14 During the comment period, IASB members and staff attended 68 meetings and events, mostly virtual, with respondents across different stakeholder types, including:

- (c) 17 investor-focused events;
- (d) seven meetings with regulators;
- (e) nine meetings with standard-setters; including:
 - (i) a meeting of the Accounting Standards Advisory Forum (ASAF);
 - (ii) a meeting of the Emerging Economies Group (EEG);

- (iii) a panel discussion at the World Standard Setters conference;
 - (iv) five meetings with national standard-setters;
 - (v) a meeting with the Integrated Reporting Committee of South Africa.
- (f) six meetings with representatives of the accounting profession, including:
- (i) four meetings with accounting firms;
 - (ii) two meetings with accountancy bodies.
- (g) eight preparer-focused events; and
- (h) 21 other events; including:
- (i) six webinars and educational events organised by the IASB;
 - (ii) 12 events organised in conjunction with national standard-setters or accountancy bodies for a mixed audience including users, preparers and accounting professionals;
 - (iii) two academic workshops; and
 - (iv) a meeting with the International Auditing and Assurance Standards Board (IAASB).

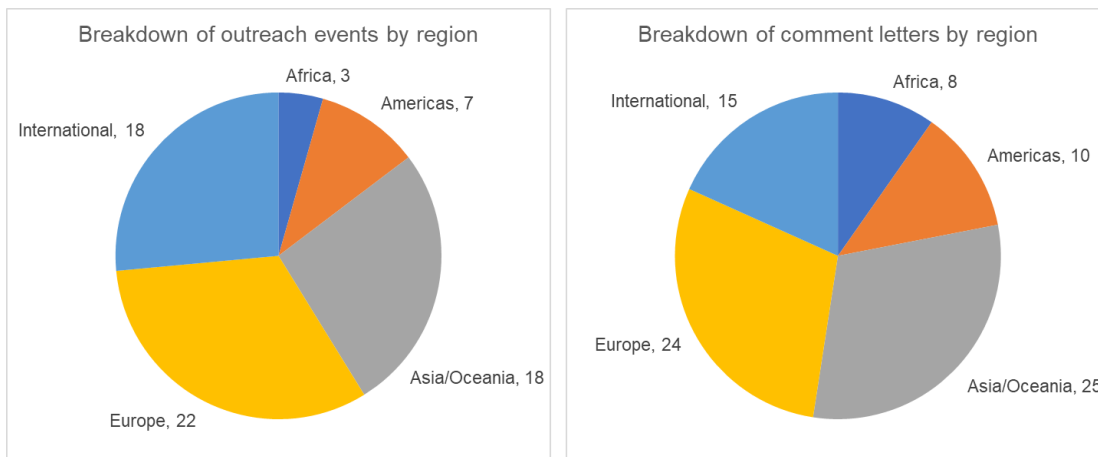
15 The IASB received 82 comment letters from:

- (a) seven investors;
- (b) two regulators;
- (c) 23 standard-setters, including:
 - (i) 17 accounting standard-setters; and
 - (ii) six standard-setters focused on integrated or sustainability reporting;
- (d) 24 representatives from the accounting profession; including:
 - (i) seven accounting firms;
 - (ii) 17 accountancy bodies;
- (e) nine preparers;

- (f) 17 other respondents, including:
 - (i) five academics;
 - (ii) eight individuals;
 - (iii) two intellectual property specialists;
 - (iv) one statistical agency; and
 - (v) one environmental consultancy.

Engagement by geography

16 The pie charts below provide a breakdown of outreach events and comment letters by geographic region:



Overview of key messages

The need for the project

17 Many respondents, including almost all investors, commented on the need for the project and expressed support for the work of the IASB to develop a new comprehensive framework on management commentary that would address investors’ information needs. A few of the respondents who did not support the focus on investors’ information needs did not support the project and suggested using the

IIRC’s International Integrated Reporting Framework ([<IR> Framework](#)) as a basis for ‘connected reporting’¹.

Interaction with sustainability reporting

- 18 Most respondents commented on the interaction between the Management Commentary project and the future work of the ISSB. Most of these respondents highlighted the need for connectivity between the boards and urged the boards to work together on the Management Commentary project.

- 19 Many of those who called for connectivity between the IASB and the ISSB suggested that the project should be paused until the ISSB is operational and its remit is clear, there is more clarity on the relationship between the boards and their future requirements or until the ISSB progresses its work on its first standards.

- 20 However, a few respondents argued that the project should progress while the ISSB developments are taking place. In addition, many investors emphasised that they do not only seek better information on sustainability-related matters, but also improvements on other aspects of management commentary.

Purpose and status of the final document

- 21 Some respondents commented on the most appropriate status for the final document and expressed various views. Specifically, respondents suggested issuing it as a non-mandatory practice statement, a non-mandatory framework on management commentary, a standard or an overarching framework for what was commonly described as ‘connected reporting’.

Objective of management commentary

- 22 Most respondents commented on the proposed objective of management commentary. Most of these respondents supported the proposed objective. A few respondents

¹ See paragraphs 58 to 61 of Agenda Paper 15A *Feedback Summary—Project Direction*

recommended improvements, including explicitly referring to providing information for investors to assess management’s stewardship of the entity’s resources.

- 23 Some respondents disagreed with the proposed objective because they disagreed with the focus on investors’ information needs or the concept of value creation set out in the Exposure Draft. Many of these respondents indicated that the <IR> Framework would better meet their preferred reporting objective.

Focus on investors’ information needs

- 24 Most respondents commenting on the proposed objective of management commentary supported the focus on investors’ information needs. Some respondents, mainly academics and standard-setters focused on integrated or sustainability reporting, suggested addressing the information needs of a broader range of stakeholders.

Value creation and future cash flows

Most respondents commenting on the proposed objective of management commentary supported the concept of value creation as set out in the Exposure Draft. Some respondents suggested taking a broader view of value creation or emphasised that the entity’s ability to create value for itself is dependent on its ability to create value for others. Some respondents also suggested that the guidance on value creation should be more closely aligned with concepts in the <IR Framework>.

Management’s perspective

- 25 Respondents commenting on management’s perspective, including almost all investors, emphasised the importance of management’s perspective in the identification of information, especially metrics, for inclusion in management commentary.

Objectives-based approach

- 26 Most respondents commenting on the proposed objectives-based approach—including the investors and regulators commenting—supported the proposal that the approach should be objectives-based rather than prescriptive, and said they thought that the

proposed approach would provide a suitable and sufficient basis for management to identify information that investors need.

- 27 However, some respondents said they thought management might find it difficult (at least initially) to identify the information needed to meet the disclosure objectives, due to the extent of judgement required, or that information provided solely on the basis of disclosure objectives would be less comparable than information provided to satisfy more prescriptive requirements.
- 28 Respondents, including accounting firms, expressed mixed views on whether the proposed objectives-based approach would provide a suitable and sufficient basis for assurance and enforcement. Some respondents made suggestions on how the proposed approach could be strengthened.

Disclosure objectives and areas of content

- 29 There was broad support for the proposed areas of content and for the disclosure objectives proposed for those areas of content, with investors stating that these objectives correctly identify their information needs. However, some respondents suggested adding ‘governance’ as a distinct area of content, or incorporating explicit requirements for governance-related information throughout requirements for areas of content.
- 30 Many respondents commenting on the three-tier structure of the disclosure objectives—including almost all of the investors commenting—supported the design. However, many others—including most of the preparers commenting—expressed concerns about it, their main concern being that the proposed structure would be complex and burdensome for preparers of management commentary to understand and apply. Some respondents suggested simplifying the structure by eliminating the assessment objectives or merging them with the specific or headline objectives.

Commercially sensitive information

- 31 A few investors expressed concern that the flexibility of the proposed objectives-based approach could allow management to avoid disclosing material unfavourable or entity-specific information, by claiming the information is commercially sensitive or

confidential. In contrast, some other respondents—mainly national standard-setters—suggested creating an exception permitting entities to omit commercially sensitive information from management commentary.

Key matters and material information

- 32 Most of the respondents commenting on the proposal to require management commentary to focus on key matters—including all the investors commenting—supported the proposal. However, many suggested the IASB needs to clarify the way in which the proposed requirement to focus on key matters interacts with the requirement to provide material information.

Metrics

- 33 Almost all respondents commenting supported the non-prescriptive approach to selecting which metrics to report. A few respondents suggested that a stronger emphasis should be given to management’s view and a few others disagreed with the proposed requirement for management to consider methods of calculating metrics that are commonly used by other entities with similar activities. In contrast, some investors emphasised the importance of comparability between metrics reported by similar entities.
- 34 Almost all respondents supported the proposed requirements for reporting and presenting metrics. A few respondents suggested improvements to the proposed requirements and guidance.

Long-term matters, intangible resources and relationships and ESG matters

- 35 Most of the respondents commenting on the proposed requirements and guidance on these topical matters fully or broadly agreed that the proposals would provide a suitable and sufficient basis for reporting material information about these matters.
- 36 The respondents that disagreed with the proposed focus on investors’ information needs also disagreed that the proposals would provide a sufficient basis for reporting on these matters. A few other respondents suggested other reasons for disagreeing

with the proposals, including that reporting on these matters should be addressed in a more focused and conceptually sound manner in the main body of the document.

Attributes of useful information

37 Many respondents commented on the proposed requirements for information in management commentary to possess particular attributes (for example, completeness, balance and accuracy) and guidance to help preparers of management commentary identify and present information with those attributes. Almost all respondents commenting expressed broad support for the proposals. However, some respondents suggested that the attributes should be referred to by the same terms as are used for the qualitative characteristics of financial reporting described in the IASB’s *Conceptual Framework for Financial Reporting*.

Statement of compliance

38 Most respondents supported the IASB’s proposals on statements of full or partial compliance to be included in the management commentary. However, some respondents argued that due to the non-mandatory nature of the practice statement, it should be up to local regulators to decide whether a statement of compliance should be required or permitted.

Discussion plan

- 39 At this meeting we are providing feedback summaries on:
- (a) the project direction, including the need for the project, interaction with sustainability reporting and the purpose and status of the final document (Agenda Paper 15A);
 - (b) investor feedback (Agenda Paper 15B);
 - (c) the IASB’s proposals for:
 - (i) the objective of management commentary, including the focus on investors’ information needs, the concept of value creation and management perspective (Agenda Paper 15C);

- (ii) an objectives-based approach, including whether such an approach is capable of being operationalised and enforced (Agenda Paper 15D);
- (iii) disclosure objectives and areas of content (Agenda Paper 15E); and
- (iv) key matters and material information (Agenda Paper 15F).

40 During the meeting, we will discuss each agenda paper in turn. We are not asking the IASB to make decisions during the meeting. However, in each paper, we ask IASB members to comment on any feedback that was unclear, that provides new information, or that needs further research.

41 At a future meeting, we will provide further feedback summaries on the IASB’s proposals for:

- (a) disclosure objectives and supporting examples;
- (b) completeness, balance, accuracy and other attributes;
- (c) guidance on making materiality judgements;
- (d) metrics;
- (e) reporting on long-term prospects, intangible resources and relationships and ESG matters;
- (f) identification, authorisation and statement of compliance; and
- (g) effective date and effects analysis.

42 The staff expects to ask the IASB to consider a path forward for this project in Q2 2022, after the IASB has discussed the feedback on the Exposure Draft at its March and April 2022 meetings.

Question for IASB members

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Do you have any questions on this overview?

Appendix—Quantifying feedback

A1 In this and other agenda papers we use the following terms to quantify feedback:

Term	Description
Almost all	All except a very small minority
Most	A large majority, with more than a few exceptions
Many	A small majority or large minority
Some	A small minority, but more than a few
A few	A very small minority

A2 The IASB received feedback on all aspects of the Exposure Draft. However, not all respondents commented on all aspects of the Exposure Draft. When using the terms described in paragraph A1 to quantify respondents’ comments on an issue, these terms are, unless otherwise stated, defined by reference to the number of respondents who commented on that issue.

A3 References to ‘respondents’ refers to all stakeholders who commented, either through comment letters or during outreach meetings.

A4 Throughout this and other agenda papers, we have identified areas for which we received different messages from specific stakeholder groups or from specific geographic regions. Where we do not mention particular stakeholder groups or geographies, this means there was not an identifiable pattern to the responses from different stakeholder groups or from different geographic regions.