
Management Commentary Consultative Group

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This paper has been prepared for discussion at a public meeting of the Management Commentary Consultative Group (MCCG). This paper does not represent the views of the International Accounting Standards Board (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*.

Format of the session

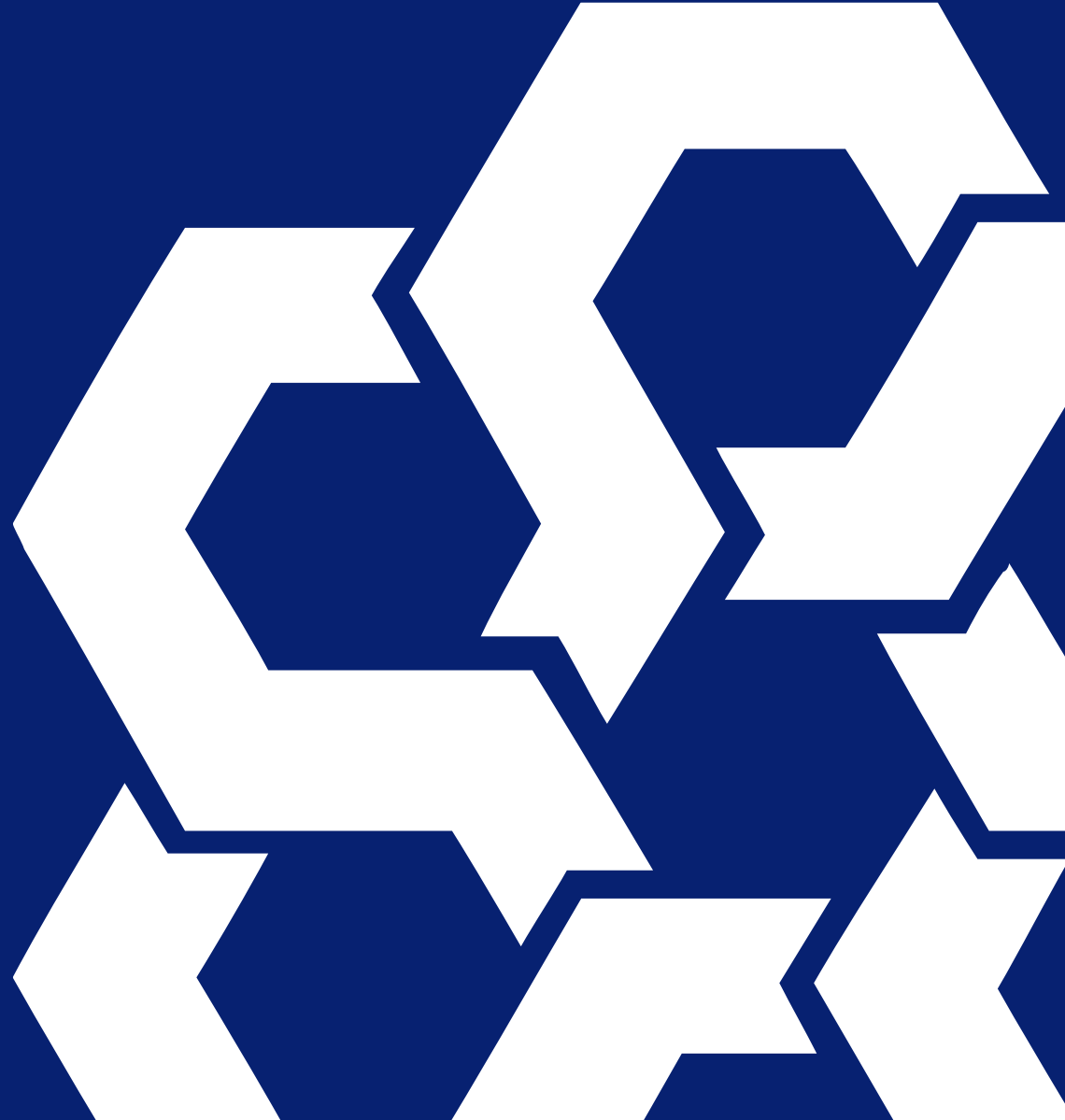
- Welcome and update on the Management Commentary project (plenary session)
 - Breakout group discussions of the way forward on the Management Commentary project (closed session)
 - Report back on breakout discussions and closing remarks (plenary session)
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The purpose of the meeting is to seek input from MCCG members and observers to inform the IASB's decision on the direction for the Management Commentary project.

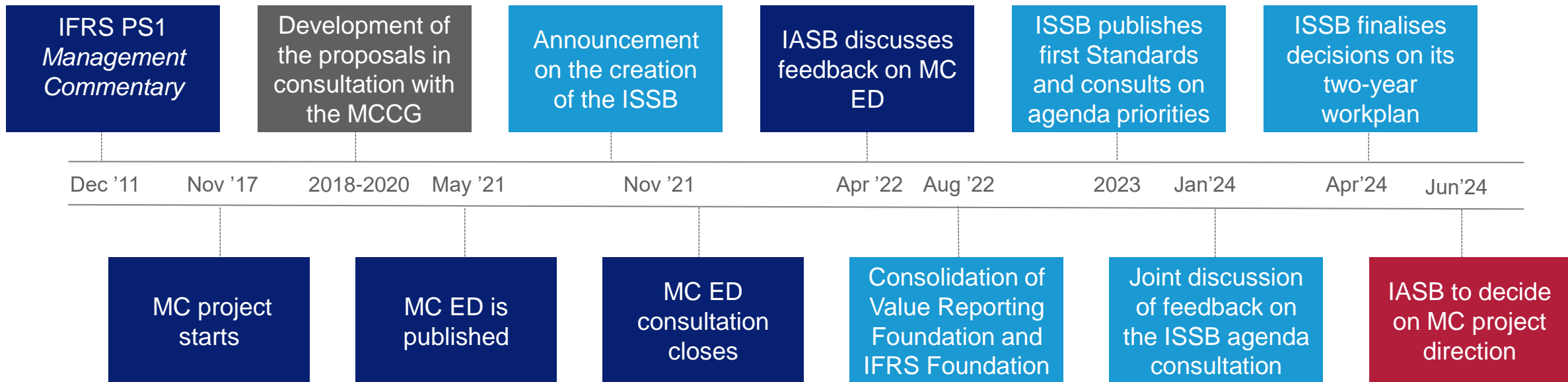
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Where we are today



Where we are today



Recap of project background



What is management commentary?

- A narrative report required in many jurisdictions
- Part of general purpose financial reports
- Known under various names such as management report, strategic report, operating and financial review, MD&A
- Preparation is subject to local laws and regulations
- IFRS Practice Statement 1 *Management Commentary* dates back to 2011

Annual reporting package

A diagram showing the components of an annual reporting package. It consists of a dashed-line box containing four stacked horizontal bars. The top bar is red and contains the text 'Management commentary'. The three bars below it are dark blue and contain the text 'Sustainability-related disclosures', 'Financial statements', and 'Other required information' respectively.

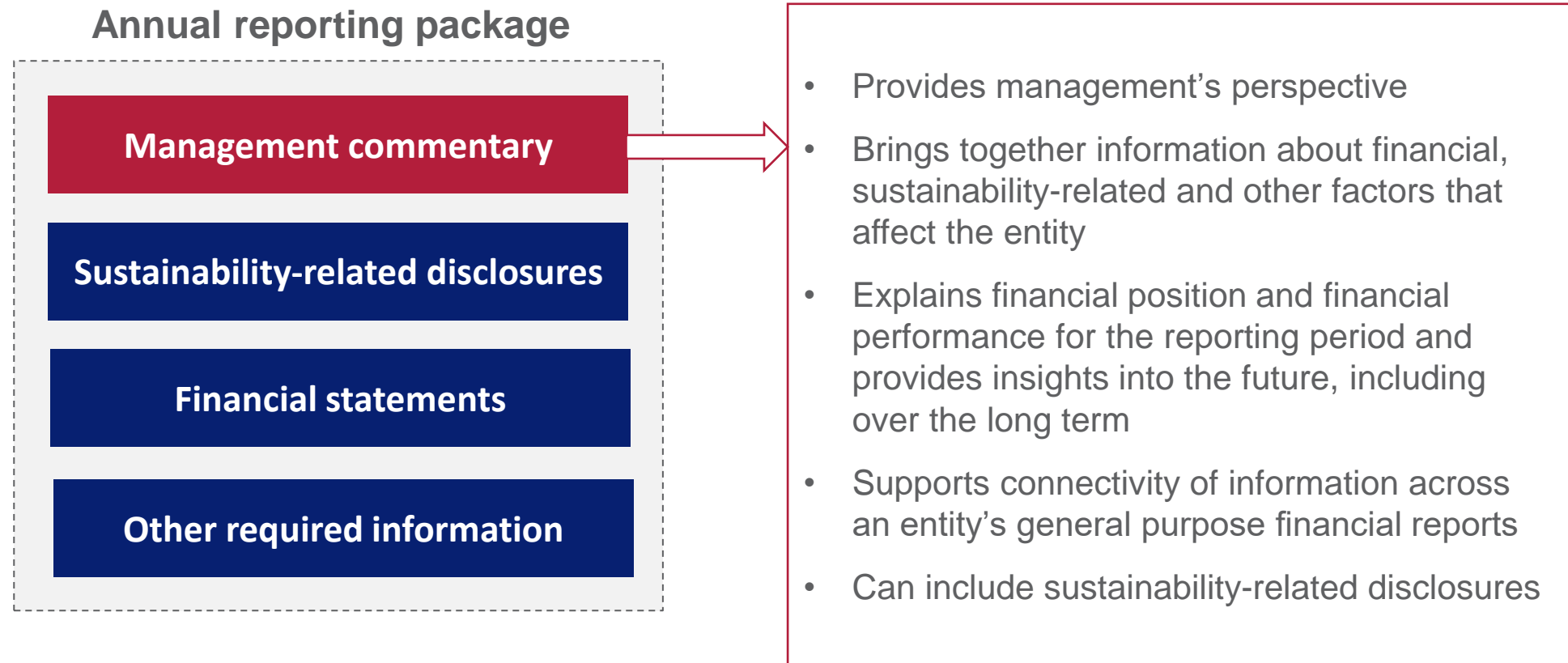
Management commentary

Sustainability-related disclosures

Financial statements

Other required information

What role does management commentary play?



In the IFRS *Conceptual Framework*, the term 'management' refers to management and the governing board.

What did the IASB set out to deliver?

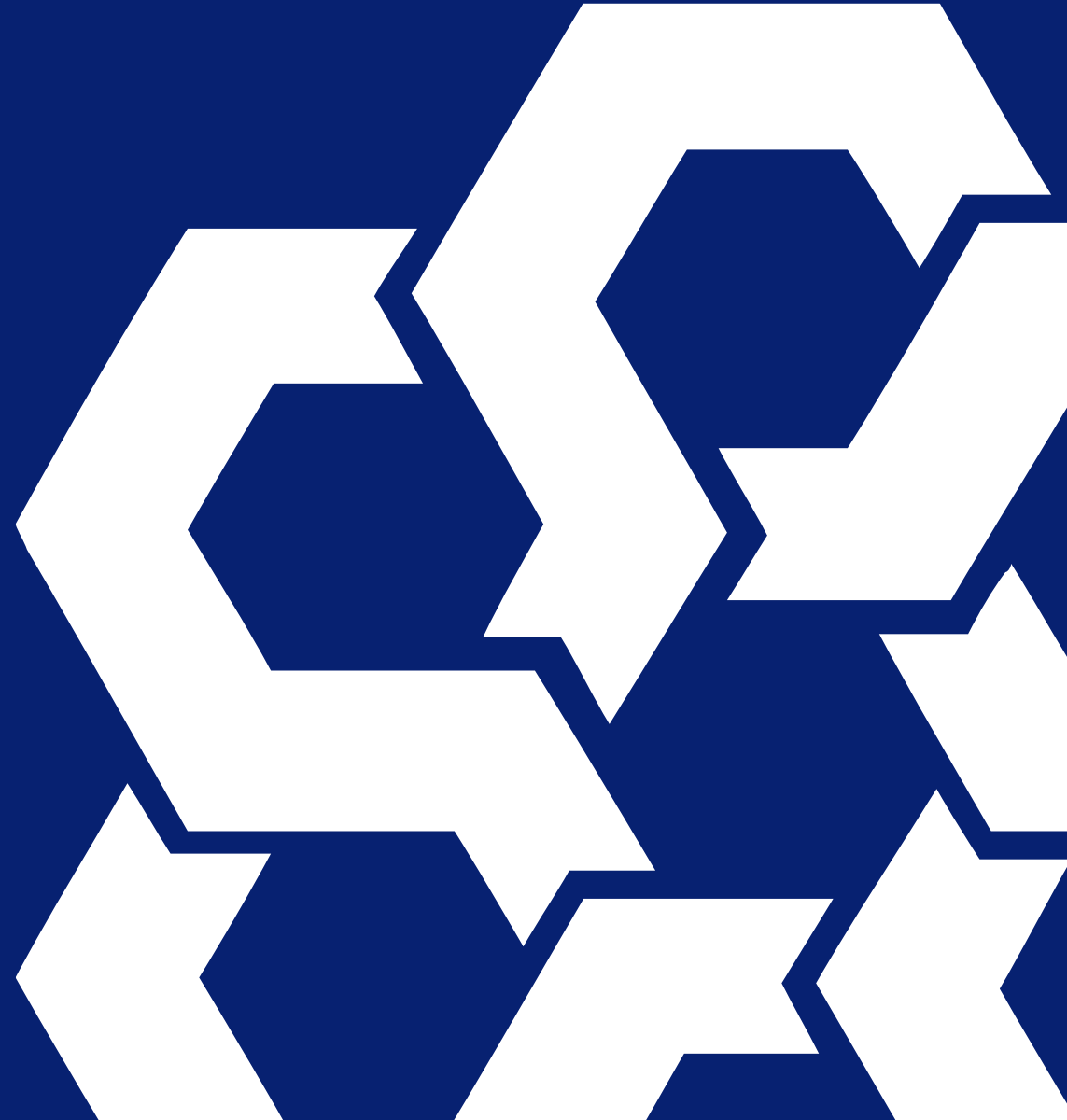
Investors call out shortcomings in practice

- Lack of focus on what is important
- Generic boilerplate information
- Short-term perspective
- Insufficient information about intangible resources and sustainability matters
- Fragmented and disjointed information
- Difficulty in comparing information period-on-period and between entities
- Incomplete or unbalanced information

The IASB's proposals

- Target identified shortcomings in practice
- Build on innovations in narrative reporting and national requirements
- Designed to be compatible with requirements for sustainability reporting
- Focus on promoting coherence in reporting (connectivity)
- Designed with enforcement in mind
- Provide a comprehensive up-to-date toolkit available for regulators to adapt or adopt

Recap of proposals and feedback



Recap of proposals—Objectives-based approach

An objectives-based approach

Objective of management commentary

Disclosure objectives for areas of content and supporting examples

Requirements and guidance for selecting and presenting information

Focus on key matters

Appendix relating to information about matters affecting a company's long-term prospects such as ESG matters and intangibles

Feedback on proposals—Objectives-based approach

Broad support for the objectives-based approach

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.

Mixed feedback on assurability and enforceability

- Respondents expressed mixed views on whether the proposed approach would provide a suitable and sufficient basis for assurance and enforcement.
- A few investors expressed concern that the flexibility of the proposed approach could allow management to avoid disclosing material information by claiming it is commercially sensitive.

Recap of proposals—The objective of management commentary

Management's perspective

Enhance investors' understanding of the company's financial statements

what has affected the company

Provide insight into the company's ability to create value and generate cash flows

what might affect the company in the future, including in the long-term

Supporting explanations

Complementary role

Material information

Investor focus

Management's perspective

Cash flows and value creation

Long-term horizon

Feedback on proposals—The objective of management commentary

Support for objective with its focus on investor needs

Most respondents supported the proposed objective. Some respondents disagreed with the focus on investors' information needs and indicated that the Integrated Reporting Framework would better meet their preferred reporting objective.

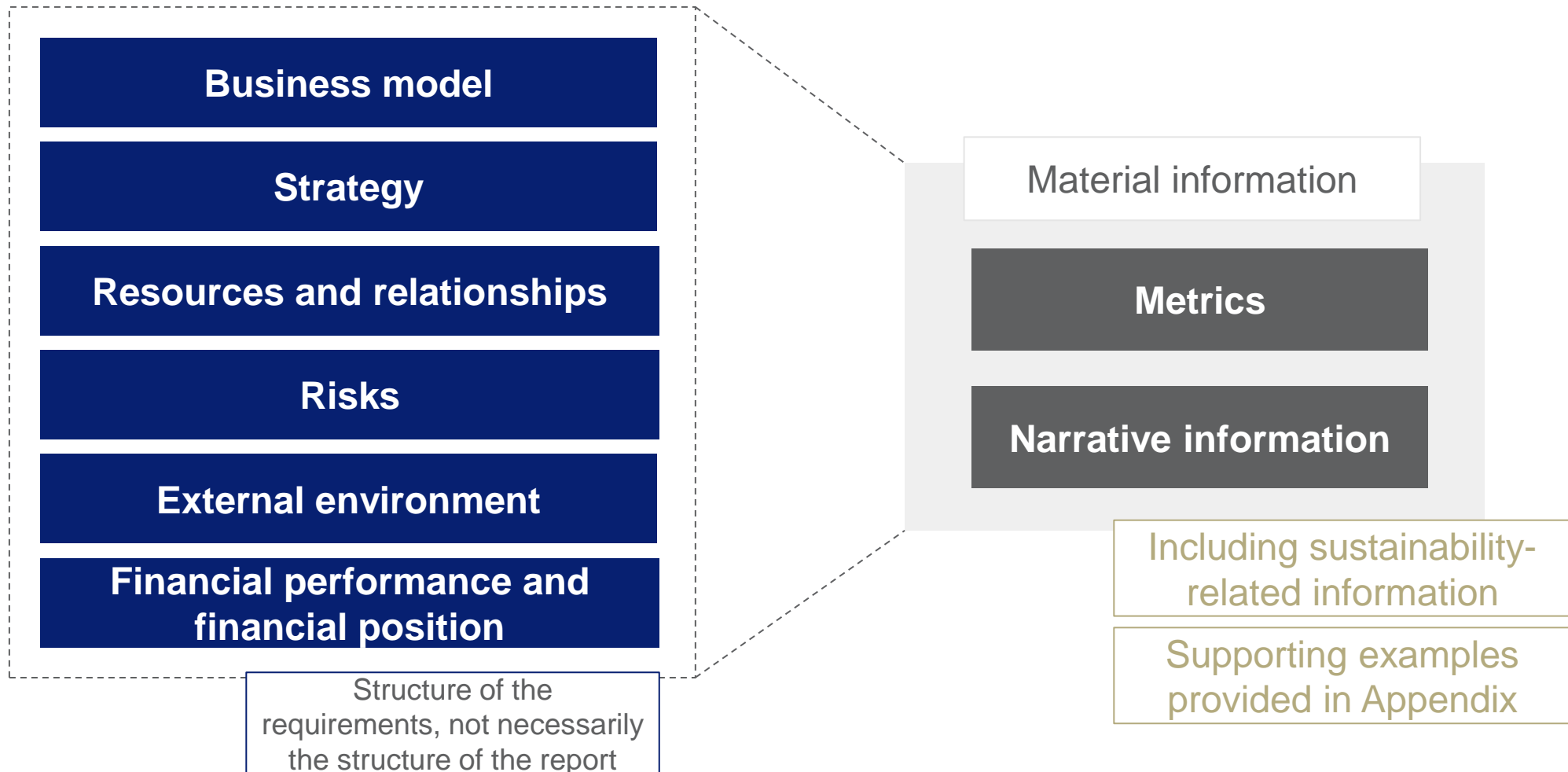
Support for the concept of value creation

Most respondents 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 company's ability to create value for itself is dependent on its ability to create value for others.

Importance of management's perspective

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.

Recap of proposals—Areas of content and disclosure objectives



Recap of proposals—Areas of content and disclosure objectives

Focused on investor information needs

Headline objective

Assessment objectives

Specific objectives

Designed to help entities identify and provide useful information

Anchored in a company's ability to create value and generate cash flows



Business model

Strategy

Resources and relationships

Risks

External environment

Financial performance and financial position

Feedback on proposals—Areas of content and disclosure objectives

Broad support for proposed areas of content

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.

Calls for adding ‘governance’

Some respondents suggested adding ‘governance’ as a distinct content area or incorporating explicit requirements for governance-related information throughout requirements for content areas.

Mixed feedback on three-tier structure of disclosure objectives

Many respondents commenting on the three-tier structure of the disclosure objectives supported the design. However, many others expressed concerns that the proposed structure would be complex and burdensome for preparers of management commentary to understand and apply.

Recap of proposals—Materiality and key matters

The concept of materiality

Embedded in the objective of management commentary

Consistent with materiality for financial statements

Anchored in investors' assessments and decisions

Making materiality judgements

Consideration of nature and magnitude of a matter

Need to be reassessed for each reporting period

Guidance on consideration of uncertain future events, including those in the long term

Guidance on aggregation

Toolkit to help identify material information

Focus on key matters

Disclosure objectives and supporting examples

Indications that information might be material

Requirements and guidelines on sustainability reporting can help identify material information

Recap of proposals—Materiality and key matters

Focus on key matters

Fundamental to the company's ability to create value and generate cash flows, including in the long term

Likely to be monitored and managed by management

Likely to be pervasive and relate to more than one content area

Might include significant sustainability-related risks and opportunities

Key features of business model

Key aspects of strategy

Key resources and relationships

Key risks

Key factors and trends in external environment

Key aspects of financial performance or financial position

Feedback on proposals—Materiality and key matters

Support for investor-focused materiality	Most respondents supported the proposals for an investor-focused materiality consistent with what is used for information included in the financial statements.
Support for guidance on making materiality judgements	Most of the respondents commenting on the proposed guidance on making materiality expressed broad support for the guidance or questioned only specific aspects of it.
Support for focus on key matters	Most respondents supported the proposal to focus on key matters.
Calls to clarify interaction between requirements for key matters and material information	Many respondents 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.

Recap of proposals—Metrics

Relate to all areas of content

measures used to monitor a quantitative or qualitative aspect of a company's financial or non-financial performance or position

Management's perspective

No specific metrics are prescribed

Can relate to significant sustainability-related risks and opportunities

Can be drawn from requirements and guidelines on sustainability reporting

Business model

Strategy

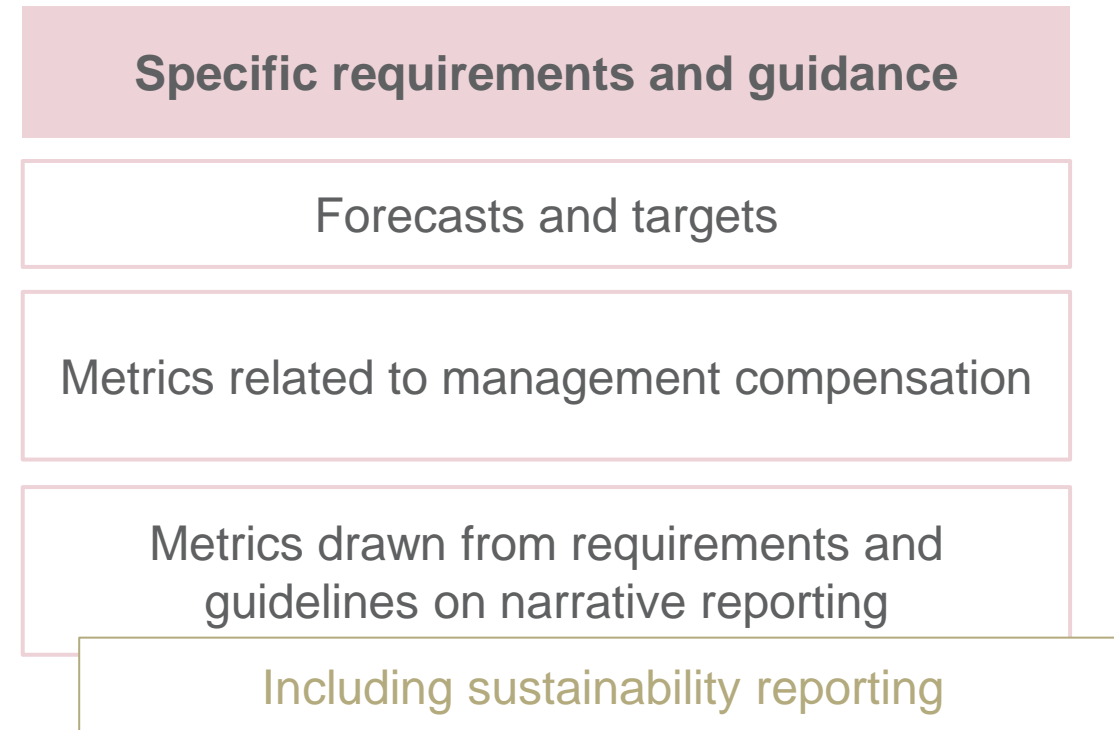
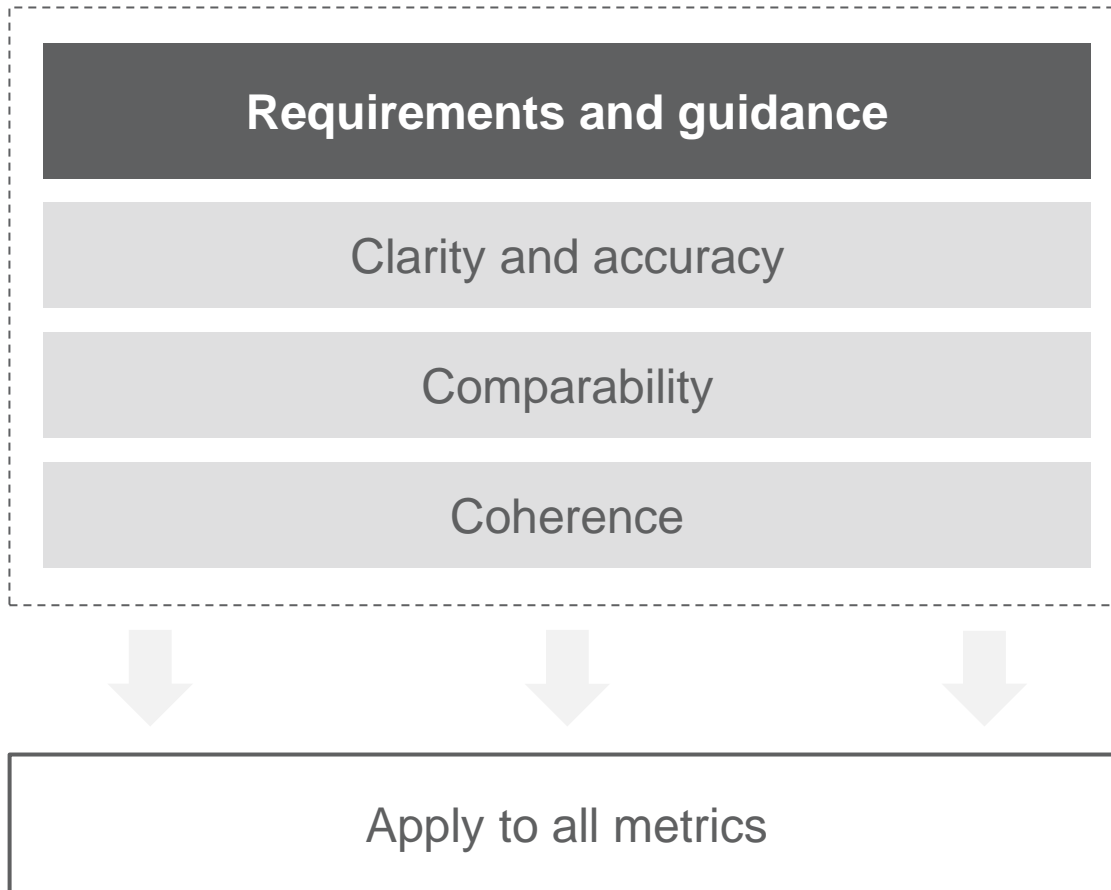
Resources and relationships

Risks

External environment

Financial performance and financial position

Recap of proposals—Metrics



Feedback on proposals—Metrics

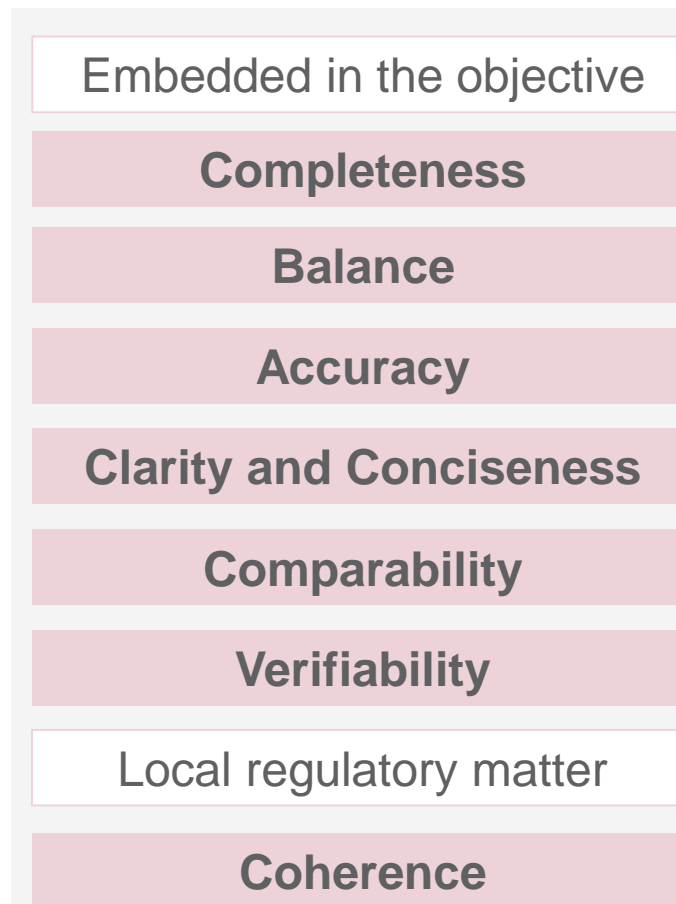
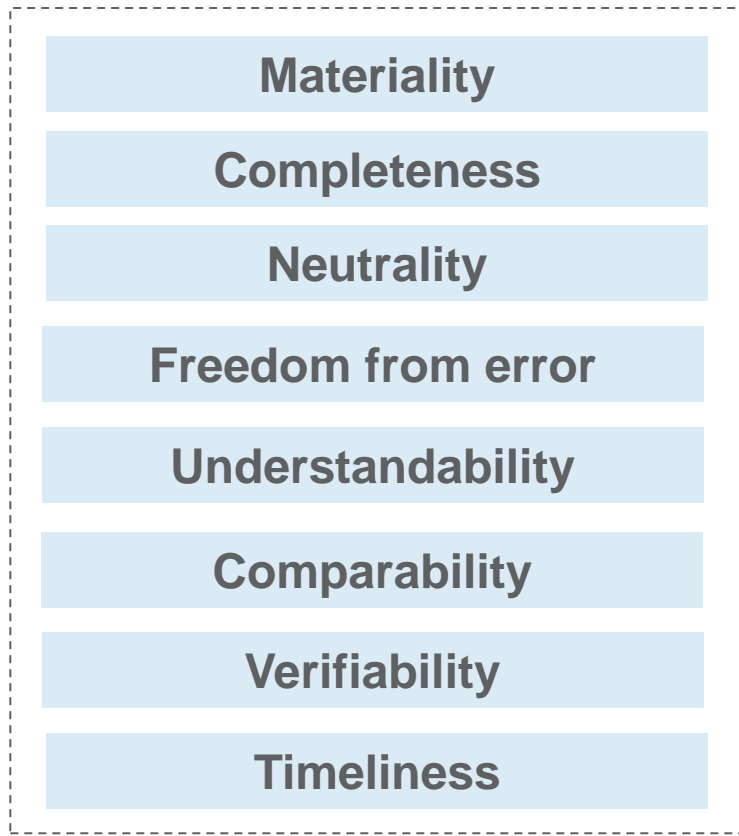
Support for the non-prescriptive approach to selection of metrics

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 perspective.

Support for requirements and guidance on reporting metrics

Almost all respondents supported the proposed requirements for reporting metrics.

Recap of proposals—Attributes of useful information



- Based on the qualitative characteristics set out in the IASB's *Conceptual Framework for Financial Reporting*
- Simplified terminology
- Additional guidance
- The attribute of coherence

Recap of proposals—The attribute of coherence

Designed to promote an interconnected narrative

Focuses on enabling understanding of the connections between pieces of information

Supports completeness, understandability and comparability of information

Coherence within management commentary

- include information that is necessary to understand relevant implications of a matter
- provide relevant context and explain relationships between related pieces of information

Coherence across the company's reports

- provide information in a way that allows investors to relate that information to the entity's financial statements
- explain apparent inconsistencies with other information provided by the entity in its publicly available communications

Feedback on proposals—Attributes of useful information, including coherence

Support for the proposed attributes and supporting guidance

Many respondents commented on the proposed requirements for information in management commentary to possess particular attributes and guidance to help preparers identify and present information with those attributes. Almost all respondents commenting expressed broad support for the proposals.

Concerns about simplified terminology

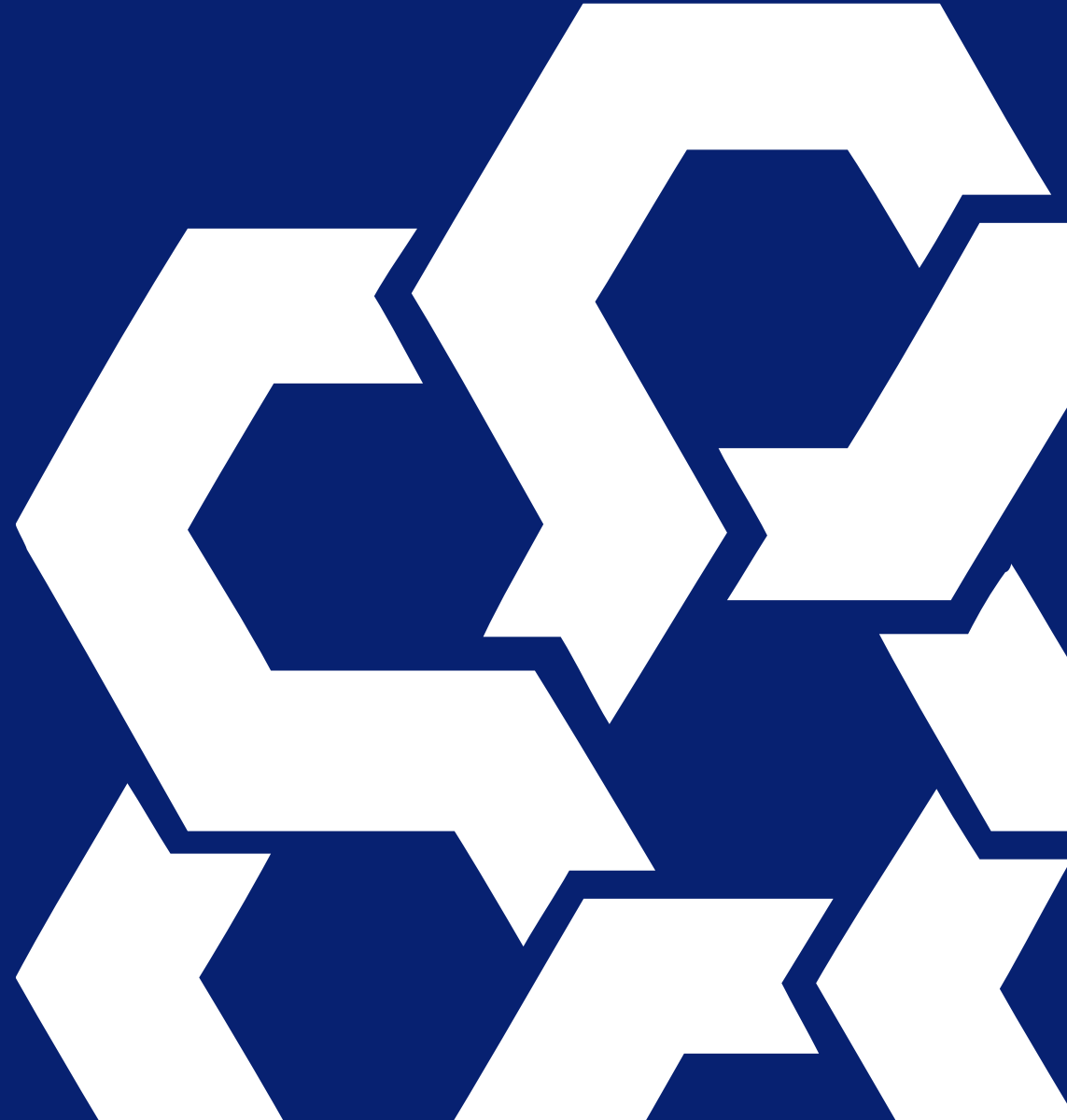
Some respondents suggested that the attributes should be referred to by the same terms as are used for the qualitative characteristics of financial reporting described in the IASB's *Conceptual Framework for Financial Reporting*.

Support for the attribute of coherence

Broad support for the proposals, with a few respondents highlighting that coherence is particularly important for investors, asking to give it more prominence or suggesting using the term connectivity instead.

See March 2022 IASB [Agenda Paper 15 Feedback summary—Overview](#) and April 2022 IASB [Agenda Paper 15D Feedback summary—Completeness, balance, accuracy and other attributes](#)

The evolving landscape



Feedback—Evolving landscape

Investors strongly support the project

- Almost all investors emphasised the importance of high-quality management commentary. Many respondents, including almost all investors, expressed support for the work of the IASB to develop a new comprehensive toolkit on management commentary that would address investors' information needs.
- Many investors emphasised that, in addition to better information on sustainability matters, they seek improvements on other aspects of management commentary.

Most respondents asked for connectivity between the IASB and ISSB

Most respondents commented on the interaction between the project and the future work of the ISSB. Most of them highlighted the need for connectivity between the boards and asked the boards to collaborate on the project. Many of them asked for the project to be paused until the relationship between the boards is clear and ISSB progresses the work on its first Standards.

Alignment with the Integrated Reporting Framework

Some respondents suggested refinements to various proposals, including a closer alignment with aspects of the Integrated Reporting Framework.

ISSB Consultation on Agenda Priorities—Connectivity

Request for Information

- Identified connectivity between ISSB's and IASB's respective requirements as a foundational activity which forms part of the ISSB's committed work and is at the core of the ISSB's other activities
- Sought input on the strategic direction and balance of the ISSB's activities but did not ask a question on core activities such as connectivity or the types of work that should be prioritised as part of the connectivity activities

Feedback

- Some respondents commented on connectivity as a core activity and others in discussing integration in reporting and indicated support for connectivity:
- Some highlighted its important role in providing decision-useful information and encouraged the ISSB and IASB to collaborate to achieve that
 - A few suggested specific areas for collaboration, including the Management Commentary project

ISSB decisions

- Confirmed focus on connectivity with the IASB as an activity that is integral to all of the ISSB's work
- Did not specify the level of focus on connectivity but decided to reserve resources to allow for flexibility for any necessary activities that arise, including engaging with and supporting the IASB on its projects and activities, as necessary.

ISSB Consultation on Agenda Priorities—Integration in reporting

Request for Information

Sought input on a relative priority of three potential sustainability-related projects and a potential project on integration in reporting, including whether that project should:

- be prioritised in the ISSB’s next two-year work plan
- be a joint project with the IASB or an ISSB-led project which could still draw on input from the IASB
- build on the Exposure Draft *Management Commentary*, the Integrated Reporting Framework and other sources

Feedback

- Diverse views about what the project would entail and the intended reporting outcomes
- Most respondents did not rank the project as a higher priority compared to the sustainability-related projects at this time
- Almost all respondents supported collaboration between the boards
- Most respondents supported building on the Exposure Draft *Management Commentary* and on the Integrated Reporting Framework

ISSB decisions

Prioritised sustainability-related projects on biodiversity, ecosystems and ecosystem services and human capital, noting:

- the ISSB supports the use and adoption of the Integrated Reporting Framework
- the Management Commentary project aims to bring about improvements to reporting
- collaboration between the boards can take various forms
- the ISSB will continue to monitor developments on the topics not added to the work plan

Spotlight—the Integrated Reporting Framework

Part of the materials of the IFRS Foundation following the consolidation with the Value Reporting Foundation

Initial joint staff analysis of the similarities and differences between the Exposure Draft *Management Commentary* and the Integrated Reporting Framework highlighted:

- management commentary and integrated report have similar objectives, providing investors with insights for assessing an entity's prospects, although in some jurisdictions integrated reports can be adapted to meet information needs of other audiences
- both documents incorporate similar principles and notions of value creation and give prominence to an entity's 'resources and relationships' or 'capitals'
- requirements on most topics should result in similar information in the reports even though the way in which the requirements are specified and presented can be different, with the Integrated Reporting Framework emphasising the key notions to be applied and the Exposure Draft *Management Commentary* providing standard-like specificity
- key differences relate to disclosures on governance and on the basis of preparation of the report or can arise from different interpretations of the term 'management'

[April 2023 IFRS
Advisory Council
meeting](#)

[April 2023
Integrated Reporting
and Connectivity
Council meeting](#)

[May 2023 IASB
meeting](#)

Alternatives for the project direction



Alternatives for project direction

Alternative 1—Finalise

- Preserve the work to date in the light of the broad support for the proposals
- Targeted enhancements, with limited resources required to finalise
- IASB-led drawing on input from the ISSB as needed
- Supports the provision of high quality information, including connectivity in reporting
- Available for regulators in reviewing or updating local requirements

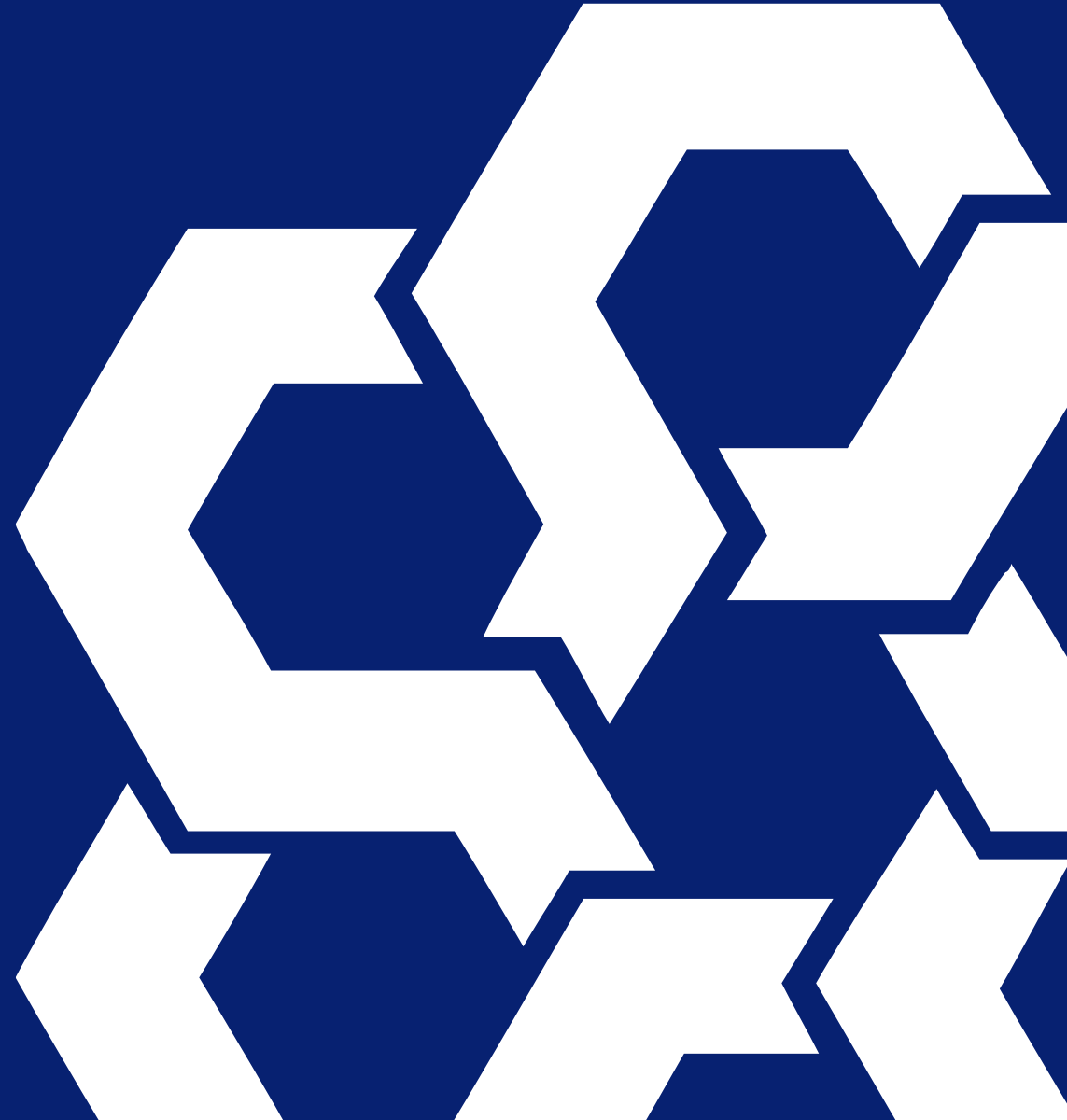
Alternative 2—Keep on hold

- Seek additional input from stakeholders, for example, as part of the next IASB Agenda Consultation
- Monitor developments in the reporting landscape before deciding the project direction
- May hinder the ability of jurisdictions and entities to benefit from the work to date
- Consider retiring the 2011 Management Commentary Practice Statement

Alternative 3—Retire

- If incremental likely costs to finalise are judged to exceed incremental likely benefits of completing the project
- May hinder the ability of jurisdictions and entities to benefit from the work to date
- Consider retiring the 2011 Management Commentary Practice Statement

Questions for MCCG members and observers



Questions for MCCG members and observers

1. In your view, what are the advantages and the disadvantages of the alternatives for the direction of the Management Commentary project?
2. If the Management Commentary project is finalised, what advice would you give to the IASB in determining the scope of work? In particular, are there any essential refinements that you think should be considered in the light of the evolving reporting landscape?
3. If the Management Commentary project remains on hold or is abandoned, what effect in your view would that have on the provision of decision-useful information for capital markets?
4. What advice would you give to the IASB in determining the direction for the project?

Appendix—Disclosure objectives per area of content



Business model

Information investors need...

Headline objective

...to understand

- how the company's business model creates value and generates cash flows

Assessment objectives

...to assess

- how effective the company's business model is
- how scalable and adaptable it is
- how resilient and durable it is

Specific objectives

...to understand

- the range, nature and scale of operations
- the cycle of creating value and generating cash flows
- impacts of the company if enterprise value relevant
- progress in managing the company's business model

Sustainability-related example

A drink producer provides information about a water-stressed site that it operates and the regulatory conditions it must meet to continue operation (paragraph B.3.6).

Strategy

Information investors need...

Headline objective

...to understand

- management's strategy for sustaining and developing the company's business model

Assessment objectives

...to assess

- how effective the strategy is likely to be in developing the company's ability to create value and generate cash flows
- management's ability to implement the strategy

Specific objectives

...to understand

- drivers of strategy, including opportunities pursued
- milestones towards aims
- plans to reach milestones
- financial resources required to implement strategy
- progress in implementing strategy

Sustainability-related example

A manufacturing company provides information about the strategy for moving to less environmentally damaging methods of production in response to changing customer requirements (paragraph B.3.9).

Resources and relationships

Information investors need...

Headline objective

...to understand

- the resources and relationships on which the company's business model and management's strategy depend

Assessment objectives

...to assess

- the extent to which business model and strategy depend on particular resources and relationships
- the company's ability to obtain the resources and maintain the relationships needed

Specific objectives

...to understand

- the nature of the company's resources and relationships
- how resources are obtained and relationships maintained
- factors that could affect the availability of resources
- progress in managing resources and relationships

Sustainability-related example

A battery manufacturer provides information about a scarce natural resource which its production cycle depends on and for which there is no viable alternative (paragraph B.3.2).

Risks

Information investors need...

Headline objective

...to understand

- risks that could disrupt
 - company's business model
 - management's strategy
 - resources and relationships

Assessment objectives

...to assess

- the extent of the company's exposure to risks
- how effectively management monitors and manages the exposure to risks

Specific objectives

...to understand

- the nature of the risks the company is exposed to
- the company's exposure to those risks
- how risks are monitored
- how management will mitigate disruption
- progress in managing risks

Sustainability-related example

An engineering consultancy provides information about a product that it specialises advising on and that may be affected by environmental regulation (paragraph B.3.10).

External environment

Information investors need...

Headline objective

...to understand

- how the company's external environmental has affected or could affect:
 - business model
 - management's strategy
 - resources and relationships
 - risks

Assessment objectives

...to assess

- how factors and trends in the external environment have affected or could affect the company
- how effectively management monitors and responds to those factors and trends

Specific objectives

...to understand

- the nature of external factors and trends
- how those factors affected or could affect the company
- how management monitors those factors and trends
- progress in responding to those factors and trends

Sustainability-related example

A car manufacturer expects that possible changes in climate-related regulations could affect it adversely and provides information about its zero-carbon strategy (paragraph B.3.4).

Financial performance and financial position

Information investors need...

Headline objective

...to understand

- the company's financial performance and position reported in the company's financial statements

Assessment objectives

...to assess

- drivers of financial performance and position
- how performance and position compare with previous expectations, and how indicative they are of future prospects
- financial resilience

Specific objectives

...to understand

- what factors have affected or could affect the financial performance and position
- how management has allocated financial resources
- how financial performance and position compare with forecasts and targets

Sustainability-related example

A fine for failing to comply with environmental regulations affected a company's performance. It provides information about how it will change its business model to comply with the regulations (paragraph B.3.11).

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