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Our ref RD/288

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Dear Mr. Barckow

**Comment letter on the IFRS Practice Statement Exposure Draft ED/2021/6
*Management Commentary***

We appreciate the opportunity to comment on the International Accounting Standards Board's (the Board) IFRS Practice Statement Exposure Draft ED/2021/6 *Management Commentary*. We have consulted with, and this letter represents the views of, the KPMG network.

We agree that the information needs of investors and creditors have evolved since the Board issued the existing Practice Statement in 2010 and that management commentaries do not always meet these information needs.

For management commentary to be effective in closing the reporting gap, we believe that the Practice Statement should provide sufficient flexibility for the entity to 'tell its story' whilst also providing investors and creditors with relevant information.

We are generally supportive of the proposals that the Board has outlined in its Exposure Draft ('ED') and believe that the revised Management Commentary Practice Statement ('the Practice Statement') is an important development in the wider context of corporate reporting, and will allow entities to enhance their communication to investors and creditors by focusing on relevant information and better aligning information in the front end of the annual report with the information presented in the financial statements. We particularly welcome the Board's focus on enterprise value creation.

However, we have concerns with certain aspects of the proposals, and we have made several recommendations as to how the Practice Statement could be amended or clarified, or where we believe additional guidance is necessary. We describe our key concerns and recommendations below.

Governance

We believe that management commentary is a place to discuss how those charged with governance ('TCWG') contribute to overall enterprise value creation. However, under the current proposals, the Practice Statement does not require comprehensive or detailed reporting on TCWG's actions to create and protect current and future value creation. We believe that this is a fundamental gap in the Board's proposals.

It is our belief that governance is a critical matter that investors and creditors consider when assessing an entity's ability to create value and generate cash flows. We understand that governance is often determined by local jurisdictions' frameworks and linked to local corporate governance codes. However, much of the information disclosed to meet those requirements – e.g. standing data related to the governance structure, etc. – may not fulfil the information needs of investors and creditors in a periodic performance report such as management commentary.

We believe that the focus should be on those aspects of governance that impact enterprise value creation. We believe that investors and creditors are primarily interested in the performance of TCWG in overseeing the execution of the strategy, the management of risks and opportunities in line with the entity's risk appetite, and the responsible use of resources and relationships when creating and protecting enterprise value.

We recommend that a distinct governance reporting component is introduced in the proposals and suggest that the Board includes governance as an additional area of content in the Practice Statement. Please see our response to Question 3 *Objective of management commentary* for more information on our recommendation.

Key matters

We believe that it is critical that the Board clarifies the concept of key matters and its interaction with material information. While we support the proposals to require management commentary to focus on key matters, and we think that this approach will help to ensure that management commentary is concise and comprehensible, there is a lack of clarity about how the concept of key matters interacts with the material information that needs to be disclosed. We believe that there should be a clear link in the Practice Statement between the matters that are important to the entity's future success – i.e. reportable matters that are relevant for inclusion in the management commentary – and the information that is needed to understand those matters (material information).

We note that the Practice Statement introduces the concepts of 'key' and 'fundamental', which are not used in IFRS Standards, along with the concept of 'materiality' and 'material information'. We are concerned that the introduction of 'key matters' may be confusing given the lack of explanation about how the concepts of 'fundamental' and 'key' interact with the concept of 'materiality'. We recommend that these concepts are further explained, and where appropriate, aligned with the terms commonly used in

IFRS Standards and/or that the term 'key matters' is labelled differently – e.g. as 'reportable matters'.

Please see our detailed response to Question 7 *Key matters*.

Balance between comparability and entity-specific information

We acknowledge that it may be difficult to strike the right balance between comparable and entity-specific information. However, we believe that the proposed requirements may be too onerous in requiring entities to perform benchmarking with the information reported by other entities with similar activities or operating in the same industry – i.e. proposals in respect of the comparability of metrics (see paragraphs 14.7 and 14.10) or the disclosure of information related to matters that are key for other entities in the same industry, but not key to the reporting entity (see paragraph 4.13 and Question 7 *Key matters*). Furthermore, from the perspective of an assurance provider, it may be challenging to evaluate the completeness of the information gathered in respect of metrics used by other entities and matters reported by other entities.

Refer to our response to Question 7 *Key matters* and Question 11 *Completeness, balance, accuracy and other attributes*.

Information to be disclosed in the basis of preparation

We would expect the Practice Statement to have clear and robust requirements covering the information that entities should disclose in the basis of preparation of management commentary. If there are departures from the Practice Statement's requirements the disclosure should explain why TCWG and management nonetheless believe that the entity's management commentary achieves the objectives of the Practice Statement. For example, management and TCWG may need to make an assertion that they have considered the impacts of non-disclosure on the information that is disclosed – e.g. from a completeness and balance perspective – and a statement that management and TCWG have concluded that the entity's partial compliance/disclosure is not misleading.

Prominence of ESG information in the Practice Statement

We welcome the addition of guidance to assist entities in reporting on matters that could affect the entity's long-term prospects, on intangible resources and relationships, and on environmental and social matters. However, we think that more prominence should be given throughout the Practice Statement to ESG information as well as other aspects of non-financial information, including enterprise value-relevant information on intangibles, intellectual resources and human capital – e.g. under Resources and Relationships, and Risks. We also believe that a particular emphasis should be on climate change as the most contemporary issue.

Please refer to our detailed discussion in response to Question 8 - *Long-term prospects, intangible resources and relationships and ESG matters*.

*Roles of the IASB and the International Sustainability Standards Board (ISSB) in
management commentary*

It remains unclear what roles the IASB and the ISSB will play in management commentary. While management commentary currently falls within the remit of the IASB, given the potential overlap, the ISSB could be responsible for certain aspects of management commentary that are presented outside of the financial statements.

We recommend that further progress on the Practice Statement is deferred to allow the ISSB an opportunity to consider the proposals, and to provide input to avoid any inconsistencies that may trigger subsequent revisions to the Practice Statement. Deferring progress would also permit considering the impact on the Practice Statement of the announced plan to consolidate the technical expertise, content (including, importantly, the <IR> Framework and SASB metrics), staff and other resources of the Climate Disclosure Standards Board and the Value Reporting Foundation with that of the IFRS Foundation. We believe that ongoing cooperation between the IASB and the ISSB is a key success factor for the Management Commentary project and could establish a blueprint for the future interaction between the two sister boards.

We have set out our detailed comments and responses to the specific questions in the ED in the appendix to this letter.

Please contact Reinhard Dotzlaw at Reinhard.dotzlaw@kpmgifrg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix: Responses to specific questions

Question 1 – The financial statements to which management commentary relates

Paragraph 2.2 proposes that management commentary identify the financial statements to which it relates. That paragraph further proposes that, if the related financial statements are not prepared in accordance with IFRS Standards, the management commentary would disclose the basis on which the financial statements are prepared.

The Exposure Draft does not propose any restrictions on the basis of preparation of the related financial statements (for example, it does not propose a requirement that financial statements be prepared applying concepts similar to those underpinning IFRS Standards).

Paragraphs BC34–BC38 explain the Board’s reasoning for these proposals.

- a) Do you agree that entities should be permitted to state compliance with the revised Practice Statement even if their financial statements are not prepared in accordance with IFRS Standards? Why or why not?
- b) Do you agree that no restrictions should be set on the basis of preparation of such financial statements? Why or why not? If you disagree, what restrictions do you suggest, and why?

We agree with the Board’s proposal to permit entities to state compliance with the Practice Statement even if their financial statements are not prepared in accordance with IFRS Standards. This could enable its wider application – i.e. other GAAP preparers (including government and public sector entities) could apply the revised Practice Statement and potentially improve the quality of their overall reporting.

We believe that management commentary should disclose the basis of preparation on which the related financial statements are prepared, regardless of whether these are prepared in accordance with IFRS Standards or another financial reporting framework. We agree with the Board’s conclusion in BC37 with regard to the restrictions to be set on the basis of preparation, that using wording such as ‘concepts similar to those underpinning IFRS Standards’ may be ambiguous and could cause confusion for the users of the financial statements. However, we believe it could be useful to have some guardrails and recommend that the Board instead specifies that the financial statements are prepared using IFRS Standards or another ‘fair presentation framework’. Overall, we agree that no restrictions should be set on the use of the Practice Statement and the basis of preparation of the related financial statements if the basis used is disclosed in the management commentary and it is a fair presentation framework.

Question 2 – Statement of compliance

- a) Paragraph 2.5 proposes that management commentary that complies with all of the requirements of the Practice Statement include an explicit and unqualified statement of compliance.

Paragraphs BC30–BC32 explain the Board’s reasoning for this proposal.
Do you agree? Why or why not?

- b) Paragraph 2.6 proposes that management commentary that complies with some, but not all, of the requirements of the Practice Statement may include a statement of compliance. However, that statement would be qualified, identifying the departures from the requirements of the Practice Statement and giving the reasons for those departures.

Paragraph BC33 explains the Board’s reasoning for this proposal.
Do you agree? Why or why not?

We agree with the Board’s proposal to include an explicit and unqualified statement of compliance if an entity complies with all the requirements of the Practice Statement.

We recognise that some preparers may choose ‘conditional compliance’ as they may not be able to comply with all the requirements of the Practice Statement immediately. As such, we support the flexibility provided in the proposals to allow a partial/modular application of the Practice Statement and we believe that as best practice develops over time, it may encourage entities to fully comply with the requirements of the Practice Statement. However, we note that there is a potential risk of entities ‘cherry picking’ what information to disclose, and it may lead to the overall picture being unbalanced or even misleading. In extreme cases, the departures may be so pervasive or fundamental that, overall, it may not add to the value and credibility of reporting. As such, we believe that the Board should emphasize that ‘partial’ application must result in balanced and meaningful information.

We believe that management should have a process in place to determine what information is disclosed in management commentary and if they elect partial compliance, there should be sound reasons as to why an entity has not complied with all, but only some of the requirements of the Practice Statement.

We agree that in circumstances when an entity is unable, or chooses not to, comply with all the requirements of the Practice Statement, that the entity should disclose this fact in its basis of preparation, together with the areas of departures and the reasons why the entity did not comply in full. To help enforceability/facilitate external assurance, we recommend that management should be required to make an assertion that they have considered the impacts of non-disclosure on the information that is disclosed – e.g. from a completeness and balance perspective – and a statement in the basis of

preparation that management has concluded that partial compliance/disclosure is not misleading.

Question 3 – Objective of management commentary

Paragraph 3.1 proposes that an entity's management commentary provide information that:

- a) enhances investors and creditors' understanding of the entity's financial performance and financial position reported in its financial statements; and
- b) provides insight into factors that could affect the entity's ability to create value and generate cash flows across all time horizons, including in the long term.

Paragraph 3.2 proposes that the information required by paragraph 3.1 be provided if it is material. Paragraph 3.2 states that, in the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of that management commentary and of the related financial statements.

Paragraphs 3.5–3.19 explain aspects of the objective, including the meaning of 'ability to create value'.

Paragraphs BC42–BC61 explain the Board's reasoning for these proposals.

Do you agree with the proposed objective of management commentary? Why or why not? If you disagree, what do you suggest instead, and why?

Objective of management commentary

We agree with the proposed objective of management commentary that focuses on enterprise value creation and investors and creditors' needs. We acknowledge that there are other broader stakeholder groups interested in the information that an entity provides (with a focus on the impact that an entity has on society as a whole). However, we believe that the focus of management commentary should remain on enterprise value creation from the perspective of investors and creditors. We also acknowledge that the needs of investors and capital markets change over time. We recognise that societal perspectives and impacts such as the impact of an entity's business on the environment are likely to affect enterprise value creation.

Governance

Governance is a critical matter that investors and creditors look for when assessing the entity's ability to create value and generate cash flows. We believe that management commentary is a place to discuss how TCWG contribute to overall enterprise value creation. Although some aspects of an entity's governance may be addressed when meeting the disclosure objectives of the six areas of content – e.g. when discussing management's strategy for sustaining and developing the business model – the proposals do not require comprehensive or detailed reporting on an entity's governance and there is currently no mention of governance and TCWG within the objective of management commentary. We believe that this is a fundamental gap in the Practice Statement.

We understand that governance is often determined by local jurisdictions' frameworks and linked to company law. However, much of the information disclosed to meet those requirements is standing data and may not fulfil the information needs of investors and creditors. Standing data such as policies and committee charters will be of interest to investors when they decide to invest, and on an ongoing basis they may want to understand the changes to the standing data – e.g. changes in board composition. We expect that much of the information relating to such standing data is already disclosed as part of an entity's compliance with its local jurisdiction's frameworks. Given the purpose of management commentary, we believe that investors and creditors are primarily interested in the performance of TCWG in overseeing the execution of the strategy, the management of risks and opportunities in line with the entity's risk appetite, and the responsible use of resources and relationships when creating and protecting enterprise value.

We believe that the Board needs to address this reporting gap by introducing an additional area of content that is focused on governance, specifically those aspects of governance that impact enterprise value. Entities should provide the information necessary to understand TCWG and management's stewardship of the entity's resources to create value and generate cash flows. Therefore, we believe that including such information as a distinct content element and an integral part of management commentary would lead to better and more comprehensive reporting and promote cohesiveness in communicating how strategy, risk management and resource allocation are overseen by TCWG, and where action has been taken to address current or future specific matters to deliver enterprise value in line with the entity's purpose.

We have several other more specific suggestions with regard to embedding governance within the Practice Statement.

- The Board should explicitly link the objective of management commentary with the role that TCWG and executive management have in creating and protecting future value and cash flows.
- While the Practice Statement defines 'management' to include 'members of a governing body' in BC61, we recommend that the requirements include an explicit discussion on the oversight of TCWG, separate to the performance of

executive management. We believe that both roles are important for value creation and protection, investor confidence, and trust in the long-term prospects of the entity.

- There should be an explicit link to the entity’s overarching governance framework and disclosures within paragraph 3.3, and in the Basis for Conclusions – e.g. in BC46 as part (c). This would provide a link to the oversight role by TCWG and explain how management protects the entity’s resources in line with the TCWG approved business model, strategy, and risk appetite.
- We recommend that Appendix A should define ‘net debt’, ‘management’ and ‘Those Charged with Governance’ if our recommendations about governance are implemented.

Question 4 – Overall approach

The Exposure Draft proposes an objectives-based approach that:

- a) specifies an objective for management commentary (see Chapter 3);
- b) specifies six areas of content for management commentary and, for each area of content, disclosure objectives that information provided in management commentary is required to meet (see Chapters 5–10);
- c) gives examples of information that management commentary might need to provide to meet the disclosure objectives (see Chapter 15); but
- d) does not provide a detailed and prescriptive list of information that management commentary must provide.

Paragraphs BC69–BC71 explain the Board’s reasoning for proposing this approach.

Do you expect that the Board's proposed approach would be:

- a) capable of being operationalised — providing a suitable and sufficient basis for management to identify information that investors and creditors need; and
- b) enforceable — providing a suitable and sufficient basis for auditors and regulators to determine whether an entity has complied with the requirements of the Practice Statement?

If not, what approach do you suggest and why?

Overall, we agree with the Board’s objectives-based approach. We believe that the objectives-based approach, complemented by the examples in Chapter 15 of the ED, and the example disclosures in the appendices are helpful. The proposed approach

should enable an assurance provider to engage with management and TCWG as to whether the information is relevant to investors and creditors and whether it is material.

However, as noted in our cover letter, it is important to clarify the interaction of key matters and material information to help the operationalisation and enforceability of the Practice Statement (see our response to Question 7 *Key matters*).

Need for processes and controls to meet disclosure objectives

We believe that for the objectives-based approach to be effective, entities will need to develop and maintain adequate documentation and controls over the processes they use, to manage each of the areas of content and how they determine the information to be reported in their management commentary.

We are concerned that there is a risk that the Practice Statement could be used as a checklist, in which case, relevant information may still be omitted even when all the examples have been considered. We believe that judgement, strong governance and controls will be needed to ensure that an entity's management commentary discloses material information and information that meets the criteria, as described in Chapter 13 of the ED.

Governance

Please refer to the comments in our response to Question 3 about the absence of requirements in the Practice Statement for selecting and presenting governance information. We are concerned that the investors and creditors would not be able to assess TCWG's stewardship of resources without information on governance.

Question 5 – Design of disclosure objectives

The proposed disclosure objectives for the areas of content comprise three components – a headline objective, assessment objectives and specific objectives. Paragraph 4.3 explains the role of each component. Paragraphs 4.4–4.5 set out a process for identifying the information needed to meet the disclosure objectives for the areas of content and to meet the objective of management commentary.

Paragraphs BC72–BC76 explain the Board's reasoning for these proposals.

- a) Do you agree with the proposed design of the disclosure objectives? Why or why not? If you disagree, what do you suggest instead, and why?
- b) Do you have general comments on the proposed disclosure objectives that are not covered in your answers to Question 6?

We agree with the proposed design of the disclosure objectives using the three-tier approach and support the inclusion of the assessment objectives. However, it is not clear in the ED why the approach taken differs from the approach used for financial statement disclosures in the Exposure Draft *Disclosure Requirements in IFRS Standards – A Pilot Approach*. It would be helpful if the Board could further explain, in the Basis for Conclusions of the Practice Statement, why the two approaches are not aligned and articulate the purpose of the assessment objectives more clearly.

Question 6 – Disclosure objectives for the areas of content

Chapters 5–10 propose disclosure objectives for six areas of content. Do you agree with the proposed disclosure objectives for information about:

- a) the entity’s business model;
- b) management’s strategy for sustaining and developing that business model;
- c) the entity’s resources and relationships;
- d) risks to which the entity is exposed;
- e) the entity’s external environment; and
- f) the entity’s financial performance and financial position?

Why or why not? If you disagree, what do you suggest instead, and why?

We generally agree with the headline, assessment and specific objectives proposed in the ED for the six existing areas of content. However, we believe governance should be included as a distinct area of content and as such we disagree with the proposed exclusion of governance reporting being suggested in paragraph B12 of the Practice Statement.

Description of the entity’s purpose

We believe that the management commentary should discuss the entity’s overall purpose and the ongoing relevance of its purpose, which provides the anchor for the six existing areas of content. The entity’s purpose will determine the appropriateness of its business model and will be realised through the execution of its strategy and management of risks and opportunities to create value over the short, medium and long term.

Disclosure objectives for information about the entity's financial performance and position

- Paragraph 10.5 relating to the entity's financial performance and financial position states that *"information in management commentary shall provide a sufficient basis for investors and creditors to assess...(b) how the entity's financial performance and financial position compare with investors and creditors' previous expectations..."*. It is not clear from the Practice Statement how management would be aware of investors and creditors' previous expectations. We recommend that the Board provides application guidance to further explain this requirement – e.g. could the entity's assessment be based on analyst reports or covenants that creditors expect the entity to comply with?
- Paragraph 10.9 mentions that *"Material information about an entity's financial performance and financial position is likely to include metrics management uses to monitor and measure key aspects of that financial performance and financial position"*. Paragraph 14.6 sets out requirements that apply to metrics derived by adjusting amounts presented or disclosed in the entity's financial statements. We would like the Board to ensure that these paragraphs are consistent with the proposals relating to non-GAAP measures in the Exposure Draft *General Presentation and Disclosures (Primary Financial Statements)* and are further refined by ongoing discussions on this project based on the feedback from stakeholders.

Question 7 – Key matters

Paragraphs 4.7–4.14 explain proposed requirements for management commentary to focus on key matters. Those paragraphs also propose guidance on identifying key matters. Chapters 5–10 propose examples of key matters for each area of content and examples of metrics that management might use to monitor key matters and to measure progress in managing those matters.

Paragraphs BC77–BC79 explain the Board's reasoning for these proposals.

- a) Do you agree that the Practice Statement should require management commentary to focus on key matters? Why or why not? If you disagree, what do you suggest instead, and why?
- b) Do you expect that the proposed guidance on identifying key matters, including the examples of key matters, would provide a suitable and sufficient basis for management to identify the key matters on which management commentary should focus? If not, what alternative or additional guidance do you suggest?

c) Do you have any other comments on the proposed guidance?

While we support the proposals to require management commentary to focus on key matters, and we think that this approach is trying to ensure that management commentary is concise and comprehensible, there is a lack of clarity about how the concept of key matters interacts with the material information that needs to be disclosed. We do not think that there is a clear link in the Practice Statement between the matters that are important to the entity's future success and the information that is needed for understanding those matters.

The Practice Statement introduces the concept of 'key' and 'fundamental' which are not used in IFRS Standards. We are concerned that the introduction of 'key matters' may be confusing given the lack of explanation about how the concepts of 'fundamental' and 'key' interact with the concept of 'materiality'. We recommend that these concepts are further explained and where appropriate, aligned with the terms commonly used in IFRS Standards and/or that the term 'key matters' is labelled differently – e.g. as 'reportable matters'.

Interaction of key matters and materiality

Our understanding is that the Practice Statement is seeking to make a distinction between the matters on which an entity might need to provide material information, and the material information itself. Some believe that the concept of 'key matters' is being introduced to distinguish between the information that is operationally important to an entity's future success and the information that is needed to understand those critical success factors. Others have different interpretations or are simply unsure what the intention of the Board's proposals are. Therefore, we believe that there needs to be a clearer link between the key matters and the information that is material to disclose relative to those key matters.

We note the following proposed requirements discussing the interaction of key matters and material information remain unclear.

- The proposal in paragraph 4.13 of the Practice Statement suggests that although a matter is not considered key to a specific entity – i.e. management considers a matter is not fundamental to an understanding of the value-creating ability of the entity – 'material' information about that matter should nonetheless be disclosed, because investors and creditors would generally expect that matter to be key for entities operating in the industry or jurisdiction in which the entity operates. This requirement may be very onerous for preparers and would require the preparer to consider any risk that is prevalent in its industry/jurisdiction. It may imply that an entity needs to disclose the fact that it is not exposed to certain risks that are prevalent in its industry or jurisdiction. The intention of this paragraph needs to be further reconsidered to avoid divergent interpretations.

- We also find paragraph 3.17 confusing in the context of material information – *"However material information does not necessarily relate to a key matter. Material information is included in management commentary even if it does not relate to a key matter"* – we believe it would be helpful if the Practice Statement contains an explanation of what the Board intended by this paragraph.

Location of guidance on key matters

The guidance on key matters and material information is widely dispersed throughout the Practice Statement. We have found that it is not always clear how the various paragraphs of guidance interact, even when read together.

We believe that some of the sections of the guidance appear to be contradictory. For example, the guidance in the last sentence of paragraph 12.5 – *"However, because materiality judgements depend on an entity's circumstances, information is not material solely because other entities provide that type of information"* – may contradict guidance in paragraph 4.13 – *"...Some matters might not be key for the entity even though investors and creditors would generally expect them to be key for entities operating in the industry or jurisdiction in which the entity operates. In such cases, management considers whether any information about the matter is material. Material information is likely to include an explanation of why the matter is not key for the entity."*

We suggest that a review is undertaken of the proposed guidance in the Practice Statement relating to the identification of key matters, the identification of material information and their interaction to ensure that these concepts are clearly explained and capable of consistent application.

Question 8 – Long-term prospects, intangible resources and relationships and ESG matters
<p>Requirements and guidance proposed in this Exposure Draft would apply to reporting on matters that could affect the entity's long-term prospects, on intangible resources and relationships, and on environmental and social matters. Appendix B provides an overview of requirements and guidance that management is likely to need to consider in deciding what information it needs to provide about such matters. Appendix B also provides examples showing how management might consider the requirements and guidance in identifying which matters are key and which information is material in the fact patterns described.</p> <p>Paragraphs BC82–BC84 explain the Board's reasoning for this approach.</p>

a) Do you expect that the requirements and guidance proposed in the Exposure Draft would provide a suitable and sufficient basis for management to identify material information that investors and creditors need about:

- i. matters that could affect the entity's long-term prospects;
- ii. intangible resources and relationships; and
- iii. environmental and social matters?

Why or why not? If you expect that the proposed requirements and guidance would not provide a suitable or sufficient basis for management to identify that information, what alternative or additional requirements or guidance do you suggest?

b) Do you have any other comments on the proposed requirements and guidance that would apply to such matters?

We welcome the addition of guidance to assist entities in reporting on matters that could affect the entity's long-term prospects, on intangible resources and relationships, and on environmental and social matters. We support the fact that information about 'prospects' will be covered by requirements and guidance throughout all areas of content, in explaining management's strategy, and the entity's external environment and risks, rather than featuring as a single area of content itself. However, we believe that more prominence should be given throughout the Practice Statement to ESG information as well as other aspects of non-financial information, including enterprise value-relevant information on intangibles, intellectual resources and human capital – e.g. under Resources and Relationships, and Risks.

We believe that a particular emphasis should be on climate change as the most contemporary issue. Furthermore, we note that climate change may also create opportunities for some entities. As such, we question why the focus in the Practice Statement is only on risks and not opportunities. We recommend that both are explicitly referred to in the Practice Statement because the role of opportunities in the ED is not sufficiently clear – we believe that both opportunities and risks should be considered in an entity's reporting of performance and outlook.

We have some further detailed observations.

- We agree that Appendix B provides useful guidance for management to identify the information that it needs to disclose about matters affecting the entity's long-term prospects, its intangible resources and relationships and environment and social matters. We recommend that there is a more explicit link between the guidance in the main body of the Practice Statement and the appendix. We believe that this could be addressed by cross-referring from the guidance in the content areas to related examples in Appendix B.

- We disagree with paragraphs B12 and BC83, and the Board's decision not to require comprehensive or detailed reporting on an entity's governance. Although governance may be covered by local laws/regulations and listing rules, it is a fundamental component of value creation and preservation. Please see our response to Question 3 *Objective of management commentary*.

Question 9 – Interaction with the IFRS Foundation Trustees' project on sustainability reporting

Paragraphs BC13–BC14 explain that the Trustees of the IFRS Foundation have published proposals to amend the Foundation's constitution to enable the Foundation to establish a new board for setting sustainability reporting standards. In the future, entities might be able to apply standards issued by that new board to help them identify some information about environmental and social matters that is needed to comply with the Practice Statement.

Are there any matters relating to the Trustees' plans that you think the Board should consider in finalising the Practice Statement?

We believe that it continues to be unclear what roles the IASB and the ISSB will play in management commentary. While management commentary currently falls within the remit of the IASB, given the potential overlap, the ISSB could be responsible for certain aspects of management commentary that are presented outside of the financial statements.

We acknowledge the technical preparatory work being completed by the IFRS Foundation's Technical Readiness Working Group (TRWG) to provide a 'running start' for the ISSB. We also acknowledge that the TRWG have noted that it may be appropriate for some projects (such as Management Commentary) to be undertaken jointly. We believe that the IASB and the ISSB working together in a coordinated way is critical to the success of the Management Commentary project.

The sequence of the IFRS Foundation's developments poses difficult questions for the Board, however, we believe that further progress on the Practice Statement should be deferred to allow active collaboration with the ISSB (please also see our response to Question 14 *Effective date* for additional information). The ISSB should have the opportunity to consider the proposals and provide input. We believe that working together on the Practice Statement could establish a blueprint for the future interaction between the IASB and the ISSB.

Question 10 – Making materiality judgements

Chapter 12 proposes guidance to help management identify material information.

Paragraphs BC103–BC113 explain the Board’s reasoning in developing that proposed guidance.

Do you have any comments on the proposed guidance?

We support the proposed approach of aligning materiality with enterprise value and retaining a capital markets focus. We also support the Board’s approach to making materiality judgements.

Paragraph 12.5 in Chapter 12 suggests that management needs to consider whether the information provided by entities with similar activities would be material in the context of their entity’s management commentary, and therefore they should disclose such information. Based on the text of paragraph 12.5, we question whether there is a broader expectation from the Board that benchmarking is required. We believe that it is more appropriate to require management to consider the matters that they believe are key for their entity only. Please see our response to Question 11 *Completeness, balance, accuracy, and other attributes* where we have provided feedback on the need to strike a balance between comparability and entity-specific information.

Please also see our response to Question 7 *Key matters*, where we express concerns about the lack of clarity around the interaction of key matters and material information.

Disclosure of information required by local laws

We agree with the approach to the disclosure of information required by local laws that is discussed in BC112, that permits management commentary to include such information (even if it would not be judged as material) and we support the proposal to permit management commentary to include such information if it does not obscure information material to investors and creditors. We believe that entities should disclose in the basis of preparation, their approach to the disclosure of information required by local laws.

Departures from requirements in Practice Statement due to commercial sensitivity

We believe that entities should also disclose in the basis of preparation whether they have chosen to depart from the Practice Statement’s requirements due to commercial sensitivity and why. We expect this to be a rare occurrence given that that financial statements prepared under IFRS Standards do not offer relief from disclosing information on commercial sensitivity grounds.

Question 11 – Completeness, balance, accuracy and other attributes

- a) Chapter 13 proposes to require information in management commentary to be complete, balanced and accurate and discusses other attributes that can make that information more useful. Chapter 13 also proposes guidance to help management ensure that information in management commentary possesses the required attributes.

Paragraphs BC97–BC102 and BC114–BC116 explain the Board’s reasoning for these proposals.

Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

- b) Paragraphs 13.19–13.21 discuss inclusion of information in management commentary by cross reference to information in other reports published by the entity.

Paragraphs BC117–BC124 explain the Board’s reasoning for these proposals.

Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

Attributes of information in management commentary

We agree with the proposal to require information in management commentary to be complete, balanced, and accurate. However, we note that the attributes of information required in management commentary are different to the terms used in *The Conceptual Framework for Financial Reporting* (‘the Conceptual Framework’) – ‘complete’, ‘neutral’, and ‘free from error’. We recommend that the Board explains in the Practice Statement’s Basis for Conclusions why the attributes of information required in management commentary are different to the characteristics of information contained in the Conceptual Framework.

Balance between comparability and entity-specific information

We acknowledge that it may be difficult to strike the right balance between the comparable and entity-specific information. However, we believe that the proposed requirements may be too onerous in requiring entities to perform benchmarking with information reported by other entities with similar activities, or operating in the same industry – i.e. proposals in respect of the comparability of metrics (see Question 12 *Metrics*) or information related to matters that are key for other entities in the same industry, even if not key for the reporting entity, yet may be material (paragraph 4.13, see Question 7 *Key matters*). Furthermore, from the perspective of an assurance

provider, it may be challenging to evaluate the completeness of the information gathered in respect of metrics used by other entities and matters reported by other entities. We believe that these requirements should be further clarified to explain the Board’s intention with respect to the nature and extent of benchmarking, as well as the information that management may need to consider for disclosure in the entity’s management commentary.

Inclusion of information in management commentary by cross reference

We acknowledge some benefits of the inclusion of information in management commentary by cross-references to other reports and online disclosures – i.e. it may reduce duplication and redundancies. However, if the management commentary includes too many cross references so that extensive information is included by cross-reference, it may not meet the information needs of investors and creditors.

We believe that it is important that the boundaries of management commentary are clear – i.e. ringfencing information that is considered an integral part of management commentary would be important when assurance is sought on such information.

Overall, we believe that cross-referencing in the management commentary should be limited to ensure the information provided is self-standing and clear (as is noted in paragraph 13.19). It is also critical that it is complete with all reportable matters disclosed at a reasonable level of detail to enable the investors or creditors to understand performance, position and prospects and make their various decisions.

Other observations

We have some specific observations to make about the other attributes of management commentary.

- We believe that the aspect of ‘coherence’ described in paragraph 13.30 may be challenging to apply in practice given the broad scope and different reporting periods to which management commentary applies. We believe that this concern could be addressed by adding explanatory guidance to the Practice Statement explaining, for example, that coherence with information relating to other time periods could be achieved by having a consistent basis of calculation or by explaining any differences.
- We suggest that paragraph 13.25 should also refer to ‘assumptions’ in addition to “providing information about inputs and methods of calculation used to produce estimates or approximations”.

Question 12 – Metrics
Chapter 14 proposes requirements that would apply to metrics included in management commentary.

Paragraphs BC125–BC134 explain the Board’s reasoning for these proposals.

Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

We support the proposals in the ED that apply to metrics included in management commentary. The proposals state that such metrics could be derived from metrics that management uses to monitor key matters and to measure progress in managing those matters. Please see our feedback on the topic of key matters in response to Question 7 *Key matters*. Please also see our response to Question 14 *Effective date* where we encourage deferring progress on the Practice Statement to permit considering the impact of the announced plan to consolidate the technical expertise, content (including, importantly, the <IR> Framework and SASB metrics), staff and other resources of the Climate Disclosure Standards Board and the Value Reporting Foundation with that of the IFRS Foundation.

Additional observations

We have some additional observations to make on the requirements that would apply to metrics included in management commentary.

- We believe that it is important that sufficient information is provided to understand how each metric (including entity-specific metrics) has been determined and is used by management – i.e. IFRS/GAAP for financial metrics; Sustainability Accounting Standards Board (SASB)/World Economic Forum (WEF)/TCFD/Greenhouse Gas (GHG) Protocol, etc. for common ESG metrics. We note that reference to these other frameworks should be made only if they are in existence.
- We also believe that if the entity has targets set – e.g. for a target to achieve net zero emissions by 2030 – there should be an explanation of the plan to achieve each target over time and the target’s trends as well as its performance to date.
- It appears that ‘completeness’ is not specifically referred to in Chapter 14. We recommend that the proposals in Chapter 14 either cross-refer to the Board’s guidance on completeness in Chapter 13 or that a separate section on the completeness of an entity’s metrics is included within Chapter 14.

Question 13 – Examples of information that might be material

Material information needed to meet the disclosure objectives set out in Chapters 5–10 will depend on the entity and its circumstances. Chapter 15 proposes examples of information that might be material.

Paragraphs BC80–BC81 explain the Board’s reasoning for these proposals.

Do you expect that the proposed examples would help management to identify material information that management commentary might need to provide to meet disclosure objectives for information about:

- a) the entity’s business model;
- b) management’s strategy for sustaining and developing that business model;
- c) the entity’s resources and relationships;
- d) risks to which the entity is exposed;
- e) the entity’s external environment; and
- f) the entity’s financial performance and financial position?

If not, what alternative or additional examples do you suggest? Do you have any other comments on the proposed examples?

We support the inclusion of examples of information that might be material in Chapter 15. We believe that the proposed examples will help management to identify material information about management commentary. We have provided feedback on the topic of key matters and their interaction with material information in Question 7 *Key matters*.

We request that the Board considers our comments on governance and its inclusion as a separate area of content, which may lead to additional examples being required in Chapter 15.

We ask the Board to consider our other comments on information to be disclosed in the basis of preparation of the management commentary – e.g. the disclosure of what is and is not in the management commentary with a sound rationale. Please see Question 2 *Statement of Compliance*.

Question 14 – Effective date

Paragraph 1.6 proposes that the Practice Statement would supersede IFRS Practice Statement 1 Management Commentary (issued in 2010) for annual reporting periods beginning on or after the date of its issue. This means that the Practice Statement would be effective for annual reporting periods ending at least one year after the date of its issue.

Paragraphs BC135–BC137 explain the Board’s reasoning for this proposal.

Do you agree with the proposed effective date? Why or why not? If not, what effective date do you suggest and why?

We believe that the proposed timeline for the Practice Statement should be planned to allow better alignment with the ISSB's developments. Therefore, we recommend that the Board defers finalising the Practice Statement until the ISSB can provide input, given the importance of interconnectivity between the IASB and the ISSB. Deferring progress would also permit considering the impact on the Practice Statement of the announced plan to consolidate the technical expertise, content (including, importantly, the <IR> Framework and SASB metrics), staff and other resources of the Climate Disclosure Standards Board and the Value Reporting Foundation with that of the IFRS Foundation.

Please refer to our response to Question 9 *Interaction with the IFRS Foundation Trustees' project on sustainability reporting*.

Question 15 – Effects analysis

a) Paragraphs BC139–BC177 of the Basis for Conclusions accompanying the Exposure Draft analyse the expected effects of the proposals in this Exposure Draft.

Do you have any comments on that analysis?

b) Paragraphs BC18–BC22 discuss the status of the Practice Statement. They note that it would be for local lawmakers and regulators to decide whether to require entities within their jurisdiction to comply with the Practice Statement.

Are you aware of any local legal or regulatory obstacles that would make it difficult for entities to comply with the Practice Statement?

We do not have any specific comments on BC139–BC177 of the Basis for Conclusions, nor the expected effects analysis.

Question 16 – Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

We have no other comments on the proposals.