



**IFRS<sup>®</sup>**  
Foundation

# World Standard-setters Conference 2024

**Management Commentary**

#WSS2024

# Presenters

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# Agenda

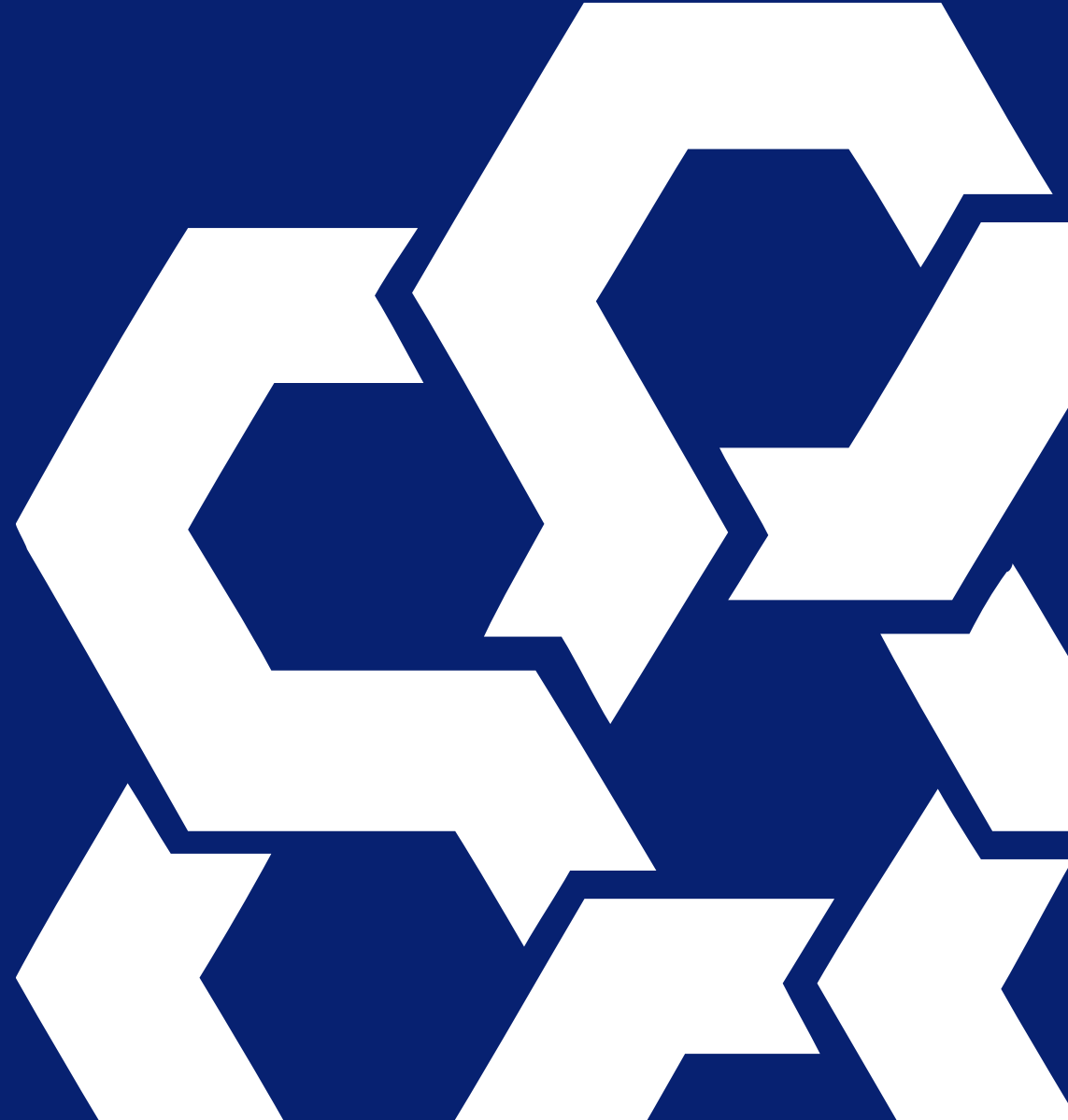
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- 1 Background—recap of the Management Commentary project
- 2 Finalising the project—targeted refinements to the Exposure Draft

Appendix A—Recap of proposals and feedback and Appendix B—The evolving reporting landscape are provided for background information, and we do not plan to present them at the session.

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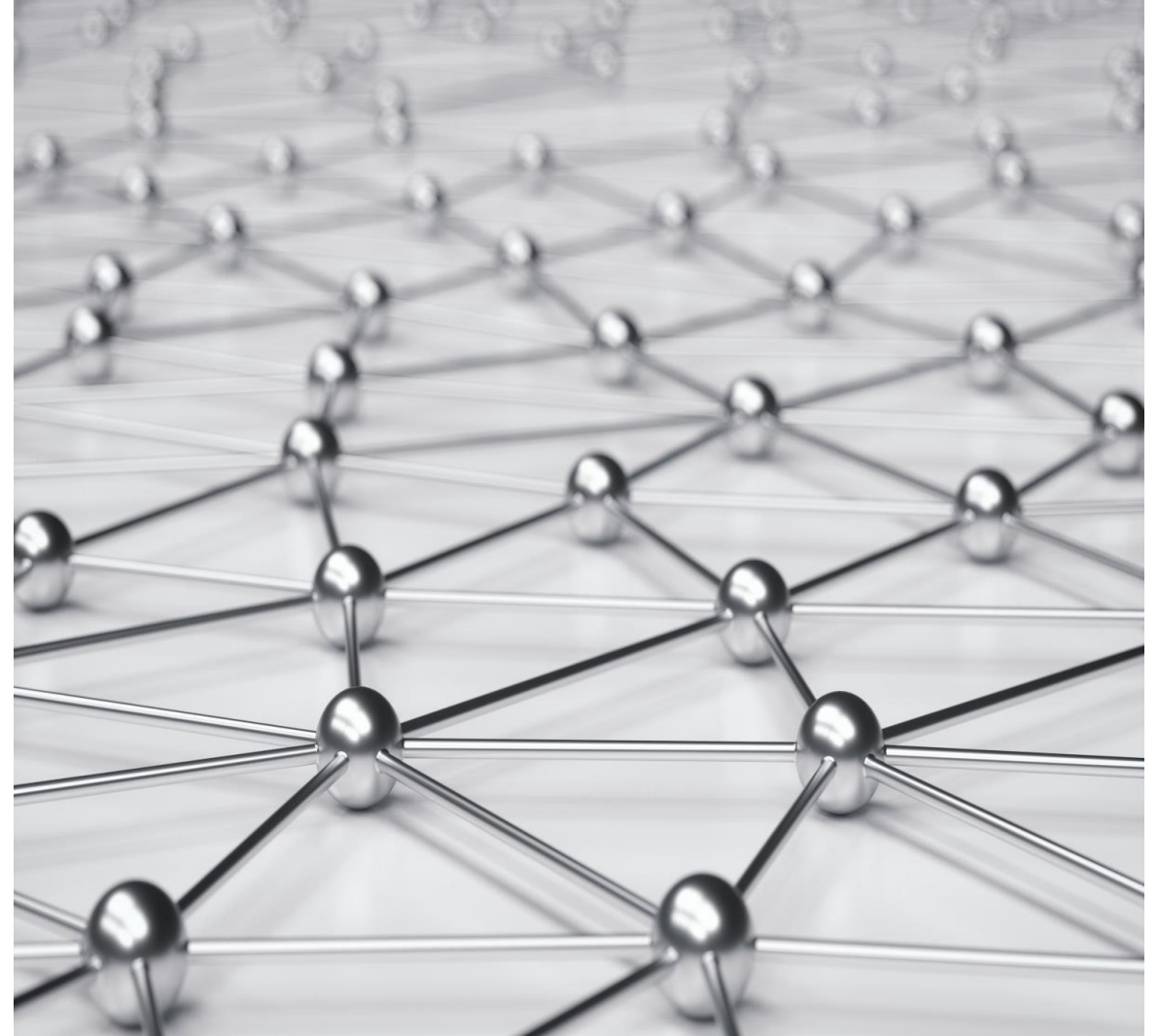
## Background—recap of the Management Commentary project



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## 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





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## What is the role of management commentary?

- Provides management's perspective
- Brings together information about financial, sustainability-related and other factors that affect the entity
- Explains financial position and performance for the reporting period and provides insights into the future, including over the long term
- Supports connectivity of information across an entity's general purpose financial reports



## What did the IASB aim to deliver?

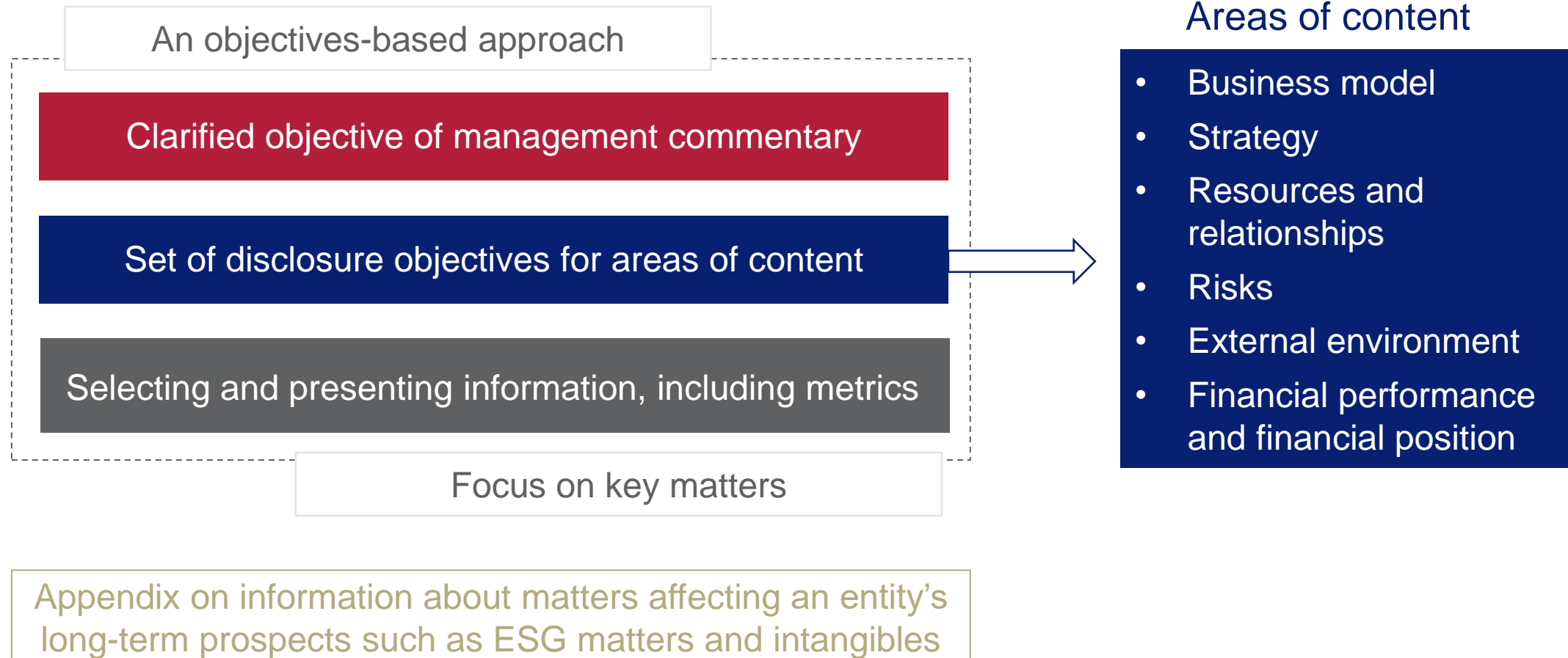
### Investors call out shortcomings in practice

- 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

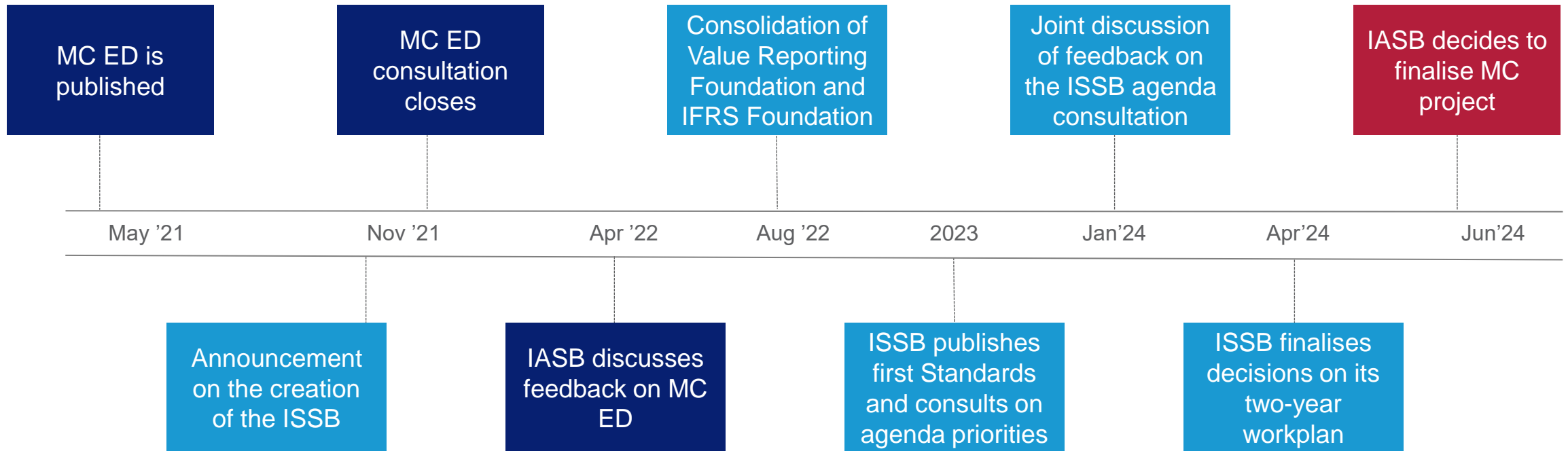
- Target identified shortcomings in practice
- Build on innovations in narrative reporting and national requirements
- Designed to be compatible with requirements for sustainability reporting
- Focus on promoting coherence in reporting (connectivity)
- Designed with enforcement in mind
- Provide a comprehensive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

## What did the IASB propose?



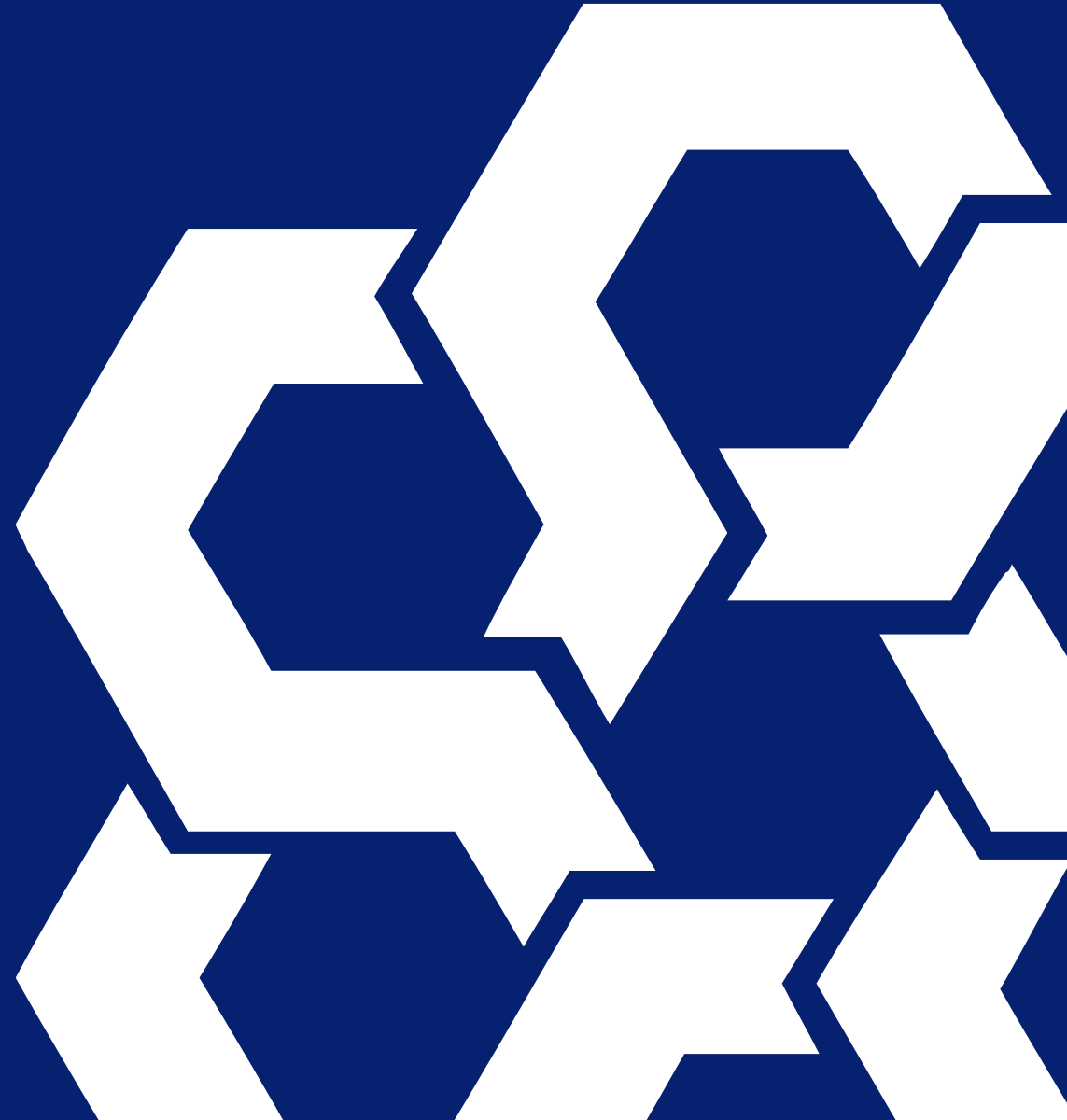


## The evolving reporting landscape



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## Finalising the project— targeted refinements to the Exposure Draft



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## The IASB's aims in finalising the project



**Respond to demand** for better information about the factors that have affected or could affect a company's ability to create value and generate cash flows, including in the long term.



**Provide a comprehensive resource** for regulators and companies to support improvement and greater global alignment in management commentary



**Support connectivity** of information across a company's general purpose financial reports and provide a **stepping stone** towards greater integration in reporting in the future.



**Codify innovations** in reporting, including concepts from the IFRS Foundation's Integrated Reporting Framework

## Approach to finalising the project

### Targeted refinements

Refinements to proposals to be considered if:

- many respondents questioned a particular aspect of the proposals
- the refinement relates to developments in the reporting landscape



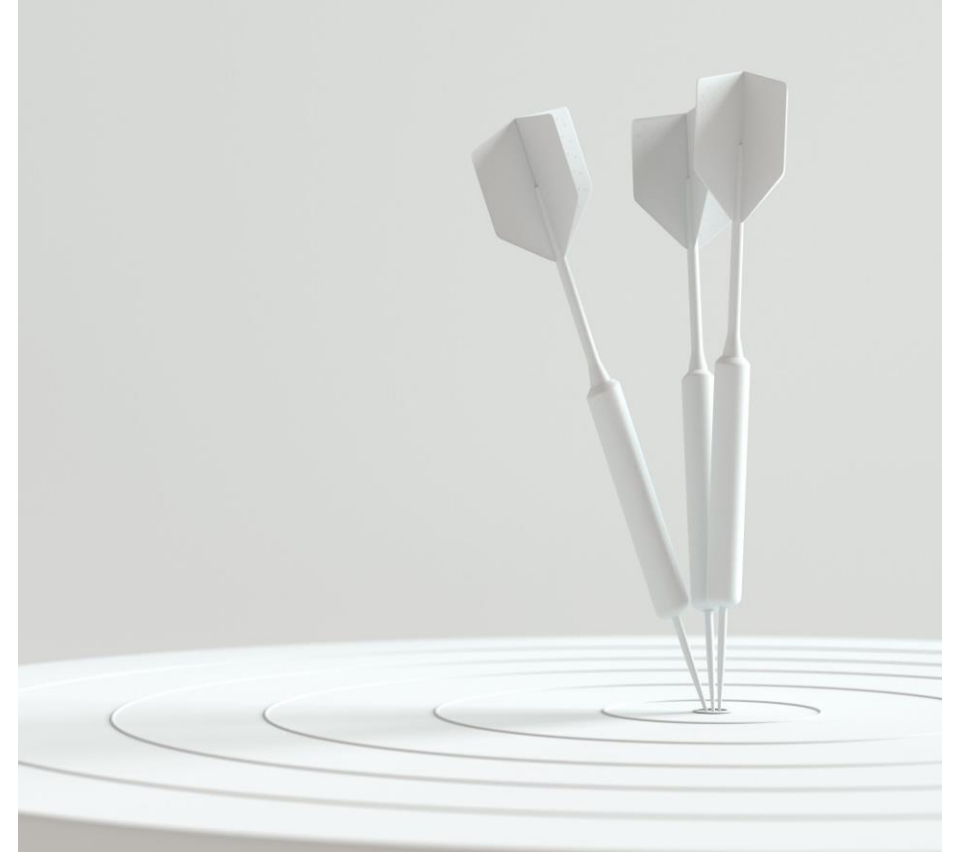
Revised  
Practice  
Statement  
expected  
H1 2025

- Discussions with Integrated Reporting stakeholders
- Members Management Commentary Consultative Group invited to comment on drafting
- Collaboration with ISSB members and staff, as appropriate

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## Scope of possible targeted refinements

- Interaction with sustainability reporting
- Description of the term ‘management’
- Objective of management commentary
- Information about governance-related matters
- Three-tiered structure of disclosure objectives
- The relationship between key matters and materiality
- Terminology (for example, attributes of useful information)



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## Questions and answers

- Do you have questions on the IASB's rationale and approach to finalising the project?
- Do you have questions on the scope of possible targeted refinements and next steps?



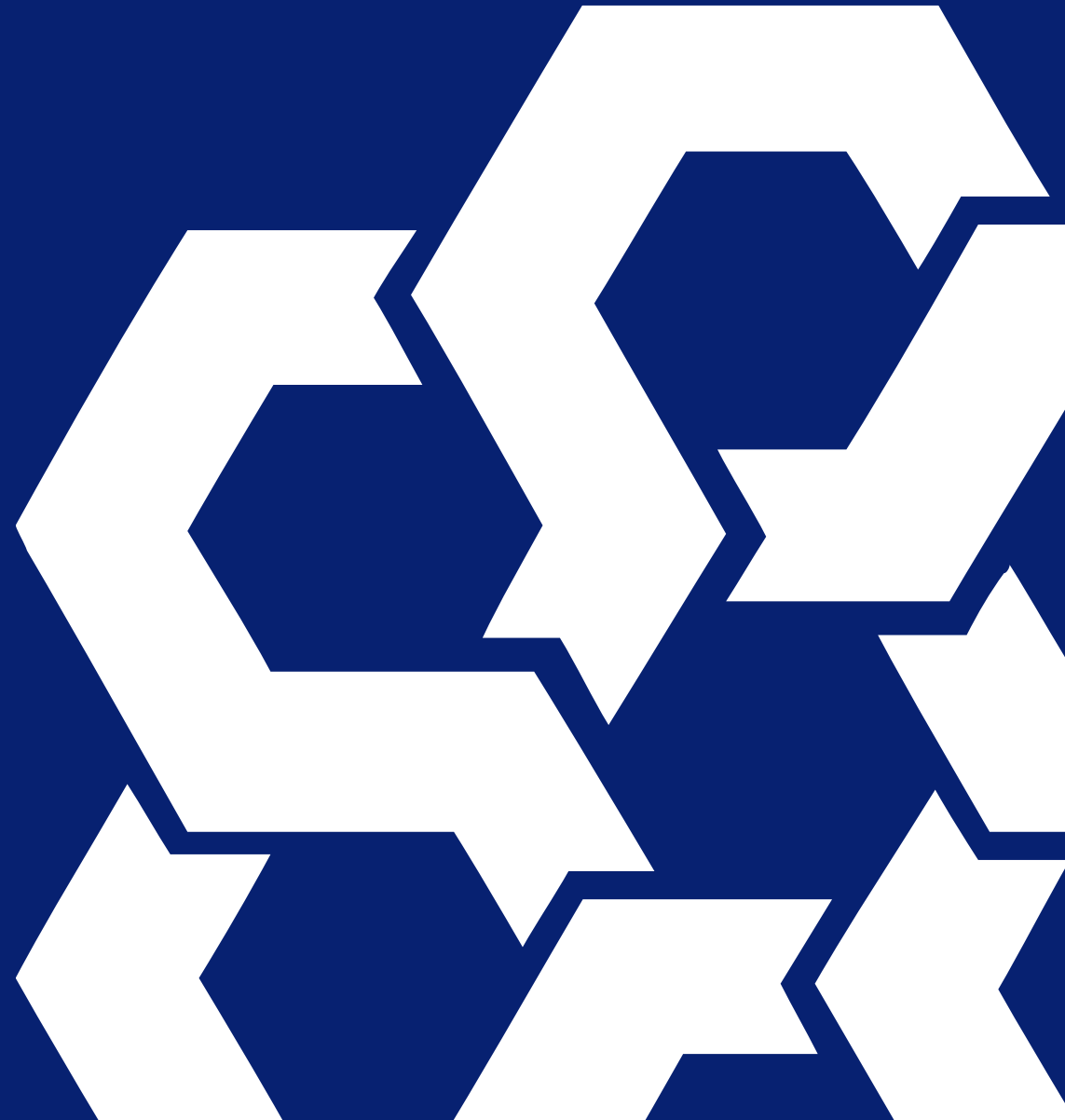
### Revised Management Commentary Practice Statement

- **Respond to demand** for better information
- **Comprehensive resource** for regulators and companies
- **Support connectivity** and provide a **stepping stone** to integration in reporting
- **Codify innovations** in reporting



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## Appendix A—Recap of the proposals



## 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

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## 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

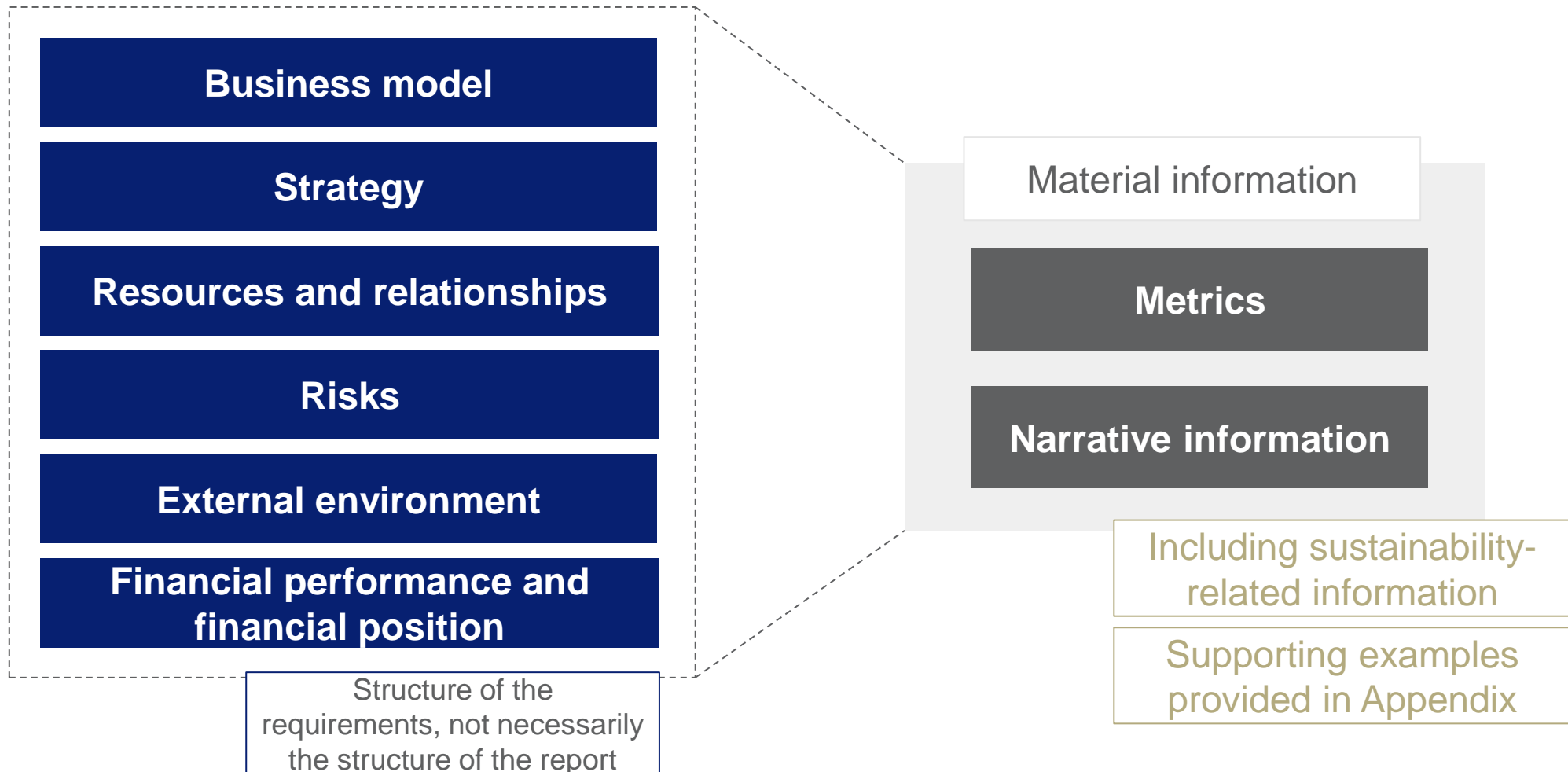
Long-term horizon

## Feedback on proposals—The objective of management commentary

<b>Support for objective with its focus on investor needs</b>	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.
<b>Support for the concept of value creation</b>	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.
<b>Importance of management's perspective</b>	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.

See March 2022 IASB [Agenda Paper 15 Feedback summary—Overview](#) and [Agenda Paper 15C Feedback summary—Objective of 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

<b>Broad support for proposed areas of content</b>	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.
<b>Calls for adding ‘governance’</b>	Some respondents suggested adding ‘governance’ as a distinct content area or incorporating explicit requirements for governance-related information throughout requirements for content areas.
<b>Mixed feedback on three-tier structure of disclosure objectives</b>	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.

See March 2022 IASB [Agenda Paper 15 Feedback summary—Overview](#) and [Agenda Paper 15E Feedback summary—Disclosure objectives and areas of content](#)

## 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

<b>Support for investor-focused materiality</b>	Most respondents supported the proposals for an investor-focused materiality consistent with what is used for information included in the financial statements.
<b>Support for guidance on making materiality judgements</b>	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.
<b>Support for focus on key matters</b>	Most respondents supported the proposal to focus on key matters.
<b>Calls to clarify interaction between requirements for key matters and material information</b>	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.

See March 2022 IASB [Agenda Paper 15 Feedback summary—Overview](#) and [Agenda Paper 15F Feedback summary—Key matters and material information](#) and April 2022 IASB [Agenda Paper 15C Feedback summary—Making materiality judgements](#)

## 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**

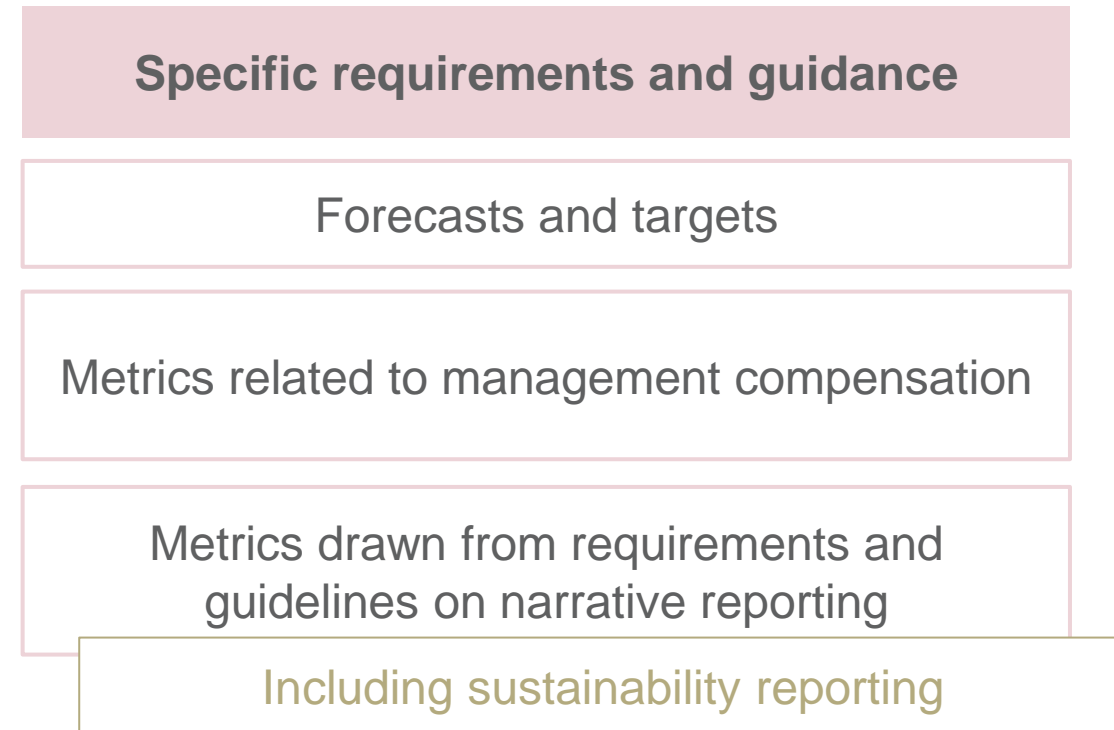
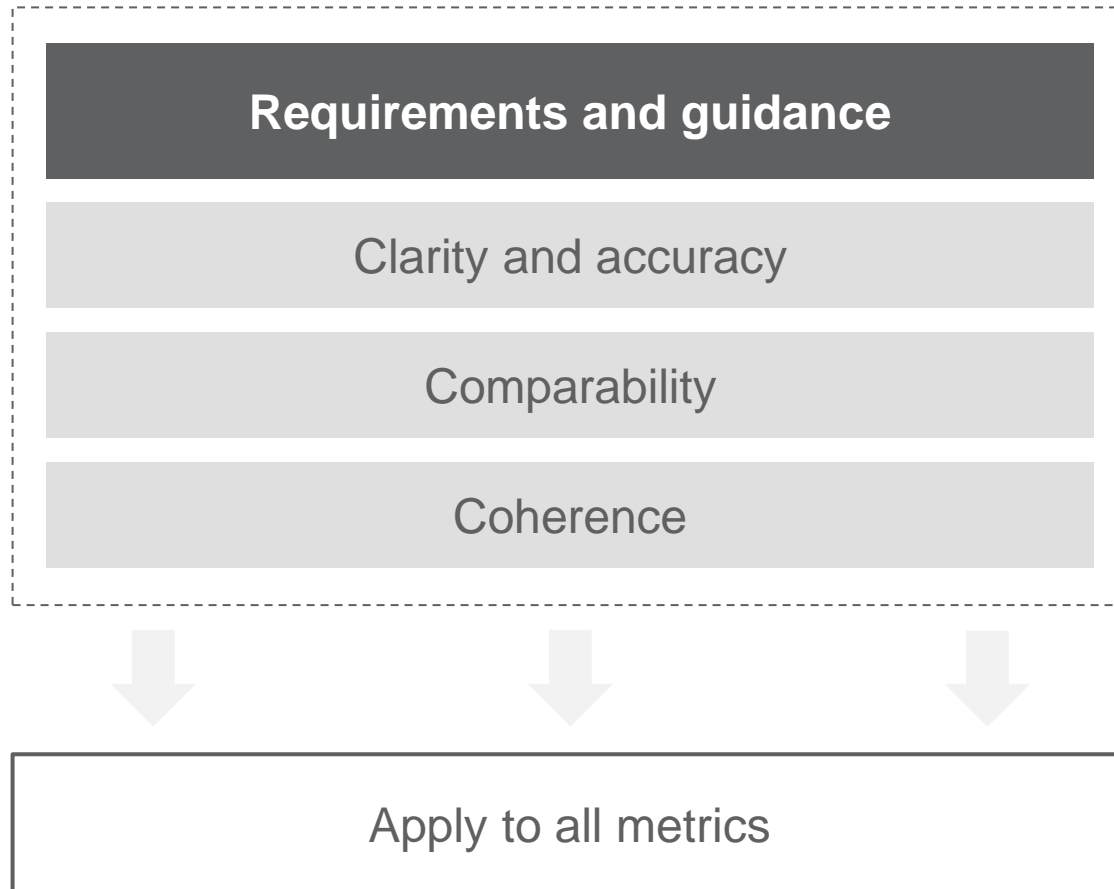
**Risks**

**External environment**

**Financial performance and financial position**



## Recap of proposals—Metrics



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## 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

**Materiality**

**Completeness**

**Neutrality**

**Freedom from error**

**Understandability**

**Comparability**

**Verifiability**

**Timeliness**

Embedded in the objective

**Completeness**

**Balance**

**Accuracy**

**Clarity and Conciseness**

**Comparability**

**Verifiability**

Local regulatory matter

**Coherence**

- 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

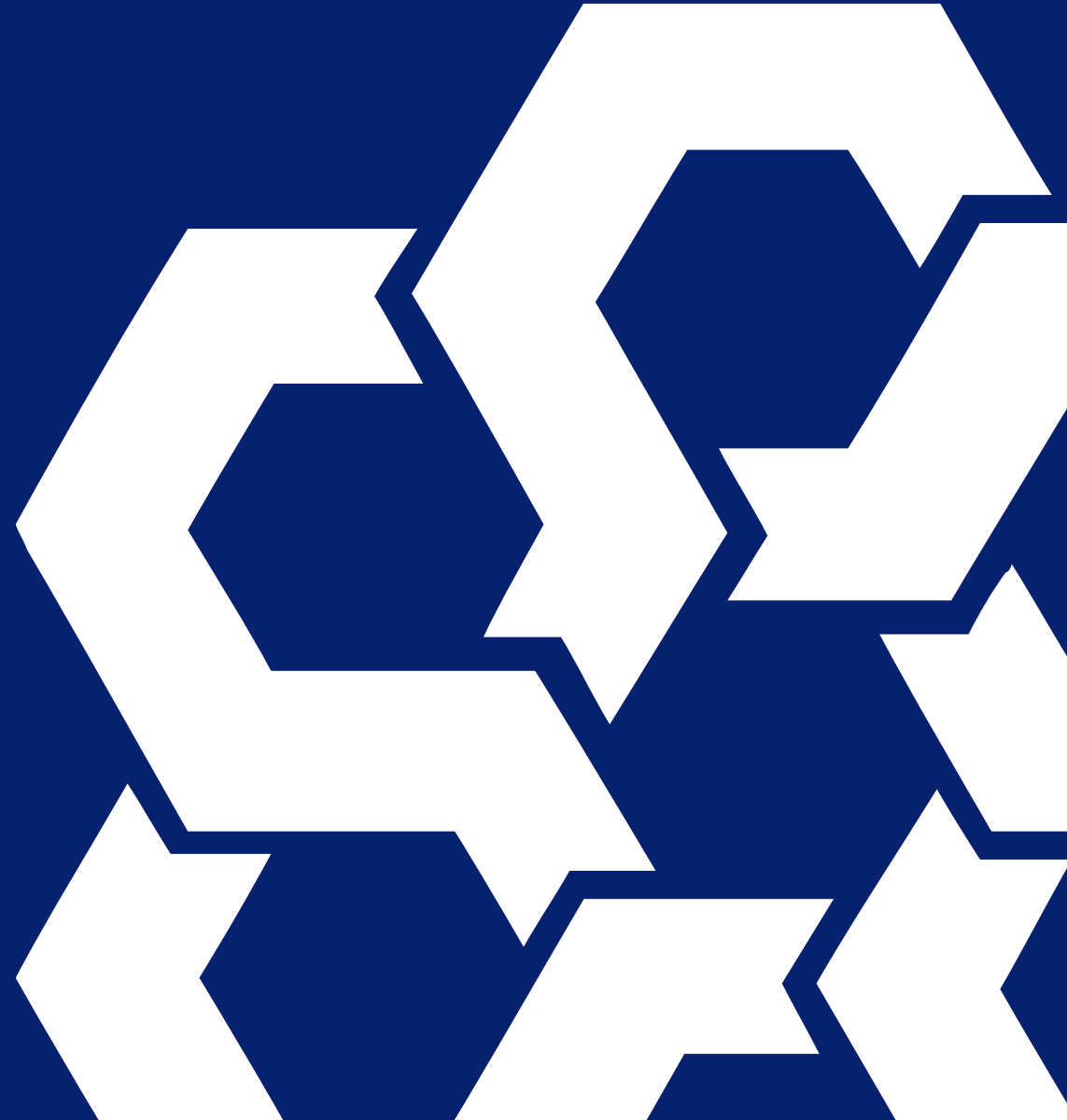
## Feedback on proposals—Attributes of useful information, including coherence

<b>Support for the proposed attributes and supporting guidance</b>	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.
<b>Concerns about simplified terminology</b>	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 <i>Conceptual Framework for Financial Reporting</i> .
<b>Support for the attribute of coherence</b>	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](#)

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## Appendix B—The evolving reporting landscape





## Feedback relating to the evolving reporting 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	Feedback	ISSB decisions
<p>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:</p> <ul style="list-style-type: none"> <li>• be prioritised in the ISSB’s next two-year work plan</li> <li>• be a joint project with the IASB or an ISSB-led project which could still draw on input from the IASB</li> <li>• build on the Exposure Draft <i>Management Commentary</i>, the Integrated Reporting Framework and other sources</li> </ul>	<ul style="list-style-type: none"> <li>• Diverse views about what the project would entail and the intended reporting outcomes</li> <li>• Most respondents did not rank the project as a higher priority compared to the sustainability-related projects at this time</li> <li>• Almost all respondents supported collaboration between the boards</li> <li>• Most respondents supported building on the Exposure Draft <i>Management Commentary</i> and on the Integrated Reporting Framework</li> </ul>	<p>Prioritised sustainability-related projects on biodiversity, ecosystems and ecosystem services and human capital, noting:</p> <ul style="list-style-type: none"> <li>• the ISSB supports the use and adoption of the Integrated Reporting Framework</li> <li>• the Management Commentary project aims to bring about improvements to reporting</li> <li>• collaboration between the boards can take various forms</li> <li>• the ISSB will continue to monitor developments on the topics not added to the work plan</li> </ul>

# 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](#)

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

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