

STAFF PAPER

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Project	Management Commentary		
Paper topic	Due process steps and permission for balloting		
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Purpose and structure of this paper

1. This paper:
 - (a) summarises the background for the project (paragraphs 4–6);
 - (b) discusses the type of consultation document to be published for the project (paragraphs 7–10);
 - (c) discusses the effective date and transition for the revised Practice Statement 1 *Management Commentary* (Practice Statement) (paragraphs 11–15);
 - (d) summarises the due process steps undertaken for publication of the Exposure Draft of the revised Practice Statement (Exposure Draft) (paragraphs 16–27); and
 - (e) requests permission for the staff to begin the balloting process for the Exposure Draft (paragraphs 28–29).
2. The discussion of the due process steps for publication of the Exposure Draft includes the staff's initial analysis of the length of the comment period. The staff plan to ask the Board for a decision on a comment period at a future meeting.

3. There are two appendices to this paper:
 - (a) Appendix A—due process steps taken in the development of the Exposure Draft; and
 - (b) Appendix B—public meetings of the Board and its consultative groups.

Background

4. In 2016, the Board began to monitor developments in wider corporate reporting¹ in the light of investor feedback from the 2015 Agenda Consultation² and a request from the Trustees³. The Board observed significant developments in wider corporate reporting, which on the one hand, have brought innovations but on the other hand, have created a complex and potentially confusing reporting landscape. As a result, in November 2017, the Board added to its work plan a project to revise the Practice Statement based on the relevant due process requirements applicable at that time⁴.
5. The Management Commentary project is one of the Board’s projects intended to promote better communication in financial reporting. Agenda Paper 15 *Cover Paper* provides a detailed background to the project and the Appendix to that paper summarises the Board’s previous discussions and tentative decisions.
6. Throughout its discussions on the project, the Board has considered effects of the proposals as summarised in Agenda Paper 15B *Overview of the likely effects of the proposals*.

¹ The term ‘wider corporate reporting’ is used in this paper to refer to any reporting by entities outside the financial statements. Management commentary is part of both wider corporate reporting and general-purpose financial reporting.

² On page 35 of [Feedback Statement on the 2015 Agenda Consultation](#) (Feedback Statement), the investor feedback on wider corporate reporting is summarised.

³ Please refer to page 35 of the [Feedback Statement](#) and topic 5 in the table on page 18 of the [Trustees’ Review of Structure and Effectiveness: Feedback Statement on the July 2015 Request for Views](#).

⁴ The relevant due process requirements for adding a project to the Board’s work plan were discussed in [Agenda Paper 28A](#) presented to the Board in November 2017. The due process steps for non-mandatory practice guidance are the same as those applied for developing IFRS Standards.

Type of consultation document

7. In August 2020, the Trustees published a revised [IFRS Foundation Due Process Handbook \(the Due Process Handbook\)](#).⁵ Paragraph 5.5 of the *Due Process Handbook* states that:

...Publishing a discussion paper before adding a major standard-setting project to the work plan is not a requirement. However, to proceed without a discussion paper, the Board needs to be satisfied that it has sufficient information and understands the problem and the potential solutions well enough. The Board might conclude that a discussion paper is not necessary because it has sufficient input from a research paper, request for information or other research to proceed directly to an exposure draft. The reasons for not publishing a discussion paper need to be set out by the Board and reported to the [Due Process Oversight Committee].

8. At the November 2017 Board meeting, the Board discussed [Agenda Paper 28A Agenda proposal to revise and update the Management Commentary Practice Statement](#). That paper set out the proposal to develop a revised Practice Statement based on the due process requirements applicable at that time. In the paper, the staff highlighted that an exposure draft would be produced instead of a discussion paper. The paper discussed the urgency of the project, the strong investor support, higher levels of engagement likely for an exposure draft (as opposed to a discussion paper) and the significant research performed by the staff during the initial monitoring stage. The Board has proceeded with the project based on the initial position that an exposure draft will be published as the next due process document.
9. In reviewing the due process steps in the *Due Process Handbook*, the staff also considered the factors for selecting the appropriate type of formal consultation

⁵ Paragraph 4 refers to the due process requirements in the previous version of the *Due Process Handbook* because the Board applied the due process requirements applicable at that point in time. However, all further references in this paper relate to the revised *Due Process Handbook*. Paragraph 6.39 of the revised *Due Process Handbook* retains the statement that the Board follows the same procedures for non-mandatory practice guidance as those used for the development of a standard.

document discussed in February 2018 [Agenda Paper 28](#) *Discussion Papers and Exposure Drafts*. In the staff’s view, the Board’s initial position that an exposure draft should be published remains appropriate because:

- (a) the problem is well defined and the proposals are sufficiently detailed for publication of an exposure draft. The Board has discussed gaps in reporting practice (ie the problem) and the scope of the project at various meetings.⁶ In discussing such gaps, the Board considered feedback from discussions with its various consultative groups.⁷ The Board’s subsequent discussions on the characteristics of information and on all areas of content were focussed on addressing the gaps in these areas.
- (b) investors’ demand for this project remains strong. The project is intended to promote preparation of management commentaries that better meet the information needs of investors and creditors by providing guidance that consolidates innovations in narrative reporting and addresses gaps in reporting practice. *Agenda Paper 15A Overview of guidance on matters affecting long-term prospects, on intangible resources and relationships and on ESG matters* provides an overview of how the Board’s proposals are intended to promote provision of information in management commentary on matters of particular interest to investors and creditors. It is preferable to respond to investors’ needs without unnecessary delay.
- (c) investors support the overall direction of the project, as evidenced from outreach and consultations with investors, including the Capital Markets Advisory Committee (CMAC). Please refer to Appendix A and Appendix B for further details of the outreach and consultations performed.

⁶ Agenda Papers [28B](#) and [28A](#) presented at the March 2017 and November 2017 Board meetings describe the problem (ie gaps in reporting practice) as well as the scope of the proposed revision to the Practice Statement. [Agenda Paper 15](#) presented to the Board in May 2019 provides an overview of the staff’s approach to the revision of the guidance on management commentary. In addition, the Board discussed the objective of management commentary in November 2018 ([Agenda Paper 15A](#)) and March 2020 ([Agenda Paper 15A](#)).

⁷ The staff discussed gaps in reporting practice with all the consultative groups. See Appendix B for a list of public meetings and non-public meetings and outreach events held for this project.

- (d) drafting is critical for the revised Practice Statement. The Board has highlighted the need to use clear and simple language in drafting because management commentaries are often prepared by a wider or different set of stakeholders than the financial statements and some of those stakeholders may not be familiar with the language in IFRS Standards. It would be more effective to test drafting in an exposure draft than in a discussion paper.
10. The staff have considered all the relevant due process steps for and matters associated with publishing an Exposure Draft, as summarised below.

Effective date and transition

11. Currently, individual jurisdictions determine whether entities should be required to provide management commentaries and if so, whether those commentaries should comply with the Practice Statement. In September 2020, the Board tentatively decided that the revised Practice Statement should retain the status of the current Practice Statement. That is the revised Practice Statement would continue to be non-mandatory and would not become an IFRS Standard.
12. In performing research for the effects analysis that is discussed in paragraph 7 of Agenda Paper 15B, the staff found only a small number of entities that apply the existing Practice Statement. If those entities choose to transition to the revised Practice Statement, or if other entities choose to apply it voluntarily, they would need some time to familiarise themselves with the requirements and to prepare for transition. Information in management commentary is expected to be derived from information used by management in managing the business, so management would not need to produce information specifically for management commentary. For this reason, the staff do not recommend any transition provisions.
13. The staff think that most time and effort would be required to create or adjust internal systems and control procedures as well as consider what information is material and how to present the information in a way that is helpful to investors and creditors having considered the contents of the revised Practice Statement (see also paragraphs 37–38 of Agenda Paper 15B). The period of time needed would depend on

an entity’s current narrative reporting systems as well as on an entity’s particular facts and circumstances (size of the entity, local regulations or frameworks applied to narrative reporting etc). Accordingly, the staff suggest that the Board allow at least one year for the transition to take place.

14. The staff think that if the Practice Statement becomes effective for annual reporting periods beginning on or after the date of its publication, this would give all entities that are required or choose to apply it at least a year to transition to the Practice Statement. For example, if the revised Practice Statement was published in December 2022, the Practice Statement would apply for annual reporting periods beginning on or after [day] December 2022. An entity that has a calendar reporting period would need to prepare its 2023 management commentary following the revised Practice Statement, so it would have at least a year to prepare. Entities with later reporting periods would have even more time. Therefore, the staff recommend that the revised Practice Statement becomes effective for annual reporting period beginning on or after [the date of its publication].
15. The staff also recommend that early application is permitted. Investors are increasingly requesting additional information from management. Accordingly, entities may find it useful to apply the Practice Statement at an earlier date. In addition, the staff consider that no disadvantages for investors or creditors could result from early application.

Question for the Board

1. Does the Board agree with the staff recommendations that:
 - (a) the revised Practice Statement becomes effective for annual reporting periods beginning on or after [the date of its publication]; and
 - (b) early adoption is permitted?

Summary of due process steps for publication of the Exposure Draft

16. The following paragraphs summarise the due process steps undertaken in the project in accordance with paragraph 6.6 of the *Due Process Handbook* (see Appendix A for a more detailed account of these steps) and provide the staff’s initial analysis of the

length of the comment period. The staff plan to ask the Board for a decision on a comment period at a future meeting.

Steps taken in developing proposals

17. In reaching its tentative decisions, the Board held 19 public meetings between March 2017 and October 2020, covering various topics.
18. In 2018, following the decision to add a project to its work plan, the Board established a consultative group to provide input into the revision of the Practice Statement. The Management Commentary Consultative Group’s (MCCG) feedback was reported to the Board and provided valuable input into the staff’s analysis and developing recommendations for the Board. The MCCG has had four public meetings: in September 2018 and January, April and December 2019. The MCCG members have been given the opportunity to review a working draft of the Exposure Draft. The staff will consider those comments in producing the pre-ballot draft.
19. The project was also discussed on 13 occasions with the Board’s standing consultative groups, including the CMAC, the Global Preparers Forum (GPF), the Accounting Standards Advisory Forum (ASAF) and the Emerging Economies Group (EEG).
20. The IFRS Advisory Council members were consulted about revising the Practice Statement in April 2017. The Due Process Oversight Committee (DPOC) and the IFRS Advisory Council were informed of the progress of the project through technical updates on a regular basis.
21. The Board also requested feedback on its proposals from external stakeholders at various other public meetings, including the World Standard-setters meeting in October 2018 and International Forum of Accounting Standard-setters in September 2019.
22. Appendix B lists both Board meetings and meetings with consultative groups, as well as the topics discussed at those meetings.
23. Furthermore, as part of the project, the Board members and the staff have performed extensive outreach with external stakeholders on a variety of topics. A total of 70

outreach meetings were conducted with various stakeholders including investors and creditors, preparers, academics, standard-setters, regulators, and other stakeholders.

24. These meetings allowed the Board to:
- (a) exchange views with various stakeholders;
 - (b) explain the purpose of the project, and clarify technical details as needed; and
 - (c) gather early feedback on the project's direction and the staff's initial proposals, allowing for clarification and refinement of those proposals in developing the staff's recommendations for the Board where necessary.

Comment period

25. Paragraph 6.7 of the *Due Process Handbook* states:

The Board normally allows a minimum period of 120 days for comment on an exposure draft. If the matter is narrow in scope and urgent the Board may set a comment period of less than 120 days but no less than 30 days after consulting and obtaining approval from the DPOC.

26. The staff do not think a shorter comment period is necessary or appropriate for this project. This is because while the project is important to stakeholders it is not narrow in scope. Rather, the Board is proposing a comprehensive revision of the Practice Statement.
27. The staff expect to ask the Board for a decision on the length of the comment letter period in early 2021, closer to the publication date of the Exposure Draft. This will allow the Board to consider the most current information about possible implications of covid-19 challenges and the timing of other Board consultations.

Confirmation of due process steps and permission to ballot

28. The required due process steps for the publication of the Exposure Draft are summarised in Appendix A to this paper. This appendix demonstrates that the required due process steps to date for the publication of the Exposure Draft have been

completed. The remaining due process steps will be completed before the publication of the Exposure Draft.

29. In accordance with paragraph 6.9 of the *Due Process Handbook*, the staff also ask whether any Board member intends to dissent from the proposed Exposure Draft.

Questions for the Board

2. **Comment period:** Does the Board have any comments about the comment period?
3. **Permission to ballot:** Is the Board satisfied that it has complied with the applicable due process steps and that it should begin the balloting process for the Exposure Draft?
4. **Dissents:** Does any Board member intend to dissent from the Exposure Draft?

Appendix A—Due process steps taken in the development of the Exposure Draft

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>The Board held 19 public meetings from March 2017 to October 2020, during which various topics were discussed. All recordings and meeting papers are publicly available at www.ifrs.org.</p> <p>Please refer to Appendix B for a list of public meetings discussing the project and topics discussed.</p>
Consultation with the Trustees and the Advisory Council.	Required	<p>In April 2017, the IFRS Advisory Council supported adding the Management Commentary project to the Board’s work plan.</p> <p>The Trustees and IFRS Advisory Council were informed of the progress of the project on a regular basis.</p>
Consultative groups used, if formed.	Optional	<p>The Board established a consultative group (MCCG) in 2018 to provide input into the revision of the Practice Statement. The MCCG feedback was reported to the Board and provided valuable input to the staff’s initial proposals. The MCCG has had four public meetings: in September 2018 as well as in January, April and December 2019. Please refer to Appendix B for a list of topics discussed by the MCCG at its public meetings.</p> <p>The MCCG members have been given the opportunity to review a working draft of the Exposure Draft. The staff</p>

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
		will consider the feedback received in producing a pre-ballot draft of the Exposure Draft.
Fieldwork is undertaken to analyse proposals.	Optional	<p>Before the project was added to the work plan, a detailed survey of the wider corporate reporting landscape and implications for the Board including a desk review of selected academic literature and reports and guidance published by other organisations was performed.⁸</p> <p>The staff’s research also included review of responses from 24 national standard-setters to the staff’s request for information about requirements and commonly applied non-mandatory guidance for narrative reporting in their jurisdictions. The staff also reviewed EU Non-financial Reporting Directive (2014/95/EU) and the related European Commission Guidelines on non-financial reporting, and the International Integrated Reporting <IR> Framework, because some jurisdictions which replied to the request for information require or encourage management to refer to these sources in preparing management commentary.</p>
Outreach meetings with a broad range of stakeholders, with special effort to consult investors.	Optional	<p>Board members and staff have, since September 2017, conducted outreach with various stakeholder groups. These meetings included:</p> <ul style="list-style-type: none"> • Public meetings with the ASAF and the Board’s various standing consultative groups. Please refer to Appendix B for a list of public meetings held.

⁸ Please refer to [Agenda Paper 28A](#) presented at the March 2017 Board meeting and the update in [Agenda Paper 28B](#) presented at the November 2017 Board meeting.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
		<ul style="list-style-type: none"> • Non-public meetings to reach out to external stakeholders to understand their views about the project. <p>As part of the project, a total of 70 non-public outreach meetings have been held with other stakeholders. These included:</p> <ul style="list-style-type: none"> • 30 meetings with standard setters (both financial and non-financial (excluding meetings with the ASAF)); • 13 with academics or think tanks; • 10 meetings with investors; • 6 with accountancy bodies; • 4 meetings with regulators; • 2 meetings with preparers; and • 5 meetings with other stakeholders. <p>Input gathered from these meetings was used in the development of the proposals.</p>
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	<p>Please refer to Agenda Paper 15B for an overview of likely effects of the forthcoming Exposure Draft.</p> <p>An analysis of the likely effects will be included in the Basis for Conclusions on the Exposure Draft.</p>
Finalisation		

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Due process steps reviewed by the Board.	Required	This paper asks the Board to review the due process steps taken for the project and decide whether the Board is satisfied that it has complied with all the applicable requirements.
The Exposure Draft has an appropriate comment period.	Required	The Board will be asked to set an appropriate comment period in early 2021.
Drafting		
Drafting quality assurance steps are adequate—the Translations and IFRS Taxonomy teams	Required	The staff plan to ask the Translations and IFRS Taxonomy teams to review the pre-ballot draft of the Exposure Draft.
Drafting quality assurance steps are adequate—the Editorial team and external reviewers	Optional	<p>The editorial team will continue to be involved in the review of the Exposure Draft throughout the drafting process.</p> <p>As noted above, the MCCG have reviewed a working draft of the Exposure Draft. The staff will consider those comments in producing the pre-ballot draft.</p> <p>External reviewers will be asked to review the pre-ballot draft.</p>

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Exposure Draft published.	Required	The Exposure Draft will be published on the project website and in hardcopy.
Press release to announce publication of Exposure Draft.	Required	The staff plan to issue a press release accompanying the publication of the Exposure Draft.
Snapshot document to explain the rationale and basic concepts included in the Exposure Draft.	Optional	A snapshot explaining main proposals in the Exposure Draft will be published alongside the Exposure Draft.

Appendix B—Public meetings of the Board and its consultative groups⁹

Board meetings

Date	Topic
March 2017	<ul style="list-style-type: none"> • Wider corporate reporting—an initial survey of the landscape and implications for the Board • Wider corporate reporting— implications for the Board: options for the Work Plan
November 2017	<ul style="list-style-type: none"> • Agenda proposal to revise and update the Management Commentary Practice Statement • An update on developments
March 2018	<ul style="list-style-type: none"> • Education session— Management Commentary Practice Statement and plans for updating it
July 2018	<ul style="list-style-type: none"> • Project update
October 2018	<ul style="list-style-type: none"> • Oral update—project update and main messages from the MCCG meeting held in September 2018
November 2018	<ul style="list-style-type: none"> • The objective of management commentary • Summary of research on the objective of management commentary
February 2019	<ul style="list-style-type: none"> • Oral update—project update and main messages from the MCCG meeting held in January 2019
April 2019	<ul style="list-style-type: none"> • Oral update—project update and main messages from the MCCG meeting held in April 2019

⁹ All the agenda papers and meeting summaries are available on the project website at <https://www.ifrs.org/projects/work-plan/management-commentary/#project-history>.

Date	Topic
May 2019	<ul style="list-style-type: none"> • Overview of the staff’s approach to revision
July 2019	<ul style="list-style-type: none"> • Approach to guidance on qualitative characteristics • Making relevance and materiality judgements
September 2019	<ul style="list-style-type: none"> • Faithful representation in management commentary
October 2019	<ul style="list-style-type: none"> • Enhancing qualitative characteristics in management commentary • Introduction to business model
November 2019	<ul style="list-style-type: none"> • What an entity’s business model is
March 2020	<ul style="list-style-type: none"> • The objective of management commentary • Education session—Initial ideas on developing disclosure objectives for management commentary
April 2020	<ul style="list-style-type: none"> • Introduction to disclosure objectives • Business model • Strategy • Resources and relationships
May 2020	<ul style="list-style-type: none"> • Risks • External environment
July 2020	<ul style="list-style-type: none"> • Financial resources • Progress • Performance and position • Management measures and indicators
September 2020	<ul style="list-style-type: none"> • Status of the Practice Statement and procedures for issuing management commentary

Date	Topic
October 2020	<ul style="list-style-type: none"> • Overview of guidance on matters affecting long-term prospects, on intangible resources and relationships and on ESG matters • Overview of the likely effects of the proposals • Due process steps and permission to begin the balloting process

MCCG meetings

Date	Topic
September 2018	<ul style="list-style-type: none"> • Introduction to the project • The objective of management commentary • Applying materiality in management commentary • Principles for preparing management commentary
January 2019	<ul style="list-style-type: none"> • Approach to developing guidance on performance, position and progress • Analysis of the financial statements • Matters that could affect the entity's future development
April 2019	<ul style="list-style-type: none"> • Overall approach to developing guidance on business model, strategy, operating environment and risks and cross-cutting issues • Business model • Strategy • Operating environment and risks
December 2019	<ul style="list-style-type: none"> • Update on the project progress • Topics for further input, including: <ul style="list-style-type: none"> - information on intangibles and environmental, social and governance matters

Date	Topic
	<ul style="list-style-type: none"> - meaning of ‘management’s view’ - purpose - guidance on narrative coherence • Overview of staff’s current proposals • Supporting adoption of the Practice Statement

ASAF meetings

Date	Topic
July 2017	<ul style="list-style-type: none"> • Wider corporate reporting—an overview
December 2017	<ul style="list-style-type: none"> • Wider corporate reporting and the International Accounting Standards Board
December 2018	<ul style="list-style-type: none"> • Applying materiality in preparing management commentary • Principles for preparing management commentary
April 2019	<ul style="list-style-type: none"> • The interaction between management commentary and other reports • Providing information ‘through the eyes of management’ and interplay with users’ needs and neutrality • Forward-looking information in management commentary • Information about tax in management commentary
July 2019	<ul style="list-style-type: none"> • Applying the notion of narrative coherence • Identifying and reporting matters that could affect the entity’s long-term success, including intangible resources and relationships that the entity depends on for its long-term success

Joint CMAC and GPF meetings

Date	Topic
June 2018	<ul style="list-style-type: none"> • Scope of the Board’s interest • Factors behind the update • What might we cover in the update? • What are the issues that need addressing?
June 2019	<ul style="list-style-type: none"> • Describing an entity’s strategy, its culture and funding and liquidity in management commentary

CMAC meetings

Date	Topic
November 2018	<ul style="list-style-type: none"> • Objective of management commentary • Applying materiality in preparing management commentary • Principles for preparing management commentary
March 2019	<ul style="list-style-type: none"> • Challenges with current practice on reporting performance and position in management commentary • The interaction between management commentary and other reports • Overview of performance and position • Forward-looking information in management commentary • Information about tax in management commentary
March 2020	<ul style="list-style-type: none"> • Initial ideas for disclosure objectives for each of the areas of content in management commentary

GPF meetings

Date	Topic
November 2018	<ul style="list-style-type: none"> • The objective of management commentary • Applying materiality in preparing management commentary • Principles for preparing management commentary
March 2019	<ul style="list-style-type: none"> • How to determine content of management commentary • The interaction between management commentary and other reports • Forward-looking information in management commentary • Information about tax in management commentary

World Standard-setters meeting

Date	Topic
October 2018	<ul style="list-style-type: none"> • Scope of the Board's interest • What the revised Practice Statement might cover?
October 2020	<ul style="list-style-type: none"> • Introduction to the forthcoming Exposure Draft

International Forum of Accounting Standard-setters meeting

Date	Topic
September 2019	<ul style="list-style-type: none"> • Information about intangibles in management commentary • Environmental, social and governance matters in management commentary

IFRS Advisory Council meeting

Date	Topic
April 2017	<ul style="list-style-type: none"> • Wider corporate reporting: an initial overview¹⁰

EEG meeting

Date	Topic
May 2020	<ul style="list-style-type: none"> • Overview of the Management Commentary project • Basis of preparation and disclosure objectives • Main areas of content

¹⁰ Progress updates provided to the Advisory Council are discussed in paragraph 20.