

STAFF PAPER

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IASB® meeting

Project	Management Commentary		
Paper topic	Feedback summary—Long-term prospects, intangible resources and relationships and ESG matters		
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Purpose of paper

- 1 The papers for this meeting summarise feedback on the International Accounting Standards Board (IASB)'s proposals for a revised Practice Statement on management commentary (Practice Statement), as set out in the Exposure Draft *Management Commentary* (Exposure Draft).
- 2 This paper summarises feedback on the proposed requirements and guidance for reporting on matters of particular interest to investors (topical matters), namely:
 - (a) matters that could affect the entity's long-term prospects;
 - (b) intangible resources and relationships; and
 - (c) environmental, social and governance (ESG) matters.
- 3 This paper should be read in the context of Agenda Paper 15 *Cover paper*, which explains some of the terminology used and how we have quantified feedback.
- 4 This paper does not ask the IASB to make decisions but invites IASB members' questions and comments on the feedback.

Structure of paper

- 5 This paper includes:
- (a) a recap of the Exposure Draft proposals (paragraphs 7–13);
 - (b) an overview of the key messages in the feedback (paragraphs 14–18);
 - (c) summaries of the feedback on:
 - (i) the overall approach to topical matters (paragraphs 19–31); and
 - (ii) the proposals on matters that could affect the entity’s long-term prospects (paragraph 32);
 - (iii) the proposals on intangible resources and relationships (paragraphs 33–38);
 - (iv) the need to address governance-related matters (paragraphs 39–45);
 - (v) other proposals on ESG matters (paragraphs 46–52); and
 - (vi) the examples related to topical matters (paragraphs 53–57).
- 6 An appendix to this paper notes respondents’ detailed suggestions for requirements and guidance on reporting on governance-related matters.

Exposure Draft proposals

- 7 The IASB started the Management Commentary project in the context of increased investors’ interest in narrative reporting. The IASB noted particular interest in information about matters that increasingly affect the entity’s ability to create value and generate cash flows, including in the long term—for example, information about intangible resources and relationships and about ESG matters. The IASB’s research indicated that currently management commentaries sometimes lack such information. Identified shortcomings included:

- (a) insufficient discussion of matters that could affect the entity’s long-term prospects, such as systemic risks or strategic challenges; and
 - (b) insufficient information about intangible resources and relationships and ESG matters.
- 8 The proposals in the Exposure Draft were intended to address these shortcomings and to help management identify what information to provide on matters that could affect an entity’s long-term prospects, on intangible resources and relationships and on ESG matters.
- 9 The Exposure Draft did not include a prescriptive list of information to be provided about these topical matters. Instead, the IASB’s objectives-based proposals were intended to result in management commentary providing information about those matters that is specific to the entity and material to investors.
- 10 The proposed requirements and guidance that would apply to reporting on topical matters were included throughout the Exposure Draft rather than in a separate section. This is because:
- (a) these matters may affect various aspects of the entity and its operations and so may need to be described throughout management commentary; and
 - (b) there is an overlap between these matters, for example, a relationship with the entity’s specialist employees could be viewed as a key intangible relationship, a key social matter or a key matter affecting the entity’s long-term prospects.
- 11 As a tool to help preparers, the Exposure Draft also included Appendix B which provided:
- (a) an overview of requirements and guidance included throughout the Exposure Draft that management would likely need to consider in deciding what information to provide about topical matters; and
 - (b) examples showing how management might consider those requirements and guidance in identifying which matters are key and which information is material in the fact patterns described.

- 12 The IASB did not propose to include explicit requirements on reporting on the entity’s governance. Local laws typically regulate governance and may also require entities to provide specified information. However, paragraph B12 of Appendix B explained that management commentary may provide insights into aspects or consequences of an entity’s governance. For example, some insight may be drawn from management’s description of its strategy, from information on progress in managing key matters or from information about differences between metrics used for incentive plans and metrics used for monitoring progress in implementing management’s strategy.
- 13 The Invitation to comment asked respondents whether the requirements and guidance proposed in the Exposure Draft would provide a suitable and sufficient basis for management to identify material information about topical matters.

Key messages in feedback

- 14 More than half of the respondents commented on the proposed requirements and guidance on topical matters. Most of them broadly agreed that the proposals would provide a suitable and sufficient basis for reporting material information about topical matters.
- 15 Some respondents highlighted the need for connectivity between the requirements on topical matters, in particular on ESG matters, in the Practice Statement on management commentary and in the future International Sustainability Standards Board (ISSB)’s requirements.
- 16 While broadly agreeing with the IASB’s proposals on topical matters, many respondents suggested further refinements, including suggestions for clarifying or expanding the proposed requirements and guidance on particular topical matters and related examples and for giving greater prominence to those requirements and guidance throughout the Practice Statement. Some of those respondents suggested specific sources that the IASB could consider in refining the proposals.

- 17 Many of those commenting on topical matters—including many standard-setters, accountancy bodies, accounting firms and investors—expressed a view that the Practice Statement should explicitly address reporting on governance-related matters in management commentary. Almost all of them suggested that reporting on governance-related matters should focus on how such matters could affect the entity’s ability to create value and generate cash flows and most made suggestions for governance-related information to be provided in management commentary.
- 18 Some respondents commenting expressed a view that the proposals would not provide a suitable and sufficient basis for reporting on topical matters. Some of them disagreed with the proposed focus on investors’ information needs. A few others expressed a view that the proposals did not provide a sufficiently clear conceptual basis for reporting on topical matters or that the proposals were not sufficiently specific or prominent.

Overall approach to topical matters

Broad support

- 19 More than half of the respondents commented on the question about the proposed requirements and guidance as a basis for reporting material information about topical matters. Most of these respondents broadly agreed that the proposals in the Exposure Draft would provide a suitable and sufficient basis for management to identify material information about topical matters that investors need. Some of the respondents commented specifically on the overview of requirements and guidance and the examples in Appendix B and expressed a view that they would be helpful to preparers.

We think that Appendix B is excellent. Examples in them show that different companies have their own ‘ESG and intangibles’ elements to be disclosed. In such a sense, these requirements and guidance provide companies with willingness and confidence to explain those elements in their own value creation story. *CL38 WICI Global*

- 20 A few respondents, in particular investors participating in the outreach, highlighted the importance of materiality as the general filter for including in management commentary information about topical matters.

We agree that management commentary should provide information on matters that could affect the entity’s long-term prospects, intangible resources and relationships, and environmental and social matters, where these are material and relevant to any of the content areas. *CL48 Australian Institute of Company Directors*

Concerns

- 21 Many of those commenting on the proposed requirements and guidance on topical matters expressed concern that the Exposure Draft did not explicitly address reporting on governance-related matters (see paragraphs 39–45).
- 22 A few respondents—while broadly agreeing with the proposed requirements and guidance on topical matters—stated that their concerns about the proposed objectives-based approach would also apply to the proposals on topical matters. Specifically, they expressed concerns about:
- (a) the proposed requirements and guidance on topical matters treating opportunities differently from risks (see also paragraph 35 of March 2022 [Agenda Paper 15E Feedback summary—Disclosure objectives and areas of content](#), which discussed respondents’ suggestion to broaden the ‘risks’ area of content to include both risks and opportunities).
 - (b) potential commercial sensitivity of some of the information on topical matters (see also paragraphs 43–51 of March 2022 [Agenda Paper 15E](#), which discussed feedback on disclosure of commercially sensitive information). In contrast, a few investors reiterated their concern that the flexibility of the proposed guidance may result in management omitting material information.

- (c) potential personal liability risk related to making forward-looking statements, in particular related to the entity’s longer-term prospects (see also paragraph 34 of the March 2022 [Agenda Paper 15C Feedback summary—The objective of management commentary](#), which discussed feedback on the long-term time horizon).
- (d) suitability of the proposed requirements and guidance as the basis for assurance of information provided on topical matters (see also paragraphs 29–31 in the March 2022 [Agenda Paper 15D Feedback summary—Objectives-based approach](#), which discussed respondents’ concerns about the proposed objectives-based approach providing a suitable and sufficient basis for assurance).

23 A few respondents pointed out that reporting on topical matters, in particular on ESG, is a relatively new area of reporting. Therefore, they expressed a view that preparers may initially find it difficult or undesirable to provide some of the required information and it would take time for the practice to develop.

24 A few respondents suggested testing the suitability of the proposed requirements and guidance on topical matters. One respondent suggested field testing those requirements and guidance before publishing the final document. Another respondent expressed a view that the IASB should reassess the suitability of the requirements and guidance after their initial application:

There is helpful content in Appendix B to give preparers a clear indication of the types of issues they need to consider. An overly-prescriptive approach is unlikely to work. Nor should the IASB be drawn into adopting a ‘spoon-feeding’ approach.

We suggest reviewing the success of the guidance after, say, two or three years and considering whether further consultation with preparers and investors is necessary and whether amendments to the guidance are needed.

CL28 UK Shareholders’ Association and ShareSoc

Interaction with the future ISSB requirements

25 Some respondents commented on the interaction between the proposed requirements and guidance on topical matters—in particular on ESG matters—and the future requirements of the ISSB:

- (a) most of these respondents highlighted the need for connectivity between the requirements of both boards (see also paragraphs 26–31 in the March 2022 [Agenda Paper 15A Feedback summary—Project direction](#)).
- (b) a few respondents expressed a view that because of the strong interaction with the future requirements of the ISSB, it is too early to assess whether the proposed requirements and guidance would provide a suitable and sufficient basis for identifying material information on topical matters to be included in management commentary:

The content of disclosure of ESG matters is planned to be discussed by the International Sustainability Standards Board (ISSB). Given such a situation, it is too hasty to prescribe disclosure of ESG matters in *Management Commentary*. In light of this, we request that the development of the draft Practice Statement as the IASB’s solo project be abandoned and how to handle this project be considered jointly by the IASB and the ISSB. It is reasonable to postpone the finalization of the draft Practice Statement until then. CL27 Keidanren

- (c) a few respondents suggested developing an overarching framework for ‘connected’ reporting that would act as a basis for reporting on ESG matters and on intangible resources and relationships (see also paragraphs 58–62 of the March 2022 [Agenda Paper 15A](#)).
- (d) a few respondents suggested that detailed guidance relating to ESG matters should now be developed by the ISSB:

While we believe there is helpful guidance in Appendix B, in particular examples showing how management might consider the requirements and guidance in identifying material information, we do not believe the Practice Statement is the right location for such detailed guidance. In particular, we believe that detailed guidance relating to ESG matters should now fall within the remit of the ISSB.

CL82 Institute of Chartered Accountants in England and Wales

- (e) a respondent suggested that the future requirements of the ISSB on sustainability-related disclosures should guide the requirements for management commentary.

Suggestions for refinements to the proposals

26 Many respondents welcomed the inclusion of the proposed requirements and guidance on topical matters in the Practice Statement but asked the IASB to:

- (a) clarify or expand the proposed requirements and guidance on particular topical matters and related examples (see paragraphs 32–57). In addition, a few respondents suggested that the IASB should:
 - (i) provide more application guidance on making materiality judgements relating to information about those matters; and
 - (ii) align terminology in the Practice Statement with that of other established frameworks on topical matters.
- (b) give greater prominence to requirements and guidance on topical matters throughout the Practice Statement:

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. *CL21 KPMG*

27 Specific suggestions for increasing the prominence of the requirements and guidance on topical matters included:

- (a) adding cross-references from requirements and guidance in the body of the Practice Statement to examples in Appendix B;
- (b) adding hyperlinks from Appendix B to related paragraphs in the body of the Practice Statement; and
- (c) reconsidering how examples are positioned and presented:

Chapter 15 includes examples of information that might be material but Table B.1 also includes examples of items that might be material for specified areas. This multi-layered approach makes the document complex and would be difficult to follow for those entities applying the Practice Statement. *CL10 UK Financial Reporting Council*

We would recommend the Board to include examples in the main body of the practice statement. These examples need not always be matched to specific disclosure objectives. Continuous examples, such as those discussed in the paragraph above, should be shown as one complete narrative, within the area of content to which they most relate.¹ *CL24 Association of Certified Chartered Accountants*

28 Some respondents suggested specific sources that the IASB could consider in clarifying and expanding the proposed requirements and guidance on topical matters, including:

- (a) the work of the Climate Disclosure Standards Board and the Value Reporting Foundation, including the International Integrated Reporting Framework ([<IR> Framework](#));
- (b) the Discussion Paper [Better information on intangibles: which is the best way to go?](#) published by the EFRAG in August 2021;

¹ The comment letter referred to the example related to a pharmaceutical company discussed in items B1.8 and B1.11 of Table B1 in Appendix B.

- (c) the report [*Towards Sustainable Businesses: Good Practices in Business Model, Risks and Opportunities Reporting in the EU*](#) published by the European Reporting Lab’s Project Task Force on Reporting of Non-financial Risks and Opportunities and Linkage to the Business Model in October 2021;
- (d) the reports of the UK FRC Lab, including their report [*Taskforce on Climate-related Financial Disclosures \(TCFD\): ahead of mandatory reporting*](#);
- (e) the [WICI Intangibles Reporting Framework](#) that sets out the principles for reporting on intangible resources and relationships;
- (f) the [Natural Capital Protocol](#) and the [Social and Human Capital Protocol](#) issued by the Capitals Coalition that set out guidance on identifying, measuring and valuing entities’ direct and indirect impacts and dependencies on natural, social and human capitals; and
- (g) academic literature on categorisation of intangible resources and relationships.

Disagreement

- 29 Some respondents commenting expressed a view that the proposals in the Exposure Draft would not provide a suitable and sufficient basis for management to identify information about topical matters that needs to be included in management commentary.
- 30 Some of those respondents disagreed with the proposed focus on investors’ information needs and expressed a view that such a focus would lead to provision of incomplete information on topical matters. Instead, a few respondents advocated using [the <IR> Framework](#) as a more suitable basis for reporting on topical matters (see also paragraph 61 of the March 2022 [Agenda Paper 15A](#)). One respondent suggested that to identify material information about topical matters to be provided in management commentary entities should apply the Global Reporting Initiative’s multi-stakeholder approach. Applying that approach, an entity would first identify its social and environmental impacts and then consider whether and how those impacts could affect the entity’s prospects for cash flows.

31 Other respondents disagreed with the IASB’s proposals on topical matters because in their view the proposals:

- (a) did not provide a sufficiently clear conceptual basis for reporting on these matters:

We support the IASB’s intention – as expressed in the [Exposure Draft (ED)] – to take greater account of the increased need of investors and creditors for forward-looking information, information on intangible resources, and ESG matters, through the revision of [Practice Statement] 1. However, we have the impression that these questions should be given more emphasis in the ED from a conceptual point of view. We acknowledge the ED contains three dedicated tables presenting numerous examples for information that might be provided in this context. We believe preparers will find these very helpful. Nevertheless, the conceptual basis following the headline “*Information about long-term prospects, intangible resources and relationships and ESG matters*” and involving the two paras. 4.16 and 4.17 of the ED seems far too short in our view. Furthermore, we note the IASB, firstly, has located this section of the ED within the chapter B “Areas of content” but separately from the actual areas of content, and, secondly, has addressed the issues repeatedly in almost all other sections of the ED, but to varying degrees in depth and granularity. Therefore, we fail to recognise the IASB’s approach of considering and embedding the issue of information about long-term prospects etc. in PS 1 from a conceptual perspective.

In our view, the IASB should better structure these issues and address them in a much more focused and conceptually sound manner.

CL39 Accounting Standards Committee of Germany

- (b) were not specific or prominent enough to reflect the important role of these matters in the entity’s value creation process. In particular, one respondent argued that discussing the requirements and guidance on reporting on topical matters in an appendix may be interpreted as implying low importance of information about such matters.

Proposals on matters that could affect an entity’s long-term prospects

32 A few respondents commented on the proposed requirements and guidance on reporting on matters that could affect an entity’s long-term prospects. Their comments included:

- (a) add a requirement to specify in management commentary how management defines short term, medium term and long term.
- (b) to avoid diversity in practice, provide guidance on the notion of ‘long-term’, including on how it relates to the notion of ‘going concern’.
- (c) add guidance on providing information about an entity’s long-term viability:

We further suggest the Board considers including elements that help describe an entity’s longer-term viability such as lookout period (including an explanation of the time horizons and how they are established), principal risks factored into forecasting and any qualifications and assumptions. The Practice Statement would benefit from specifying information that provides shareholders with a clearer understanding of the way those charged with governance are managing the principal risks to their invested capital. This information should focus on the processes by which the business is managed and protected on a longer-term basis. *CL68 Deloitte*

- (d) improve guidance to prevent entities omitting information related to the entity’s long-term prospects.

Proposals on intangible resources and relationships

33 Some respondents—mainly standard-setters, accountancy bodies and accounting firms—suggested refinements to the proposed requirements and guidance on reporting on intangible resources and relationships.

34 A few respondents asked the IASB to clarify in the Practice Statement that intangible resources and relationships in the context of management commentary:

- (a) are broader than intangible assets recognised in the financial statements and would include internally generated intangible assets that are not recognised in financial statements.
- (b) are part of matters that could affect the entity's long-term prospects.
- (c) include not only resources but also commitments and obligations:

We believe that further guidance is required on what constitutes 'intangible resources and relationships' in the context of management commentary. The Board should also clarify that the term 'intangible resources and relationships' includes existing commitments and obligations, as they are critical to maintaining enterprise value.

CL68 Deloitte

- 35 A few respondents pointed out that information about intangible resources and relationships is required in both the entity's financial statements and its management commentary. A respondent made a suggestion for information that could be useful to investors across the entity's reports:

To truly aid investors and provide them with useful information, management should be required to:

1. Identify the key intangibles of the entire business – both internally generated and acquired.
2. Provide an opinion on the value of those intangibles in the notes to the financial statements.
3. Provide an opinion of the overall business value at the reporting date, to help investors to understand whether or not their capital is allocated efficiently. *CL66 Brand Finance*

- 36 Other respondents asked the IASB to clarify the basis for determining what information about intangible resources and relationships to report in the entity's financial statements and its management commentary respectively. These respondents suggested that the IASB should consider reporting on intangible resources and relationships holistically—that is both in financial statements and in management

commentary—before determining the scope of information about intangible resources and relationships to be required in management commentary:

We recommend however to analyse further whether more comprehensive information about intangible resources is better placed and disclosed in the notes and then cross-referenced in management commentary. In line with our recent recommendation for the IASB's Agenda Consultation in our comment letter of 10 September 2021 we suggest the IASB reviewing the current accounting treatment of intangibles. Only on this basis the robust decision might be taken subsequently, whether additional disclosures in the management commentary are then indeed indispensable or not when considering its specific purpose. *CL11 German Insurance Association*

37 A few respondents made suggestions for expanding the requirements and guidance on intangible resources and relationships. These suggestions included:

(a) expand the discussion of intangible resources and relationships in the Practice Statement to explain their role in the process of value creation:

... the specific and unique role of intangibles in the value creation:

(a) Intangibles have a synergic nature and most intangible assets do not create income on their own but only in conjunction with other assets.

(b) Intangibles can have a positive or negative effect on value creation; they can create both risks and opportunities.

(c) Unlike tangible assets, intangibles are 'scalable' which means that can be used repeatedly and in multiple places at the same time (e.g., knowledge). *CL79 European Financial Reporting Advisory Group*

(b) add disclosure requirements for internally generated intangible resources that are not recognised in the financial statements (for example, brands or client and supplier relationships).

(c) add more examples related to intangible resources and relationships (see paragraphs 55–56).

- 38 Some investors emphasised the importance of metrics that provide insight into an entity’s intangible resources and relationships, for example staff turnover and customer satisfaction scores. Investors further suggested that in preparing management commentary, management should not:
- (a) include long narrative descriptions of intangible resources and relationships; or
 - (b) attempt to ascribe a monetary value to intangible resources and relationships.

The need to address governance-related matters

- 39 Many of those commenting on the requirements and guidance on topical matters—including many standard-setters, accountancy bodies, accounting firms and investors—expressed a view that the Practice Statement should explicitly address reporting on governance-related matters in management commentary. Their arguments included:
- (a) investors need information about governance-related matters for their assessment of management’s stewardship of the entity’s resources as well as for their assessment of future cash flows because governance and governance mechanisms are essential to the entity’s value creation and can affect the entity’s enterprise value.
 - (b) different regulation of governance-related matters around the world should not preclude the IASB from requiring material information about those matters in management commentary:

Furthermore, we would like to highlight the need for equal proper reporting about the governance matters as part of the ESG matters. It might be the case that governance matters are regulated differently in different regions/ jurisdictions (paragraph BC83 of the [Exposure Draft]). Nevertheless, and specifically for this particular reason the management commentary might be incomplete if it would not include relevant information in this regard. While we agree that the management commentary is not about to regulate governance issues, but proper disclosure of information relevant to understand the

governance of the reporting entity and the management is obliged to follow is from our perspective specifically important to be provided.

CL11 German Insurance Association

- (c) setting requirements for reporting on governance-related matters in management commentary could enhance comparability in reporting across jurisdictions without creating a conflict with local regulations.
- (d) reporting on governance-related matters is needed to align the reporting in management commentary with the future requirements of the ISSB. A few respondents pointed out that ‘Governance’ is set out as one of the core elements in the [TCFD recommendations](#) that are expected to feed into the future ISSB requirements. They also pointed out that the World Economic Forum’s report [Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation](#) also included ‘principles of governance’ as one of the pillars for organising metrics to be reported.
- (e) providing information about the process of monitoring the entity’s corporate reporting could improve credibility of information in management commentary:

Further, narrative reporting is focused on providing future-oriented information, including management strategies and risks. Such future-oriented information reflects the recognitions and assertions of corporate management, and thus, it is difficult to ensure verifiability, which results in a strong need for raising the credibility of disclosure information through reporting governance and process. Therefore, it is fundamental that the corporate reporting monitoring process of supervisory bodies, such as the board of directors including independent directors, functions effectively, and also that the governance and process related to corporate reporting are well explained to information users to enhance credibility.

CL35 Japanese Institute of Certified Public Accountants

40 Almost all of those commenting on governance, including almost all investors commenting, suggested that reporting should focus on how governance-related matters could affect the entity’s ability to create value and generate cash flows:

... we strongly believe the pillar of governance should be added as a separate content area to enable users to understand how the board oversees all aspects of enterprise value and how they consider risks and opportunities that inform strategy and performance over time. *CL68 Deloitte*

Investors and stakeholders need information about how the governance structure and the composition and activities of the board itself influences entities’ ability to create value. *CL24 Association of Certified Chartered Accountants*

41 Almost all respondents suggested that management commentary should provide information for *investors’* assessments of the entity’s governance. However, one respondent suggested management should provide its own analysis of the effectiveness of the entity’s governance mechanisms.

42 The appendix to this paper summarises respondents’ detailed suggestions for governance-related information that should be included in management commentary. In addition, a few respondents suggested that in developing requirements and guidance on governance-related reporting for the Practice Statement, the IASB should consider the requirements set out in section 4B Governance of the [<IR> Framework](#). That section requires an integrated report to answer the question ‘How does the organization’s governance structure support its ability to create value in the short, medium and long term?’

43 Some respondents commented specifically on *how* to incorporate requirements and guidance on reporting on governance-related matters in the Practice Statement:

(a) some suggested that such requirements and guidance should be incorporated throughout requirements for areas of content similar to requirements and guidance on environmental and social matters.

- (b) some suggested adding ‘Governance’ as a distinct area of content:

...we note that the [Exposure Draft] does not address governance in the same detail as the (other) areas of content. In our view, governance should be considered as an additional area of content. Our line of thinking is based on the observation that governance is a so-called cross-cutting issue being likewise relevant for all other areas of content. In addition, we refer to the German practice where the Governance Statement is an element of reporting contained as a separate section within the Management Report. Therefore, governance should be addressed in [Practice Statement] 1 as a separate area of content, rather than addressing it area-of-content-wise.

CL39 Accounting Standards Committee of Germany

- (c) a respondent suggested including requirements and guidance on reporting on governance-related matters both as a separate area of content and across the other areas of content:

In EFRAG’s view, guidance on governance could be included both as a separate content element (when addressing information about general governance, covering the reporting entity’s general organisation) but also transversally across the other content areas (e.g., governance on risks, on ESG matters etc.) when addressing how governing bodies oversee aspects of enterprise value creation and consider all risks and opportunities that inform strategy and performance over time.

CL79 European Financial Reporting Advisory Group

- (d) a respondent suggested adding requirements and guidance on reporting on governance-related matters into a combined ‘Governance, resources and relationships’ area of content:

This area of content could, in a single section, contain a description of how the governance structure supports the fulfilment of strategic objectives, addressing the relationship with society and the organization’s shareholders, as well as the consideration of their needs and expectations in the definition of the strategy, risk management and management supervision. *CL60 BNDES*

- (e) a few respondents suggested adding minimum disclosure requirements for governance-related matters, for example, incorporating some of the requirements on reporting such matters from the [<IR> Framework](#).
 - (f) a respondent suggested introducing a reference to the entity’s governance into the description of assessments that management commentary is intended to help investors make.
- 44 A standard-setter suggested clarifying that governance-related information can be included in management commentary by cross-reference to another report, for example, a governance report prepared to comply with local laws or regulations. In the respondent’s view, this clarification would help avoid possible duplication of information in the entity’s reports.
- 45 Some respondents commented on the need to recognise in the Practice Statement the distinctive role of ‘those charged with governance’ in creating value for the entity and in the preparation and authorisation of management commentary and to clarify whether and how they differ from ‘management’. Comments related to this topic are discussed in Agenda Paper 15F *Feedback summary—Identification, authorisation and statement of compliance*.

Other proposals on ESG matters

- 46 In addition to comments suggesting the Practice Statement should explicitly address reporting on governance-related matters, some respondents suggested refinements for other aspects of the proposed requirements and guidance on ESG matters.
- 47 A few respondents pointed out that there are diverse views on the meaning of the term ‘ESG matters’ and suggested providing an explicit and unambiguous definition or explanation of ESG matters in the context of management commentary.
- 48 In particular, a few respondents pointed out that the term ‘environmental and social matters’ captures both environmental and social matters that affect the entity and the

impacts of the entity’s activities on the environment and society. They asked for a better explanation of these aspects in the Practice Statement:

Business depends and impacts on natural, human, and social capital. These two are different things (although could be related) and affect business differently so, it is important to avoid referring to ‘environmental and social matters’ and define well which capitals are affected (natural, human, or social) and which is the relationship with them: impacts or dependencies.

CL65 Capitals Coalition

- 49 A few respondents asked for a definition of the term ‘impacts’.
- 50 Furthermore, as noted in paragraphs 40–42 of the March 2022 [Agenda Paper 15A](#), some respondents asked for clarity on:
- (a) the boundary of sustainability-related information to be reported in management commentary; and
 - (b) whether management commentary would become a preferred location for reporting sustainability-related information that will be required by the ISSB.
- 51 Some investors highlighted that entities should not adopt a checklist approach to providing information about ESG matters. Investors emphasised the importance of:
- (a) information about ESG matters that significantly affect the entity’s business model and the industry in which the entity operates; and
 - (b) sustainability-related metrics that are comparable with those disclosed by other similar entities.
- 52 A few respondents provided suggestions for expanding the requirements and guidance on ESG matters, including that the IASB should:
- (a) explain upfront, when introducing the areas of content in the Practice Statement, how information about ESG matters fits within the areas of content in management commentary.

- (b) add disclosure requirements for ESG matters that the entity does not control but depends on or affects by its operations, for example, water, land, ecosystems, communities.
- (c) clarify in the context of ESG matters the relationship between the concept of materiality in the Practice Statement and the notions of ‘double materiality’ and ‘dynamic materiality’ used by other bodies with an interest in sustainability reporting (see also paragraphs 24–25 of the March 2022 [Agenda Paper 15C Feedback summary—Objective of management commentary](#) and paragraph 31 of Agenda Paper 15C *Feedback summary—Making materiality judgements*).

Note on terminology—double materiality and dynamic materiality

The terms ‘double materiality’ is used in the European Commission’s proposal for a [Corporate Sustainability Reporting Directive](#) and is described as the requirement for entities to report on both:

- how sustainability issues affect the entities’ performance, position and development (the ‘outside-in’ perspective); and
- the entities’ impact on people and the environment (the ‘inside-out’ perspective).

The term ‘double materiality’ is also sometimes used to refer to an approach which seeks to address the information needs of a broader range of stakeholders—such as the approach adopted by GRI (see paragraph 30)—in addition to the information needs of investors.

The term ‘dynamic materiality’ is used in the paper [Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard](#) to recognise that whether and how information about a matter should be provided in an entity’s financial statements and other reports changes over time depending on how that matter affects enterprise value².

² Co-authored by the CDP (formerly Carbon Disclosure Project), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), and published in December 2020.

- (d) give more emphasis to reporting on climate change as the most pressing sustainability issue.
- (e) consider providing transitional provisions because ESG matters is a new reporting area.
- (f) further clarify the intended interaction between the requirements and guidance in the Practice Statement and requirements and guidance on ESG matters published by other bodies.
- (g) add more examples related to ESG matters (see paragraphs 55 and 57).

Examples related to topical matters

- 53 Some respondents asked the IASB to provide additional examples—including providing more diverse examples—related to reporting on topical matters:
- (a) throughout the chapters on areas of content, including in the examples of possible key matters;
 - (b) in Chapter 15 *Examples of information that might be material*; and
 - (c) in Appendix B.
- 54 In addition, a few respondents made suggestions for increasing the prominence of examples on topical matters in the Practice Statement (see paragraphs 27(a) and 27(c)).
- 55 A few respondents suggested that examples, in particular those included in Appendix B, should cover a range of industries and entities. In particular, those respondents asked for examples related to:
- (a) financial entities;
 - (b) industries that are less intangible resource-intensive and less environmentally- and socially-intensive than some of the industries represented in the examples in the Exposure Draft; and

- (c) modern technology and internet-based companies, such as Uber or Amazon, that are quite different from traditional brick and mortar companies and whose resources are largely off-balance sheet.
- 56 Detailed comments on examples related to intangible resources and relationships included:
- (a) increase the number of examples related to intangible resources and relationships when illustrating the variety of resources an entity may have;
 - (b) add examples related to intangible resources and relationships in Chapter 15, including:
 - (i) examples related to internally generated intangible assets;
 - (ii) examples illustrating the synergic nature of intangible resources and relationships, that is that they contribute to the creation of value in combination with other intangible or other assets; and
 - (iii) examples of ‘negative intangibles’ that are not resources but may create liabilities, such as environmental spills or poor corporate reputation that can negatively affect the enterprise value; and
 - (c) provide in Appendix B ‘less obvious’ examples of key intangible resources and relationships.
- 57 Detailed comments on examples related to environmental and social matters included:
- (a) provide examples of key environmental and social matters that may need to be discussed in management commentary;
 - (b) add to Chapter 15 examples related to environmental and social matters, including:
 - (i) an example of due diligence processes implemented to assess environmental and social matters;
 - (ii) an example of a scenario analysis evaluating climate-related risks and opportunities that can affect the entity’s value creation and future cash

flows. Such a scenario analysis could demonstrate the resilience of the entity’s business model and the effectiveness of management’s strategy and risk management;

- (iii) an example of the impacts of an entity’s activities on the environment and society (the so called ‘inside out’ impacts) that may be financially material; and
 - (iv) an example that addresses both environment and social factors;
- (c) add to Appendix B examples that focus not only on compliance with regulatory requirements but also on opportunities and durability of the entity’s business model such as examples related to:
- (i) economic benefits of investing in a ‘circular economy’ that is regenerative by design and aims to decouple growth from the consumption of finite resources;
 - (ii) benefits of adaptation to the climate change;
 - (iii) human capital and human rights; and
 - (iv) environmental factors other than those related to climate, for example, biodiversity.

Question for IASB members

Question for IASB members

Do you have any questions or comments on the feedback reported in this paper?

Appendix—Detailed suggestions for requirements and guidance on reporting on governance-related matters

Ref	Respondents’ suggestions for governance-related information to be provided in management commentary
A1	General information about governance covering the entity’s organisational structure.
A2	<p>Information for investors’ assessment of how the entity’s governance structure and composition of those charged with governance affect the entity’s ability to create value, including entity-specific information about:</p> <ul style="list-style-type: none"> (a) the entity’s articles of association; (b) relationship between executive and non-executive directors; (c) board diversity; and (d) board’s risk appetite and approach to risk management. <p><i>Note:</i> one respondent expressed a view that this information should focus on changes to the standing data, for example, changes in the board composition.</p>
A3	<p>Information for investors’ assessment of performance of those charged with governance in supporting the entity’s ability to create value, including information about:</p> <ul style="list-style-type: none"> (a) the board’s role in formulating the strategy and monitoring its alignment with the entity’s purpose and culture; (b) how the board’s oversees matters covered by the proposed areas of content, including the oversight over the execution of strategy, the management of risks and opportunities in line with the entity’s risk appetite and the responsible use of resources and relationships; (c) the board’s actions taken over the reporting period to influence the entity’s ability to create value; and (d) the board’s engagement and relationships with shareholders.
A4	Information about remuneration policy of the entity.
A5	Information about changes in the entity’s internal governance mechanisms or in external regulations on governance that may trigger changes in the entity’s business model.
A6	Explanation by those charged with governance of procedures they have followed in monitoring the entity’s reporting, including whether the reported information and processes used to provide it have been subject to internal assurance.