

STAFF PAPER

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IASB® meeting

Project	Management Commentary		
Paper topic	Feedback summary—Effects analysis		
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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 (revised Practice Statement), as set out in the Exposure Draft *Management Commentary* (Exposure Draft).
- 2 This paper summarises feedback on the IASB's effects analysis included in the Basis for Conclusions on the Exposure Draft and on the adoption of the revised Practice Statement.
- 3 This paper should be read in the context of Agenda Paper 15 *Feedback summary—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 IASB’s effects analysis (paragraphs 6–12);
 - (b) an overview of the key messages in the feedback (paragraphs 13–18);
 - (c) summaries of the feedback on:
 - (i) expected benefits and costs of the revised Practice Statement (paragraphs 19–25); and
 - (ii) adoption of the revised Practice Statement (paragraphs 26–32).

IASB’s effects analysis

6 Paragraphs BC139-BC177 of the Basis for Conclusions on the Exposure Draft analysed the expected benefits and costs of the revised Practice Statement.

7 The Basis for Conclusions explained that the IASB had little evidence of entities applying the 2010 Practice Statement. Therefore, the IASB did not attempt to compare the expected effects of the revised Practice Statement with the effects of applying the 2010 Practice Statement. Instead, the IASB considered the expected effects on the quality of financial reporting and on the jurisdictions and preparers that would adopt and implement the revised Practice Statement.

Likely effects on the quality of financial reporting

- 8 The Basis for Conclusions discussed the following expected benefits from implementing and adopting the revised Practice Statement:
- (a) an improved focus on key matters and provision of entity-specific information in management commentary;
 - (b) provision of material information on matters of particular interest to investors, including information on matters that could affect an entity’s long-term prospects, on intangible resources and relationships and on ESG matters;

- (c) information that is more coherent both within management commentary and with the entity’s financial statements and other publicly available reports;
- (d) other improvements to the quality of information in management commentary, including information that is more balanced, complete, comparable and verifiable; and
- (e) more detailed tagging of information in management commentaries, which could lead to easier access to management commentary in electronic form.

Likely effects for jurisdictions of adopting the revised Practice Statement

9 The Basis for Conclusions further stated that the comprehensive requirements that focus on investors’ information needs included in the revised Practice Statement could:

- (a) make it easier for lawmakers and regulators to enforce the revised Practice Statement and for auditors to provide assurance on management commentary, or to enhance the level of assurance they provide; and
- (b) encourage lawmakers and regulators to reflect the requirements and guidance of the revised Practice Statement in local requirements.

Likely effects on preparers

10 The IASB stated in the Basis for Conclusion that the revised Practice Statement would help entities navigate the complex narrative reporting landscape by explaining how the proposed requirements in the revised Practice Statement relate to requirements and guidelines issued by other standard-setters.

11 The IASB further stated that it expects that the implementation and ongoing application of the revised Practice Statement are unlikely to lead to significant costs for entities in producing information specifically for management commentary. It argued that significant costs are unlikely because information in management commentary is expected to be derived from information used by management in managing the business and is also expected to reflect management’s perspective.

Overall assessment

- 12 The IASB concluded that the likely benefits of implementing and adopting the revised Practice Statement would significantly outweigh the likely costs of its implementation and ongoing application.

Key messages in feedback

- 13 Many respondents, including almost all investors, commented on the need for the project and expressed support for a new comprehensive framework on management commentary that would address investors' information needs. Many investors stated that the quality of management commentary varies greatly, including in jurisdictions with well-developed local laws and regulations.
- 14 Some respondents commented specifically on the IASB's effects analysis. Many of these respondents agreed with the analysis without qualification.
- 15 A few respondents disagreed with the IASB's conclusion that the likely benefits of implementing and adopting the revised Practice Statement would significantly outweigh the likely costs of its implementation and ongoing application. They argued that it would be more efficient to use existing reporting frameworks such as the International Reporting Council (now Value Reporting Foundations)'s International Integrated Reporting Framework ([<IR> Framework](#)).
- 16 Respondents who agreed with the IASB's effects analysis highlighted the benefit of more useful information to investors. However, a few respondents observed that there is little evidence of entities applying the 2010 Practice Statement and stated that the expected benefits are difficult to assess because they would not be realised unless the revised Practice Statement is more widely applied.
- 17 Some respondents commented on the interaction between the proposals for the revised Practice Statement and local laws and regulations. Most of these respondents stated that they were not aware of any legal or regulatory obstacles that would make it difficult for entities to comply with the revised Practice Statement.

- 18 Some respondents made suggestions for how the IASB could encourage adoption of the revised Practice Statement, including suggestions for further alignment with other reporting frameworks or issuing the final document as an IFRS standard.

Expected benefits and costs of the revised Practice Statement

Overall assessment

- 19 As discussed in paragraphs 19-21 of Agenda Paper 15A [Feedback Summary—Project Direction](#) for the IASB’s March 2022 meeting (March 2022 Agenda Paper 15A), many respondents, including almost all investors, commented on the need for the project and expressed support for a new comprehensive framework on management commentary that would address investors’ information needs. In particular, many investors stated that the quality of management commentary varies greatly, including in jurisdictions with well-developed local laws and regulations (see paragraphs 24-25 of Agenda Paper 15B [Feedback Summary—Investor Feedback](#) for the IASB’s March 2022 meeting).
- 20 Some respondents commented specifically on the IASB’s effects analysis. Many of these respondents agreed with the analysis without qualification.
- 21 A few respondents disagreed with the IASB’s conclusion that the likely benefits of implementing and adopting the revised Practice Statement would significantly outweigh the likely costs of its implementation and ongoing application. Reasons given for disagreeing with the IASB’s overall assessment included:
- (a) the costs to preparers of implementing and applying the revised Practice Statement could be significant (see paragraph 25); and
 - (b) it would be more efficient to use existing frameworks such as the <IR> Framework:

We agree that additional information is required to supplement financial information and so provide investors and other stakeholders

with more granular information beyond the financial aspects. This has already been considered in other frameworks and so it seems counterintuitive to ‘re-invent the wheel’ with a Practice Statement. It would be more beneficial to leverage the guidance already published, which many organisations already apply, for example, *International <IR> Framework. CL71 SAICA*

Likely benefits of the revised Practice Statement

22 Those respondents who agreed with the IASB’s overall assessment of the expected effects of the revised Practice Statement highlighted the following expected benefits:

(a) more useful information for investors:

We believe the requirements and guidance proposed by the [Exposure Draft] would help companies to prepare management commentary that is useful to the target audience, i.e. investors and creditors. *CL81 Corporate Reporting Users’ Forum*

(b) improvements in reporting quality in jurisdictions where there are currently no requirements for reporting outside of the financial statements.

(c) easier access to management commentary in electronic form:

The more detailed requirements in the revised Practice Statement offers an opportunity for the IASB to provide more specific IFRS Taxonomy elements for management commentary across the six content elements and their respective objectives ... In that regard, we observe that in a 2016 report¹, the CFA institute suggested that electronic tagging beyond the financial statements would be ‘extremely valuable to investors’ and that this could be extended further through the incorporation of text block tagging to facilitate textual analysis of management commentary information. *CL79 European Financial Reporting Advisory Group*

¹ CFA Institute, [Data and Technology: Transforming the financial information landscape](#) (2016)

(d) reduced costs for preparers from the consolidation of corporate reports and the use of cross-referencing.

23 However, a few respondents observed that there is little evidence of entities applying the 2010 Practice Statement and that the expected benefits are difficult to assess because they would not be realised unless the revised Practice Statement is more widely applied. Paragraph 30 discusses suggestions made by respondents for how the IASB could encourage adoption of the revised Practice Statement.

24 A few respondents recommended conducting field testing or academic research to provide insights into the likely effects of the revised Practice Statement and to verify the expected benefits and costs. Some of these respondents argued that such research could also benefit the work of the International Sustainability Standards Board (ISSB):

... more extensive and high-quality scientific research, as well as increased mutual cooperation between IASB and academia, also seems relevant and could be encouraged. Receiving the PS1 MC related feedback could also be important in the context of the future ISSB operations and the development of IFRS Sustainability Disclosure Standards. *CL45 European Accounting Association*

Likely costs of implementation and ongoing application

25 A few respondents questioned the IASB’s expectation that the implementation and ongoing application of the revised Practice Statement are unlikely to lead to significant costs for preparers. These respondents stated that:

- (a) based on their experience, changes to reporting requirements are usually more costly to implement and apply than initially anticipated.
- (b) the cost of implementing the revised Practice Statement would depend on the extent of the requirements already in place in a jurisdiction.
- (c) many entities are not currently measuring all the factors necessary to provide the metrics and other material information needed for investors to assess the entity’s prospects.

- (d) the costs of applying the revised Practice Statement would depend on the extent to which information in management commentary is derived from information used by management in managing the business:

For best-practice entities that provide 'bottom-up' management commentaries that seek to make coherent links between the data they use to manage the business and the information and perspectives they disclose, we agree that the proposals are unlikely to lead to significant costs. However for those entities where the data disclosed in management commentary does not pass the 'use test' and lacks strong connectivity to the information used in managing the business, we consider that there may be more significant costs in meeting the new requirements if they implement the proposals as they are intended. *CL10 UK Financial Reporting Council*

Adoption of the revised Practice Statement

Interaction with local laws and regulations

- 26 Some respondents commented on the interaction between the proposals for the revised Practice Statement and local laws and regulations. Most of these respondents stated that they were not aware of any legal or regulatory obstacles that would make it difficult for entities to comply with the revised Practice Statement.
- 27 A few respondents made various comments on the interaction between the proposals and local laws and regulations, including:
- (a) non-mandatory guidance can provide a useful complement to local laws and regulations.
 - (b) local laws and regulations are often not aligned with the proposals for the revised Practice Statement.
 - (c) considerable efforts would be required for an entity to follow the revised Practice Statement and local laws and regulations at the same time:

We think it will be unlikely for entities in our jurisdiction to voluntarily state compliance with the Practice Statement, partially or in full. In Canada, robust securities laws over management reporting mean that reporting issuers already incur significant cost and effort to comply with local requirements. As a result, we think it will be unlikely for these entities to undertake the additional cost and effort to voluntarily state compliance with the Practice Statement, even partially. *CL22 Accounting Standards Board (AcSB) [Canada]*

- (d) the revised Practice Statement would require additional information that is not required by local laws and regulations, for example information about the entity’s consumption of natural resources.
- (e) some local laws and regulations require additional information that is not specified in the Exposure Draft (for example in Germany, management is required to provide forecasts and targets).

28 A few respondents, mainly from Europe, indicated that the revised Practice Statement is unlikely to have a significant impact on reporting practices in their jurisdictions, because of the existence of detailed and up-to-date local requirements. A few other respondents suggested that interest in the revised Practice Statement from local regulators would depend on the extent to which the revised Practice Statement is

- (a) used internationally; and
- (b) compatible with existing local requirements:

We discussed this issue with local regulators. They were interested with the proposals included in the [Practice Statement] since this information would be comparable with those issued by entities in other countries that would adopt the [Practice Statement]. However, local regulators have already issued detailed rules on additional information that must be provided by listed entities, banks, insurance entities and other regulated entities. Therefore, it may not be easy that the regulators prescribe the use of the [Practice Statement].
CL23 Consejo Mexicano de Normas de Información Financiera

- 29 Furthermore, a few respondents set out adoption considerations relevant to particular jurisdictions:
- (a) a few respondents, mainly from Australia, expressed concern that some of the proposed disclosure requirements relating to forward-looking information could give rise to litigation risks;
 - (b) a South African respondent stated that the King IV Code on Corporate Governance, applicable to listed entities in South Africa, recommends the issuance of an integrated report overseen by those charged with governance, while the Exposure Draft did not specify the role that those charged with governance should play in preparing and authorising management commentary (see paragraph 29 of Agenda Paper 15F *Identification, authorisation and statement of compliance*); and
 - (c) a few European respondents emphasised the need for connectivity with EU proposals that aim at reporting sustainability-related matters to a broader range of stakeholders in the management report (see paragraphs 24-25 of Agenda Paper 15C [*Feedback Summary—Objective of management commentary*](#) for the IASB’s March 2022 meeting).

Suggestions for how to encourage adoption

- 30 Some respondents made suggestions for how the IASB could encourage adoption of the revised Practice Statement, including suggestions for:
- (a) further aligning the revised Practice Statement with the <IR> Framework:

The expected effects set out in the Basis for Conclusions can only come to pass if more entities around the world adopt the revised practice statement. To achieve this, we would recommend that the practice statement makes a direct reference to the International <IR> Framework, and aligns the revisions further with the underlying concepts, guiding principles and content elements of the <IR> Framework. Thus, the companies applying the <IR> Framework around the world can serve as a base to drive greater adoption for the

practice statement. *CL24 Association of Chartered Certified Accountants.*

- (b) conducting research into the reasons why some jurisdictions have adopted the 2010 Practice Statement and others have not, to inform the further development of the revised Practice Statement and to encourage adoption.
- (c) clarifying the link between the proposals and the future IFRS Sustainability Disclosure Standards to be issued by the ISSB (see paragraphs 39-48 of the March 2022 [Agenda Paper 15A](#)).
- (d) issuing the proposals as an IFRS standard rather than as a practice statement (see paragraphs 53-57 of the March 2022 [Agenda Paper 15A](#)).
- (e) providing more guidance on digital reporting:

... we would like the IASB to bring out the importance of taxonomies in light [of] recent developments and experience in Europe which make it clear understanding and applying taxonomies to both financial and non-financial reporting information, takes a considerable amount of time and effort. Highlighting how the current IFRS taxonomy could be enhanced to deal with changes set out in the [Exposure Draft] would be helpful to those individuals who have external digital reporting responsibilities. *CL59 Grant Thornton*

31 A few respondents also suggested steps the IASB could take after issuing the revised Practice Statement, including:

- (a) publishing examples of best practices to help preparers understand how they can improve the quality of their management commentary applying the revised Practice Statement; and
- (b) conducting a post-implementation review to evaluate whether the requirements and guidance in the revised Practice Statement are working as intended.

32 A few respondents highlighted the need for investors and regulators to encourage preparers to apply the revised Practice Statement.

Question for IASB members

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