

STAFF PAPER

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IASB® meeting

Project	Management Commentary		
Paper topic	Project update		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

Purpose and structure of paper

- 1 In March and April 2022, the International Accounting Standards Board (IASB) discussed feedback on its proposals for a revised Practice Statement on management commentary, as set out in the Exposure Draft *Management Commentary*.
- 2 This paper provides an update on the Management Commentary project. The paper discusses:
 - (a) the evolving landscape in which the project has progressed (paragraphs 4–13); and
 - (b) next steps (paragraphs 14–17).
- 3 This paper does not ask the IASB for decisions.

The evolving landscape

- 4 The IASB added the Management Commentary project to its work plan in November 2017 following its research into developments in narrative reporting. That research indicated that since IFRS Practice Statement 1 *Management Commentary* was issued in 2010 many jurisdictions and organisations have published requirements and guidelines on narrative reporting, including those addressing particular topics such as sustainability reporting. Those developments brought forth innovations but also created a complex and confusing reporting landscape for entities to navigate. At the same time, the IASB’s research suggested that investors’ information needs were not always being met against the backdrop of growing investors’ interest in narrative reporting and their call for information that provides insight into factors that affect entities’ long-term prospects, including sustainability-related factors.

Note on terminology—investors

- The Management Commentary Exposure Draft used the term ‘investors and creditors’ to refer to the primary users of an entity’s general purpose financial reports as defined in the IASB’s *Conceptual Framework for Financial Reporting*—existing and potential investors, lenders and other creditors.
- For simplicity, this paper uses the term ‘investor’ to refer to those primary users and to analysts and other professionals acting on their behalf.

- 5 The IASB’s objective in the Management Commentary project was to develop a comprehensive, clear and structured framework that would enable entities to bring together in management commentary the information that investors need to gain insight into factors, including sustainability-related factors, that have already affected an entity’s financial performance and financial position or could affect the entity’s prospects, including in the long term. In developing its proposals, the IASB sought to consolidate and build on recent innovations in narrative reporting, including those introduced by national standard-setters, the International Integrated Reporting Framework (<IR> Framework) and the Recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures.

- 6 As the Management Commentary project progressed, in September 2020, the IFRS Foundation Trustees started a consultation on the need for global sustainability reporting standards and on whether the IFRS Foundation should play a role in developing those standards. The consultation confirmed an urgent need for such standards and indicated support for the IFRS Foundation to play a role in their development.
- 7 In April 2021, shortly before the Management Commentary Exposure Draft was published, the IFRS Foundation Trustees had proposed amendments to the IFRS Foundation *Constitution* to accommodate a potential formation of a proposed new board for setting IFRS sustainability standards. The Trustees had also set out the strategic direction of the proposed new board.
- 8 The Management Commentary Exposure Draft was published in May 2021. It emphasised the role of management commentary in providing information that helps investors both to better understand the entity’s financial statements and to assess the entity’s long-term prospects. It proposed an objectives-based approach that was designed to enable entities to identify and provide information that is useful to investors and to enable regulators and auditors to assess compliance with the Practice Statement. The IASB anticipated that delivering an effective basis for enforcement and assurance would be essential for local lawmakers who choose to adopt or to build on the Practice Statement in their jurisdictions.
- 9 The IASB envisaged that entities would be able to apply the Practice Statement in conjunction with both jurisdictional requirements and guidelines on management commentary or a similar report as well as with requirements and guidelines on specific topics, such as environmental, social or other sustainability matters. In particular, the IASB envisaged that entities might be able to apply standards to be issued by the proposed new International Sustainability Standards Board (ISSB) to help them identify some of the information about environmental, social or other sustainability matters needed to comply with the Practice Statement. The Exposure Draft invited

comments on any matters relating to the IFRS Foundation Trustees’ plans to establish the ISSB that the IASB should consider in finalising the Practice Statement.¹

- 10 In November 2021, before the end of the comment period on the Exposure Draft, the IFRS Foundation Trustees announced the creation of the ISSB and stated the intention for the ISSB to develop a comprehensive global baseline of sustainability-related disclosure standards that focus on investors’ needs for information about entities’ sustainability-related risks and opportunities. They also announced a commitment by leading investor-focussed sustainability disclosure organisations—including the Value Reporting Foundation which currently houses the <IR> Framework—to consolidate into the IFRS Foundation.

- 11 The comment period on the Management Commentary Exposure Draft ended on 29 November 2021 and the IASB discussed feedback received at its March and April 2022 meetings.² Many respondents, including almost all investors commenting, expressed support for the project. However, most respondents noted the interaction between the Management Commentary project and the future work of the ISSB and highlighted the need for collaboration between the boards. They encouraged the IASB to work together with the ISSB in advancing the project. Some respondents expressed a view that the establishment of the ISSB affects the role of management commentary. Some respondents stated there is a need for an overarching framework for what was commonly described as ‘connected reporting’. Some respondents advocated a greater alignment between the requirements and guidance being developed in the Management Commentary project and the <IR> Framework.

- 12 After the comment period on the Management Commentary Exposure Draft closed, in March 2022, the ISSB launched a consultation on its first two proposed standards. Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* proposed that there are various possible locations in an entity’s general purpose financial reporting in which sustainability-related financial

¹ See Question 9 in the Invitation to comment on the [Management Commentary Exposure Draft](#).

² See March 2022 [IASB Agenda Papers 15-15F](#) and April 2022 [IASB Agenda Papers 15-15I](#).

disclosures could be included. For example, these disclosures could be included in an entity’s management commentary when management commentary forms part of an entity’s general purpose financial reporting. The comment period on the ISSB’s Exposure Drafts ends on 29 July 2022.

- 13 In May 2022, in preparation for the consolidation with the Value Reporting Foundation, the IFRS Foundation published a press release [*Integrated Reporting—articulating a future path*](#). The press release stated that on consolidation of the Value Reporting Foundation, the ISSB and the IASB would assume the responsibility for the <IR> Framework and would work together to agree on how to build on and integrate the <IR> Framework into their standard-setting projects and requirements. It also acknowledged that there are similarities and differences between the <IR> Framework and the proposals developed in the Management Commentary project and stated a commitment to consider opportunities to address that.

Next steps

- 14 In April 2022, the IASB completed its discussion of feedback on the Management Commentary Exposure Draft. The next milestone in the project is for the IASB to determine the project direction.
- 15 In determining how to progress the project, the IASB will need to consider the evolving reporting landscape as well as stakeholders’ calls for the IASB to collaborate with the ISSB in developing the final requirements. The IASB will also need to consider the possible implications of the commitment to consider opportunities to address similarities and differences between the <IR> Framework and the proposals developed in the Management Commentary project.
- 16 In evaluating the feedback from stakeholders, it is important to note that the need for the boards to work together to support connectivity between entities’ financial statements and sustainability-related financial disclosures has also been highlighted by respondents to the IFRS Foundation Trustees’ consultation on amendments to the IFRS Foundation *Constitution* and the IASB’s Third Agenda Consultation. The

ISSB's future consultation on its agenda priorities provides an opportunity for the ISSB to receive information from its stakeholders about prioritisation of the collaboration with the IASB on various projects, including the Management Commentary project, relative to other alternatives.

- 17 To facilitate the discussion about possible ways forward on the Management Commentary project in the light of the feedback received on the Exposure Draft and the evolution in the reporting landscape, the staff plan to develop alternatives and present them to the IASB at a future meeting.