

STAFF PAPER

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IASB® meeting

Project	Management Commentary		
Paper topic	Feedback summary—Project direction		
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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 direction of the Management Commentary project, including the purpose and status of the final document.
- 3 This paper should be read in the context of Agenda Paper 15 *Feedback summary—Overview*, which discusses the sources of feedback reported in this paper, and 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) the background to the project (paragraphs 6–12);

- (b) an overview of the key messages in the feedback (paragraphs 13–18);
- (c) summaries of the feedback on:
 - (i) the need for the project (paragraphs 19–22);
 - (ii) interaction with sustainability reporting (paragraphs 23–48);
 - (iii) the purpose and status envisaged for the final document (paragraphs 49–62).

Background

Why did the IASB start the project?

- 6 The IASB started the Management Commentary project in response to increased investors’ interest in narrative reporting. The IASB noted particular interest in information that complements an entity’s financial statements and provides insight into the entity’s long-term prospects—for example, information about intangible resources and relationships and about environmental, social and governance (ESG or sustainability-related) matters. The IASB also sought to address shortcomings in reporting practice identified by its research.
- 7 The IASB’s main aim in the Management Commentary project was to develop a comprehensive set of requirements and guidance that would enable entities to bring together in management commentary the information investors need to enhance their understanding of the entity’s financial statements and to assess an entity’s long-term prospects.
- 8 In developing its proposals, the IASB sought to consolidate recent innovations in narrative reporting introduced by national standard-setters and other bodies such as the International Integrated Reporting Council (IIRC, now Value Reporting Foundation) or the Task Force on Climate-related Financial Disclosures.
- 9 The IASB envisaged that entities could apply the revised Practice Statement:
 - (a) alongside local laws and regulations whose objective is similar to that of the Practice Statement; and

- (b) in conjunction with narrative reporting requirements or guidelines issued by other bodies for use in specific industries, or on specific topics, such as sustainability reporting.

Interaction with the IFRS Trustees’ project on sustainability reporting

- 10 At the time of publishing the Exposure Draft, the IFRS Foundation Trustees were considering whether the Foundation should play a role in the development of sustainability reporting standards. The Exposure Draft stated that entities might be able to apply standards issued by a future board if it were to be established, to help them identify some of the information needed to comply with the Practice Statement. The Exposure Draft asked respondents to comment on any matters relating to the Trustees’ plans that the IASB should consider in finalising the Practice Statement.
- 11 Before the end of the comment period on the Exposure Draft, on 3 November 2021, the Trustees announced the creation of a sister board to the IASB—the International Sustainability Standards Board (ISSB). The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that focus on investors’ needs for information about entities’ sustainability-related risks and opportunities.

Status of the document

- 12 The IASB proposed that the final document would replace the Practice Statement issued in 2010. Retaining the status of the practice statement would mean that it would continue to be for local lawmakers and regulators to decide whether and how to make use of the Practice Statement, for example, by adopting it into local regulation in its entirety, adapting it for application within their jurisdiction or taking no action. Entities would also be able to choose to apply the Practice Statement even if they are not required to do so.

Key messages in feedback

- 13 Many respondents, including almost all investors, commented on the need for the project and expressed support for the work of the IASB to develop a new comprehensive framework on management commentary that would address the information needs of investors. Some respondents did not support the IASB’s proposed focus on investors’ information needs and instead advocated focus on information needs of a broader range of stakeholders. A few of those respondents did not support the project and suggested using the IIRC’s International Integrated Reporting Framework (<IR> Framework) as a basis for ‘connected reporting’ (see paragraphs 58–61).
- 14 Most respondents commented on the interaction between the Management Commentary project and the future work of the ISSB. Most of these respondents highlighted the need for connectivity—between the boards, the requirements produced by the boards or information in the entity’s financial statements and its narrative reports. Those respondents urged the boards to work together on the Management Commentary project.
- 15 Many of those who called for connectivity between the IASB and the ISSB suggested that—to enable the boards to work together on the project and to develop compatible and complementary requirements—the project should be paused until the ISSB is operational, there is more clarity on the ISSB’s remit, the relationship between the boards and their future requirements or until the ISSB progresses its work on its first standards.
- 16 However, a few respondents argued that the project should progress while the ISSB developments are taking place. In addition, many investors emphasised that they seek not only better information on sustainability-related matters, but also improvements on other aspects of management commentary.
- 17 Respondents also:
- (a) asked for clarity on the boundary of sustainability-related information to be reported in management commentary and on whether management

commentary would become a preferred location for reporting information to be required by the ISSB;

- (b) welcomed the Exposure Draft building on recent innovations in narrative reporting and suggested the IASB should further consider other bodies' existing and emerging narrative reporting requirements and guidelines and seek compatibility with local laws and regulations; and
- (c) asked the boards to align particular aspects of their future requirements, for example the definition of 'enterprise value', specified attributes of useful information and guidance on making materiality judgements.

18 Some respondents commented on the purpose and status of the final document and expressed various views:

- (a) some of them supported retaining the status of a non-mandatory practice statement;
- (b) a few of them preferred issuing the document as a non-mandatory framework on management commentary;
- (c) some of them suggested that the final document should be issued as a standard; and
- (d) many of them advocated developing an overarching framework for what was commonly described as 'connected reporting'.

The need for the project

19 Many respondents, including almost all investors, commented on the need for the project and expressed support for the work of the IASB to develop a new comprehensive framework on management commentary that would address investors' information needs.

20 Many respondents highlighted the important role of management commentary in corporate reporting and the need for the guidance on preparing management commentary to stay current.

We recognise that the Management Commentary Practice Statement is an important component of corporate reporting and therefore it is appropriate that the Practice Statement should be reviewed and revised to ensure that it remains relevant in the current reporting environment. *CL56 ICAS*

21 Respondents highlighted the following arguments in support of the IASB’s work on the Management Commentary project:

- (a) the proposals reflect investors’ information needs and focus on information that would help investors understand how an entity creates value;
- (b) the Exposure Draft provides comprehensive and well-structured requirements and guidance that would help preparers understand investors’ information needs and prepare better management commentary;
- (c) the proposals could help improve connectivity between what respondents called ‘financial’ and ‘non-financial’ information;

Note on terminology—financial and non-financial information

There is no single definition of the terms ‘financial’ and ‘non-financial’ in corporate reporting. Some respondents to the Exposure Draft used the terms ‘financial’ and ‘non-financial’ information to refer to information in the entity’s financial statements and in its narrative reports respectively.

- (d) the proposals build on recent developments in narrative reporting, including the [<IR> Framework](#) and the Recommendations of the Task Force on Climate-Related Financial Disclosures ([TCFD recommendations](#)); and

We applaud the IASB’s decision to revise the Management Commentary Practice Statement: a pragmatic response to global trends, including the changing nature of the material issues influencing enterprise value and the expanding information needs of investors. It is also responsive to emerging market-led developments and the adoption of new practices such as integrated reporting and the Strategic Report in the UK. *CL5 Value Reporting Foundation*

(e) global recognition and rigorous application of enhanced requirements on management commentary would improve comparability between entities and would benefit investors globally.

22 In contrast, a few of those respondents who disagreed with the proposed focus on investors’ information needs expressed a view that there is no need for the project. Instead, these respondents advocated the use of the <IR> Framework. They argued the <IR> Framework would address the information needs of a broader range of stakeholders and should form the basis of an overarching framework for ‘connected reporting’ (see paragraphs 58–61). One respondent also stated a view that the IASB had no authority to issue the Practice Statement.

The IASB’s parent body only had the scope and power to oversee financial reporting standards. The proposed MC was conceived and drafted in a different context and beyond the scope and powers of the IASB.

Connectivity has been a board exercise ever since the IIRC was established and consequently we submit that content and timing wise the ED is misconceived. It should be put aside to let the time be used to finalise an overarching framework to connect the financial to the co-called non-financial. On the basis of not reinventing the wheel the tested IR Framework should form the foundation of such overarching framework. *CL6 Mervyn King*

Interaction with sustainability reporting

23 As noted in paragraph 10, the Exposure Draft was published before the announcement on the creation of the ISSB and asked respondents to comment on any matters relating to the Trustees’ plans that the IASB should consider in finalising the Practice Statement.

24 Most respondents commented on the question and nearly all of them acknowledged that there is an interaction between the Management Commentary project and the future work of the ISSB.

25 Specifically:

(a) most of these respondents focused on the need for the IASB and the ISSB to work together on the Management Commentary project (paragraphs 26–31);

- (b) many of these respondents discussed potential implications for the next steps of the project (paragraphs 32–38); and
- (c) many of these respondents commented on specific aspects of interaction between the future work of the ISSB and the Management Commentary project (paragraphs 39–48).

The need for the IASB and the ISSB to work together on the Management Commentary project

- 26 Most respondents commenting on the interaction between the Management Commentary project and the future work of the ISSB highlighted the need for connectivity between:
- (a) the IASB and the ISSB;
 - (b) the requirements produced by the boards; or
 - (c) information in the entity’s financial statements and its narrative reports.
- 27 Some of those respondents stated that they also emphasised the need for connectivity in their responses to the Trustees’ consultation on the establishment of the ISSB.
- 28 Those commenting on the interaction suggested that the IASB and the ISSB should work together on the Management Commentary project and clarify the interaction between this project and the future work of the ISSB. Many of them argued cooperation between the boards is needed because there is a potential overlap in the scope of the Practice Statement and the future IFRS Sustainability Disclosure Standards. For example, they both cover implications of sustainability-related matters for the entity. A few other respondents suggested that cooperation is needed because the objectives of management commentary and of sustainability-related financial disclosures are closely related.
- 29 The respondents suggested that working together on the Management Commentary project would allow the IASB and the ISSB to:

- (a) ensure consistent project outcomes and prevent contradictory or duplicative disclosure requirements which would introduce unnecessary complexity into entities' reporting or could trigger the need for further revisions to the Practice Statement;
- (b) avoid duplication of efforts and achieve efficiencies in their work, including by consolidating their technical expertise, content, staff and other resources;
- (c) build on each other's thinking because some of the proposals in the Exposure Draft and feedback received on the proposals may feed into the ISSB's future standards and vice versa; and
- (d) reinforce the importance of providing complete and coherent information on all matters affecting enterprise value creation.

30 In addition, a few respondents emphasised that the alignment between the requirements for management commentary and requirements for sustainability-related information would be particularly important if management commentary is used as a reporting channel for sustainability-related information (see also paragraphs 40–42).

...we would like to encourage the IASB to continue with this important project and to cooperate closely regarding the sustainability matters with the new board, should they be included more extensively into the management report (paragraphs BC13 and BC14 of the [Exposure Draft]). Only a close cooperation of both boards will provide confidence to stakeholders that the final outcome will be a consistent one, useful for users and also capable to be implemented in a cost-effective way by preparers. *CL11 German Insurance Association*

31 Many respondents commented on the need for co-operation between the two boards without making specific suggestions about how it could be achieved. Of those who provided specific comments:

- (a) many respondents—mainly accounting firms, standard-setters and accountancy bodies—suggested that the Management Commentary project should become a joint project for the IASB and ISSB.

Ideally, **we would like to see the ISSB and IASB issue a joint document on management commentary** because, in our opinion, having joint endorsement on this topic would make it a compelling document, that could be expanded and enhanced by regulators and legislators in countries across the globe as deemed necessary. Having joint endorsement of this document would reinforce the importance of having balanced and comprehensive reporting. *CL59 Grant Thornton*

- (b) some respondents suggested the IASB should retain primary responsibility for the project but consider the ISSB’s future work and consult with the ISSB where necessary, in particular regarding reporting on sustainability-related matters;
- (c) an investor suggested that the project should become the primary responsibility of the ISSB.

Eumedion considers the announced [International Sustainability Standards Board] (ISSB) to be the preferred standard setting body for the Management Commentary project. We see the ISSB to be primarily focused with developing standards that apply to the management report; similarly to how the IASB is primarily concerned with standards that apply to the financial report. We expect standards from the ISSB to be more auditable and more enforceable than a practice statement of the IASB. We see a stronger interconnectedness between management commentary and other topics that the ISSB will be setting standards on. Much stronger than between management commentary and the standards set by the IASB. However, there obviously is a clear interconnectedness between management commentary and the financial statements. A close cooperation between the two Boards on this topic is most likely to best address this. *CL20 Eumedion*

Potential implications for the next steps of the project

32 Many of those who called for connectivity between the IASB and the ISSB suggested that to enable the boards to work together, the project should be paused until:

- (a) the ISSB is established and fully operational;

- (b) there is more clarity on the remit of the ISSB and the scope of its future standards; and
 - (c) the relationship between the IASB and the ISSB is formalised and there is clarity about the intended role of management commentary in corporate reporting.
- 33 A few other respondents suggested that to enable the boards to develop compatible and complementary requirements, the IASB should wait until the ISSB progresses its work on the first IFRS Sustainability Disclosure Standards. Specifically, they suggested that the Management Commentary project should not be finalised until:
- (a) the exposure drafts of the first IFRS Sustainability Disclosure Standards are published; or
 - (b) until the first IFRS Sustainability Disclosure Standards are issued.
- 34 A respondent recommended a re-exposure of proposals on management commentary once they are adjusted to ensure connectivity with the ISSB’s proposals and the ISSB publishes its first exposure drafts. The respondent argued that this would allow stakeholders to consider the IASB’s and ISSB’s proposals together.
- 35 A few respondents suggested that pausing the project would also allow for:
- (a) the conclusion of the IASB’s Third Agenda Consultation—which would allow the IASB to consider the feedback on that consultation and reassess how its resources should be prioritised; and
 - (b) progress to be made on the IASB’s Primary Financial Statements project and on the Disclosure Initiative–Targeted Standards-level Review of Disclosures project—which would allow the IASB to consider the results of field testing of the proposals for objectives-based disclosure requirements and other developments in those projects and to coordinate outcomes of these projects and the Management Commentary project.

36 However, many investors called for continued progress on the project. They emphasised that they seek not only better information on sustainability-related matters, but also improvements on other aspects of management commentary.

37 In addition, a few other respondents argued that the work on the Management Commentary project should continue while the ISSB is being set up.

... some might make the case to pause the project, until the ISSB is fully operational and further consideration can be given to the positioning of the Practice Statement within the new [IFRS Foundation] structure. However, we do not believe pausing the project would be appropriate. The proposal contains useful thinking and content that can be used to enhance corporate reporting, in particular in relation to connecting commentary on enterprise value creation to financial statements. Therefore, the IASB staff should continue to progress their thinking on the project. Rather than finalising the Exposure Draft, we suggest that the project becomes a joint project of both the Board and the incoming ISSB with close cooperation of both staffs to determine next steps given that with the move to sustainability reporting standards under the ISSB, the role of management commentary and this Practice Statement could further evolve. *CL68 Deloitte*

38 Specific suggestions for work to be done on the project until the boards are ready to work on it together included:

- (a) aligning key concepts and definitions that would be used by both boards, for example the concept of ‘value creation’ and the definition of ‘enterprise value’; and
- (b) assessing how the Exposure Draft proposals together with the <IR> Framework and the TCFD recommendations could provide a basis for supporting the work of both boards.

Specific aspects of interaction between the future work of the ISSB and the Management Commentary project

- 39 The comments on specific aspects of interaction between the future work of the ISSB and the Management Commentary project focused on:
- (a) the role of management commentary in reporting sustainability-related information (paragraphs 40–42);
 - (b) the need to consider narrative reporting requirements and guidelines issued by other bodies (paragraphs 43–45); and
 - (c) the need for alignment on specific aspects of proposals in the Exposure Draft (paragraphs 46–48).

The role of management commentary in reporting sustainability-related information

- 40 As mentioned in paragraph 28, many respondents pointed out a potential overlap in the scope of the Practice Statement and the future IFRS Sustainability Disclosure Standards related to reporting information on sustainability-related matters. Some respondents asked for clarity on the boundary of sustainability-related information to be reported in management commentary.
- 41 Some respondents raised a related question on the preferred location for reporting sustainability-related financial information that will be required by the ISSB. The respondents asked for clarity on the question and whether management commentary will become a preferred location for such information.
- 42 Those who expressed a preference had various views on the preferred location:
- (a) some respondents—mainly standard-setters, accountancy bodies and accounting firms—advocated including information about sustainability-related matters in the management commentary so that material information about all factors that could affect the entity’s prospects is provided in a single report.

The question posed noted that preparers may be able to use sustainability standards to identify information about environmental and

social matters needed to comply with this Practice Statement. This implies a passive role for management commentary whereas we think it should play a much more proactive role in the development of sustainability standards. We see it as a key enabler to implementation; the ideal 'landing pad' for narrative information to support sustainability standards. If it is not, there is a risk that non-financial information relating to key matters will be presented in a disjointed, incoherent and inconsistent way. *CL10 UK Financial Reporting Council*

- (b) a few other respondents advocated discussing sustainability-related matters in a separate sustainability report, with management commentary discussing only some aspects of sustainability-related matters.

There was general agreement that relevant information about environmental and social matters, as well as corporate governance issues that will be addressed by the sustainability reporting standards to be issued by the new Board created by the IFRS Foundation should be referred to in the management commentary. Only selected information should be included in management commentary, making reference to the report that includes detailed information on such matters. *CL23 Consejo Mexicano de Normas de Información Financiera*

[R]eporting on the different aspects of sustainability affecting the entity should be addressed in the forthcoming sustainable standards report. However, quantifiable aspects of sustainability directly connected to the year's financial performance should be disclosed and explained in the management report of the year's financial statements. *CL63 European Federation of Financial Analysts Societies*

The need to consider narrative reporting requirements and guidelines issued by other bodies

- 43 A few respondents welcomed that the proposals in the Exposure Draft built on the recent innovations in narrative reporting.

... The Exposure Draft provides a welcome improvement on the 2010 Practice Statement as it includes important and helpful content which can enhance

reporting on enterprise value creation and connectivity between financial and non-financial information. [...] The Practice Statement also builds on other important developments in corporate reporting, such as the Value Reporting Foundation's International Integrated Reporting Framework (<IR> Framework) and the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. *CL68 Deloitte*

- 44 Some other respondents suggested that interaction of the Management Commentary project with the future work of the ISSB provides an opportunity for the IASB to further consider other bodies' existing and emerging narrative reporting requirements and guidelines. Some highlighted the importance of considering the guidance in the TCFD Recommendations, the CDSB Framework for reporting environmental and social information and the <IR> Framework because they are expected to feed into the technical work of the ISSB.

We would like to emphasise that there should be a clear correlation or reconciliation between this Practice Statement with the standards, framework or conceptual guidelines to be issued by the newly formed International Sustainability Standards Board (ISSB) and also considering the consolidation of the Value Reporting Foundation (VRF) and the Climate Disclosure Standards Board (CDSB) into the ISSB. *CL77 Malaysian Institute of Accountants*

- 45 A few respondents also urged the IASB to seek compatibility with laws and regulations issued by lawmakers and regulators around the world, in particular the European Commission, to create globally accepted baseline requirements for management commentary and facilitate broader adoption of the Practice Statement.

In order to not only help the guidelines for management commentary to gain a broader application (possibly with the view of turning the Practice Statement 1 guidance into an IFRS Standard), but also to gain global acceptance for the IFRS Sustainability Standards (by means of a global baseline), the Foundation should strive for the highest possible level of compatibility of these sets of guidance with the current and upcoming requirements and political goals of at least the largest jurisdictions of the world. This includes, but is not limited to, keeping up with current aforementioned developments in the European Union with regard to the Management Report, which in the future will have to contain

the sustainability reporting. *CL39 Accounting Standards Committee of Germany (DRSC)*

The need for alignment on specific aspects of proposals in the Exposure Draft

- 46 Some respondents suggested the IASB and the ISSB should consider aligning particular aspects of requirements for management commentary and the provision of sustainability-related information. Their suggestions included:
- (a) emphasise the forward-looking dimension of the objective of management commentary.
 - (b) provide a common definition of the term ‘enterprise value’ that could be used by both the IASB and ISSB and explain its relationship to the term ‘value creation’ used in the Exposure Draft. Respondents’ comments on value creation, including suggestions for improving guidance and terminology, are discussed in paragraphs 28–32 of Agenda Paper 15C *Feedback summary—Objective of management commentary*.
 - (c) work together on additional guidance on making materiality judgements for what respondents referred to as ‘non-financial’ information.
 - (d) specify consistent attributes or characteristics of useful information.
 - (e) align requirements for metrics.
 - (f) consider whether and how to adjust the requirements related to the statement of compliance in the light of the interaction between the final document and the ISSB standards.
- 47 A few respondents suggested that some proposals in the Exposure Draft would now fall under the ISSB’s remit and should be further developed as part of the future IFRS Sustainability Disclosure Standards, for example as part of the future standard on general requirements for disclosure of sustainability-related financial information.
- 48 Some respondents emphasised the need for alignment and connectivity between the boards’ future requirements on ESG matters. The summary of feedback on the

Exposure Draft proposals for reporting on ESG matters will be discussed in at a future meeting.

The purpose and status envisaged for the final document

49 Some respondents commented on the purpose and status of the final document. The respondents discussed the following possibilities:

- (a) a non-mandatory practice statement (paragraphs 50–51);

Note on terminology—non-mandatory

Paragraph BC22 of the Basis for Conclusions on the Exposure Draft explained that the Practice Statement is non-mandatory in the sense that an entity is not required to prepare management commentary that complies with the Practice Statement in order for the entity’s financial statements to comply with IFRS Standards.

It would be for local lawmakers and regulators to decide whether to mandate compliance with the Practice Statement in their jurisdiction. However, if an entity wishes to claim that its management commentary complies fully with the Practice Statement, the entity is obliged to comply with every requirement in it.

- (b) a non-mandatory framework on management commentary (paragraph 52);
- (c) a standard (paragraphs 53–57);
- (d) an overarching framework for what was commonly described as ‘connected reporting’ (paragraphs 58–62).

A non-mandatory practice statement

50 Some respondents commenting on the purpose and status—notably regulators and standard-setters—supported retaining the status of the final document as a non-mandatory practice statement, meaning that it should continue to be for local

lawmakers and regulators to determine whether and how to make use of the Practice Statement. In particular, the respondents suggested that issuing a revised non-mandatory Practice Statement could:

- (a) benefit lawmakers and regulators who have not yet developed local regulations or are looking to enhance existing regulations in their jurisdiction; and
- (b) contribute to cross-fertilisation of ideas and improve information in management commentary across jurisdictions.

... we believe that non-mandatory guidance on management commentary can provide useful complement and encourage jurisdictions to improve, if needed, existing disclosure requirements and guidance for non-financial statement disclosure. It may also increase international comparability and improve the linkage between financial statements and management commentary, which would help support better information for current and potential investors, lenders and other creditors. *CL25 International Organization of Securities Commissions*

51 However, a few other respondents—while supporting the IASB’s efforts to improve the usefulness of information in management commentary—expressed a view that the proposals are unlikely to help the IASB achieve that aim because of the non-mandatory status of the Practice Statement and the existence of applicable local laws and regulations. A few respondents pointed out that the 2010 Practice Statement had very limited uptake and said that they did not expect the revised Practice Statement to have a more widespread application.

A non-mandatory framework on management commentary

52 A few respondents supported non-mandatory status of the document but suggested issuing it as a framework on management commentary rather than as a practice statement. They argued that issuing the document as a framework would:

- (a) prevent confusion about the status of the document; and

Although we are generally agreeable to the proposals in ED/2021/6, nonetheless, we recommend that ED/2021/6 be finalised as a separate set of non-mandatory framework instead of a Practice Statement. The level of details prescribed in ED/2021/6, which is similar to that of an IFRS Standard, might lead an entity's investors and creditors to misperceive the revised Practice Statement as an authoritative guide. This confusion may be further aggravated by an entity's application of the existing IFRS Practice Statement 2 *Making Materiality Judgements*, as both are the same category of technical pronouncements. *CL47 Malaysian Accounting Standards Board*

- (b) emphasise their preferred role for the proposals as a tool for local lawmakers and regulators rather than as a tool for preparers.

Generally, we are concerned that the practice statement format is not well suited for the purpose intended by the Board, as it is not grounded in authoritative requirements, such as standards. Its primary purpose is to provide a platform for transparent and informative management reporting, and thus, in nature and function, it represents a framework for such reporting, rather than a practice statement.

On this basis, we believe that the purpose of the [Exposure Draft] might be better directed to local regulators to use as a tool as a starting point for developing their local requirements, rather than to preparers, which would further justify a framework format as opposed to authoritative guidance. *CL9 EY*

A standard

- 53 Some respondents commenting on the purpose and status—representing various jurisdictions and various stakeholder types—suggested the IASB explore a possibility to issue the final document as a standard.

While being fully supportive of the European Green Deal and the related initiatives at EU level, the German insurers hold the view that the **fragmentation of financial or sustainability reporting requirements should be avoided**. Globally active insurers like any other reporting entities should have an option to apply the requirements set up in the global

management commentary standard, amended for specific aspects of European or local law if any. To achieve this important objective already in the mid-term the global requirements for management commentary should be determined by the IASB in an IFRS standard which would be then subject to an endorsement process as applicable in the relevant jurisdictions. *CL 11 German Insurance Association*

- 54 Respondents advocating issuing the final document as a standard on management commentary made the following comments on applicability of that standard:
- (a) develop a standard that—like IAS 34 *Interim Financial Reporting*—would be applicable to those entities that are required by local law to prepare a management commentary complementing IFRS financial statements or to those that do so voluntarily;
 - (b) issue a standard that would be subject to the usual local endorsement procedure;
 - (c) integrate the standard into local regulations on a ‘comply or explain’ basis; and
 - (d) make compliance with the standard on management commentary a required part of compliance with the IFRS Standards.
- 55 The respondents argued that issuing the final document as a standard rather than a practice statement would:
- (a) be in line with the IASB’s mission ‘... to develop IFRS Standards that bring transparency, accountability and efficiency to financial markets around the world’;
 - (b) encourage adoption and improve comparability between management commentaries in different jurisdictions;
 - (c) facilitate compliance by preparers and discourage the practice of voluntary disclosure of only positive information;
 - (d) provide a stronger basis for preparing management commentary that would include information on sustainability-related matters;
 - (e) provide a stronger basis for enforcement and assurance; and

(f) signal an equal role for management commentary compared to financial statements, which is especially important if it is envisaged to be a reporting channel for sustainability-related information.

56 In contrast, another respondent argued that issuing the final documents as a mandatory document could risk creating overlap or conflicting requirements with local laws or regulations.

57 However, those who commented on the Exposure Draft question about local legal or regulatory obstacles that would make it difficult for entities to comply with the Practice Statement, did not identify such obstacles other than the lack of an exception for commercially sensitive information in the proposed requirements (see paragraphs 48–50 in Agenda Paper 15E *Feedback summary—Disclosure objectives and areas of content*).

An overarching framework for ‘connected reporting’

Note on terminology

Respondents used various terms to describe the idea of the framework described in this section, for example ‘framework for connected reporting’, ‘framework for narrative reporting’, ‘framework for non-financial reporting’ or ‘framework for integrated corporate reporting’.

58 Many respondents commenting on the purpose and status expressed a view that the establishment of the ISSB affects the role of the proposals in the Exposure Draft. Most of these respondents viewed management commentary as a bridge between financial statements and sustainability-related financial disclosures. Therefore, they suggested that the proposals in the Exposure Draft should be used to develop an overarching framework for what was commonly described as ‘connected reporting’.

59 A few of the respondents made the following comments on the role of such framework:

- (a) it would guide both the IASB and the ISSB in developing their requirements and ensure connectivity between those requirements; and
- (b) it would guide management in preparing management commentaries incorporating sustainability-related information and connected to the entity’s financial statements.

60 A few respondents—many of whom disagreed with the proposed focus on investors’ information needs—expressed a view that an overarching framework for ‘connected reporting’ is needed because the *Conceptual Framework for Financial Reporting* is not suitable for broader corporate reporting, including management commentary or sustainability-related reports. They argued that:

- (a) the *Conceptual Framework* focuses on financial statements, the elements of financial statements and their recognition and measurement;
- (b) the objective of financial statements differs from the objective of management commentary or of reports on sustainability-related matters;
- (c) the *Conceptual Framework* does not address areas of content of management commentary;
- (d) the *Conceptual Framework* is not a suitable conceptual basis for providing information on ESG matters and on intangibles. In their view, the *Conceptual Framework* does not comprehensively address drivers of enterprise value and the existing concepts result in a general bias towards treating ESG matters and intangible resources as instruments of value destruction rather than instruments of value creation.

61 A few of the respondents who disagreed with the proposed focus on the investors’ information needs suggested that the <IR> Framework should be the basis of ‘connected reporting’ because in their view it would address the information needs of a broader range of stakeholders and provide a more suitable approach for explaining an entity’s value creation.

It also appears that the draft Practice Statement’s approach to value creation is conceptually inconsistent with the broader international agenda of the UN

Sustainable Development Goals and the European Union’s concept of double materiality and other efforts to promote sustainability and accountability through reporting.

Having a sound conceptual grounding for reporting that is aimed at meaningfully supplementing financial statements is essential. It leverages past analyses and experience and raises the potential for such reporting to be informative in a balanced and complete way rather than dealing with issues piecemeal and in parallel with existing frameworks. The International <IR> Framework in our opinion constitutes such a holistic conceptual framework which was developed to integrate financial and other reporting and has been adopted in over 75 countries. *CL18 Institute of Directors in South Africa and King Committee for Corporate Governance in South Africa*

- 62 However, most of those advocating an overarching framework suggested that it should be created integrating the proposals in the Exposure Draft and the principles in the <IR> Framework and in the TCFD recommendations.

As set out in our Cogito Paper 2019 *Interconnected standard setting for corporate reporting* we strongly believe that there is a need for a global approach for interconnected standard setting for corporate reporting. This would include a ‘framework for connected reporting’ to underpin financial and sustainability reporting standard setting which could be built from the Practice Statement 1 *Management Commentary* (Practice Statement) and International Integrated Reporting <IR> Framework principles. This prospect has become more feasible following the announcement of the commitment to merge with ISSB by the Value Reporting Foundation which includes the Integrated Reporting Framework and Integrated Thinking Principles. *CL14 Accountancy Europe*

Question for IASB members

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