STAFF PAPER

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IASB® meeting

Project	**Management Commentary**
Paper topic	Feedback summary—Investor feedback

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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 received from investors.

Note on terminology—investors

- The 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 *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.

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 for decisions but invites IASB members' questions and comments on investor feedback.

Structure of paper

5 This paper includes:

(a) an overview of engagement with investors (paragraphs 7–13);

(b) an overview of the key messages in the feedback (paragraphs 14–22);

(c) summaries of the feedback on:

(i) the need for the project (paragraphs 23–30);

(ii) the objective of management commentary (paragraphs 31–34);

(iii) the objectives-based approach and design of disclosure objectives (paragraphs 35–42);

(iv) the disclosure objectives for areas of content (paragraphs 43–50);

(v) key matters and material information (paragraphs 51–57);

(vi) metrics (paragraphs 58–65);

(vii) long-term prospects, intangible resources and relationships, and environmental, social and governance (ESG) matters (paragraphs 66–70); and

(viii) other topics (paragraphs 71–77).

6 An appendix to this paper includes comments on specific types of information that investors consider important. These comments will also be incorporated in further detailed feedback on the proposals to be discussed at a future meeting.

Overview of engagement with investors

7 Between June 2021 and December 2021, IASB members and staff held more than 20 outreach events either exclusively for investors or including investor participation. When comments made at the latter events could be attributed to investors, they are included in this paper. However, only investor-focused outreach events are included in the geographic analysis in paragraph 10.

8 Investor outreach events included:

(a) a joint meeting of the Capital Markets Advisory Committee and the Global Preparers Forum;

(b) three investor-focused workshops organised by national standard-setters;

(c) five outreach events with investor representative groups;

(d) a panel discussion at the September 2021 World Standard-setters Virtual Conference, which included an investor perspective;

(e) interviews with 10 investors from six large professional investment firms and a credit rating agency; and

(f) education events and discussion forums with mixed audiences, including education sessions for the Management Commentary Consultative Group.

9 In addition to investor feedback obtained at the outreach events, the IASB received seven comment letters from investors. In some cases, the organisations that submitted a comment letter had also participated in the outreach events.

10 The geographic distribution of investor comment letters and outreach events is summarised below:

(a) 13 from Europe, including three from the United Kingdom, one from Spain and nine representing the region;

(b) seven from Asia/Oceania, including five from Japan, one from Australia and one representing the region; and

(c) seven international.

Note on geographic analysis

- Individual investors are categorised based on their investment focus.
- Investor representative groups and organisations are categorised based on the location of their members (although in some cases their members may bring an international perspective).

11 Investor feedback has also contributed to comment letters from national standard-setters of various jurisdictions. That feedback is included in feedback summaries on particular topics in other Agenda Papers.

12 In discussing the Exposure Draft with investors, the staff did not seek to obtain their feedback on all aspects of the proposals. Instead, we focused on investors' information needs, the shortcomings of management commentaries that investors observe today and what improvements are needed. In particular, we sought feedback on whether the following proposals appropriately reflect investors' information needs:

(a) the disclosure objectives for the areas of content;

(b) the requirement to focus on key matters and proposals for materiality;

(c) the requirements for reporting metrics; and

(d) the approach to addressing information relating to an entity's long-term prospects, intangible resources and relationships and ESG matters.

13 In general, the feedback in comment letters—for example, on investors' information needs—was consistent with the feedback at outreach events. However, on some topics—for example, on the design of the proposals—investors provided more detailed responses in comment letters than at outreach events. Unless otherwise stated, the feedback summarised below includes comments from both comment letters and outreach events.

Key messages in feedback

14 Almost all investors emphasised the importance of high-quality management commentary and welcomed the efforts of the IASB to 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.

15 Almost all investors commented on the common shortcomings of management commentary and agreed with the IASB's analysis. In particular, many of these investors stated that management commentaries often lack focus on matters that are important to the entity's prospects and contain too much generic information.

16 Most investors commented on the likely interaction between the Management Commentary project and the work of the International Sustainability Standards Board (ISSB). Many of these investors suggested that the IASB and the ISSB should work together on cross-cutting issues such as providing material information about sustainability-related matters. Many of these investors also emphasised that in addition to providing better information on sustainability-related matters, entities should continue to improve other aspects of management commentary.

17 Almost all investors commented on the proposed objective of management commentary and agreed that management commentary should provide information that both enhances investors' understanding of the entity's financial statements and provides insight into factors that could affect the entity's ability to create value.

18 Almost all investors commented on the proposed objective-based approach and supported that approach. In particular, they supportedthe flexibility for management to identify entity-specific information that would be useful to investors. However, a few investors suggested that appropriate enforcement would be required to ensure that management does not use the flexibility of the proposed approach to avoid disclosing material but sensitive information.

19 Most investors commenting expressed the view that entities would be able to operationalise the proposed approach, although a few investors suggested that entities

may at first find it challenging to apply. Investors commenting expressed various views on the enforceability of the proposed objectives-based approach.

20 Almost all investors commented on and supported various proposals in the Exposure Draft aimed at meeting investors' information needs, including:

(a) the disclosure objectives for each of the six areas of content;

(b) the requirement to focus on key matters and the guidance on identifying such key matters; and

(c) the requirements relating to metrics, including metrics that play a role in determining management compensation and adjusted financial performance measures.

21 However, some investors suggested that the proposed requirements should give greater prominence to information that is likely to be always important to investors, such as management's funding and capital allocation strategies. Many investors also suggested that the IASB should develop reporting requirements on an entity's governance.

22 Although all investors commenting on the approach of not specifying a list of metrics that an entity would be required to provide supported this approach, many investors emphasised the importance of comparability of metrics, including metrics relating to sustainability-related matters.

The need for the project

Shortcomings in current practice

23 The Exposure Draft outlined the findings of IASB research, which indicated that management commentaries do not always provide investors with the information they need. For example, management commentaries sometimes:

(a) fail to focus on matters important to the entity's prospects;

(b) contain too much generic information and not enough entity-specific information;

(c) focus on short-term matters;

(d) provide insufficient information about the entity's intangible resources and relationships and about ESG matters affecting the entity;

(e) are fragmented or are difficult to reconcile to the entity's financial statements;

(f) provide information that is difficult to compare with information the entity provided in previous periods or with information provided by other entities with similar activities; and

(g) are incomplete or unbalanced.

24 Almost all investors commented on the importance of management commentary as a communication channel with investors. Some investors stated that management commentary is central to their analysis, while others stated they do not rely greatly on management commentary because the quality of those reports in their view is often inadequate. A few investors emphasised the role of management commentary in providing context for information reported in the entity's financial statements, while a few others viewed management commentary as playing a primary role in telling the entity's story, with supporting evidence provided by the financial statements and other reports such as reports on sustainability-related matters.

25 Many investors stated that the quality of management commentaries varies greatly, including in jurisdictions with well-developed local laws and regulations. For example, an investor comment letter stated:

> The IASB and [UK Financial Reporting Council] need to find a way of taking a much firmer line with companies in the preparation of their reports. This is particularly true of the Management Commentary which, as the IASB recognises, is often lamentable in terms of its usefulness to investors. *CL28 UK Shareholders' Association and ShareSoc*

26 Almost all investors commented on the common shortcomings of management commentaries and confirmed the IASB's analysis. In particular, many of these

investors stated that management commentaries often lack focus on matters that are important to the entity's prospects and contain too much generic information with not enough entity-specific information. These investors also mentioned other common shortcomings, including:

(a) a lack of information needed for investors' analyses, in particular:

  (i) adjusted measures of financial performance are either misleading or not well explained;

  (ii) explanations of differences between actual performance and previous targets are insufficient;

  (iii) insufficient quantitative information is provided about important matters;

  (iv) insufficient information is provided about matters that could affect the long-term prospects of the entity, but are beyond management's planning horizon;

  (v) material information that is disclosed to a subset of investors during earnings calls and other investor presentations is being omitted from management commentary;

(b) poor presentation of information, in particular:

  (i) excessive jargon and unclear language are used; and

  (ii) documents are text-heavy and difficult to navigate.

27 Almost all investors commented on the work of the IASB to develop a new comprehensive framework on management commentary that would address investors' information needs. All investors commenting welcomed the project.

> …we commend the Board's efforts to update Practice Statement 1 *Management Commentary* in order to reflect the trend towards better narrative reporting in recent years. High quality narrative information is becoming increasingly important in corporate reporting. *CL81 Corporate Reporting Users' Forum*

Interaction with sustainability reporting

28 Most investors commented on the role that management commentary has to play in providing material information about sustainability-related matters. Many of these investors emphasised that in addition to providing better information on sustainability-related matters, entities should improve other aspects of management commentary and address current shortcomings (see paragraphs 23–26).

29 Investors expressed a range of views on the role of management commentary in providing information about sustainability-related matters:

(a) many investors supported including material information about climate risk and other sustainability matters in management commentary so that all material information about factors that could affect the entity's prospects is provided to investors in a single report;

(b) as noted in paragraph 24, a few investors viewed management commentary as playing a primary role in describing the factors that have affected or could affect the entity, including sustainability matters, with supporting evidence such as metrics provided in other reports; and

(c) a few European investors advocated addressing sustainability matters in a separate sustainability report except when such matters are directly related to the financial performance and financial position for the reporting period.

> …reporting 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*

30 Most investors emphasised the interaction between the Management Commentary project and the future work of the ISSB. These investors made the following suggestions regarding the future direction of the Management Commentary project:

(a) many investors who participated in outreach meetings emphasised that other important aspects of management commentaries need improvement while IFRS Sustainability Disclosure Standards are being developed;

(b) many investor comment letters suggested that the Management Commentary project should not be finalised until the IASB and the ISSB establish formal communication channels and discuss cross-cutting issues such as providing material information about sustainability-related matters; and

(c) one investor suggested that the project should become the primary responsibility of the ISSB (see paragraph 31(c) of Agenda Paper 15A *Feedback Summary—Project Direction*).

Objective of management commentary

31 The Exposure Draft proposed that the objective of an entity's management commentary is to provide information that:

(a) enhances investors' understanding of the entity's financial performance and financial position reported in its financial statements; and

(b) provides insight into factors that could affect the entity's ability to create value and generate cash flows across all time horizons, including in the long term.

32 Almost all investors commented on the proposed objective stating that they agree that management commentary should provide information that both enhances investors' understanding of the entity's financial statements and provides insight into factors that could affect the entity's ability to create value.

> Management commentary is designed to supplement the financial statements but now works as more than that. It is essential for users to understand not only financial statements but also the value creating ability of a company in order to make convincing future cash-flow forecasts with more confidence. 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*

33 However, a few investors suggested that management commentary should primarily explain an entity's financial performance and financial position reported in the related financial statements (see paragraph 24).

34 In contrast, another investor stated that investors also need to understand matters that are not directly linked to the entity's financial statements or future cash flows:

> …investors wish to understand [certain] characteristics of a reporting entity, its impact on society, its governance structure, not only if these factors can be expected to influence future cash flows, but also if they are not explicitly expected to affect future cash flows. Certain characteristics of a reporting entity are often used to assess whether a reporting entity potentially meets the non-financial criteria of a specific investment portfolio. *CL20 Eumedion*

Objectives-based approach and design of disclosure objectives

35 The Exposure Draft proposed an objectives-based approach that included headline, assessment and specific disclosure objectives for each of six areas of content. To help entities meet the proposed disclosure objectives, the Exposure Draft provided examples of information that might be material. However, the Exposure Draft did not prescribe specific items of information that must always be provided.

36 Almost all investors commented on the proposed objectives-based approach and supported this approach. These investors supported providing management with the flexibility to determine:

(a) what information to include in the management commentary to meet specified investor information needs; and

(b) how to effectively communicate that information to investors.

37 Investors supporting the proposed objectives-based approach said they thought it could result in more useful entity-specific information than a prescriptive approach to specifying disclosure requirements. They agreed that management is well placed to determine what matters are important for the entity's prospects and should be discussed in the management commentary.

38 However, a few investors expressed concerns that while the flexibility of the proposed approach would allow 'best practice' entities to tailor their management commentary to meet investors' needs, it could allow other entities to avoid disclosing material unfavourable or entity-specific information by claiming the information:

(a) is commercially sensitive or confidential;

(b) is not necessary for meeting the disclosure objectives; or

(c) is not used in managing the business.

39 In particular, some of those investors were concerned that entities may be reluctant to disclose information about key aspects of management's strategy, the entity's key resources and relationships and specific management targets because such information could be viewed as commercially sensitive. Many of these investors stated that the proposals would need to be complemented by regulatory enforcement or external assurance to achieve the aim of improving reporting practices to meet investors' needs.

40 As noted in paragraph 12, investor outreach meetings focused on whether the proposals correctly identified investors' information needs and did not seek to address all aspects of the proposals. However, some investor comment letters also provided views on the operationality of the proposed objectives-based approach. Most of these comment letters expressed the view that entities would be able to operationalise the proposed approach as the proposed three-tier disclosure objectives provide sufficient granularity and specificity for management to identify information that investors need.

> The proposed updated practice statement for the Management Commentary is an excellent piece of work by the IASB. We agree that the Exposure Draft provides 'comprehensive, clear and structured requirements' (BC32) for preparers when writing their management commentary. It is clear also that these requirements are framed with the information needs of investors in mind.
> *CL28 UK Shareholders' Association and ShareSoc*

41 However, a few investors suggested that some entities may at first find it challenging to apply an objectives-based approach—in particular, to identify information needed

to 'provide a sufficient basis' for investors' assessments as required by the assessment objectives. These investors recommended that the IASB should consider:

(a) taking a more prescriptive approach on particular topics;

(b) field-testing the proposed approach; or

(c) publishing educational material to assist preparers in applying the objectives-based approach.

42 Investor comment letters expressed a range of views on whether the proposed objectives-based approach would be enforceable. Some comment letters expressed the view that it would be enforceable. However, echoing the concerns about too much flexibility for entities in preparing management commentary and the level of judgement involved, other comment letters questioned whether the proposed approach would provide a suitable and sufficient basis for auditors and regulators to determine compliance. Nevertheless, these comment letters still supported an objectives-based approach to encourage management to provide useful entity-specific information.

Disclosure objectives for areas of content

43 The Exposure Draft proposed disclosure objectives for information covering six areas of content:

(a) the entity's *business model*;

(b) management's *strategy* for sustaining and developing that business model, including the opportunities management has chosen to pursue;

(c) the entity's *resources and relationships*, including resources not recognised as assets in the entity's financial statements;

(d) *risks* to which the entity is exposed;

(e) the entity's *external environment*; and

(f) the entity's *financial performance and financial position*—including how they have been affected or could be affected in the future by the matters discussed for the other areas of content.

44 In our outreach with investors, we particularly sought to understand whether the proposed disclosure objectives appropriately capture investors' information needs.

45 Almost all investors commented on the proposed disclosure objectives and stated that these objectives correctly identify the information that investors need (see paragraph 31 of Agenda Paper15E *Feedback summary—Disclosure objectives and areas of content*).

> Our general observation is that the [Exposure Draft] succeeds in proposing investor-relevant guidance on a great variety of topics for the management report. *CL20 Eumedion*

46 However, some investors suggested that greater prominence should be given to:

(a) information about management's funding and capital allocation strategies;

(b) information about the entity's competitive environment;

(c) information about management's progress in managing key matters, including information on failures and setbacks; and

(d) metrics (in particular, metrics that play a role in determining management compensation) and information about why these metrics are used and how these metrics are calculated.

47 The appendix to this paper summarises the information that investors have indicated is important.

48 In discussing the proposed areas of content, most investors agreed with the areas of content set out in the Exposure Draft. However, as noted in paragraph 33, a few investors argued that information about the entity's financial performance and financial position is of primary importance for investors and should therefore play a central role in management commentary. Furthermore, those investors emphasised

that information related to the other five areas of content should be included in the management commentary to the extent that it is relevant for a better understanding of the entity's financial performance, financial position and how they will contribute to the entity's prospects for creating value and generating cash flows.

49 A few investors argued that risks and opportunities should be given equal prominence in the new framework. They stated that opportunities often arise from the same sources as risks and should be discussed together. One specific example raised was climate-related risks and opportunities. In contrast, a few investors expressed support for the proposal to identify risks (but not opportunities) as a separate area of content, and include disclosure objectives for opportunities within the 'strategy' area of content (see paragraph 37 of Agenda Paper 15E).

50 Many investors suggested that the IASB should develop explicit requirements relating to reporting information about an entity's governance, although a few investors expressed the view that it is more appropriate to include this information in a separate corporate governance report. Most investors who commented on the topic said that governance should not be identified as a separate area of content. They suggested that information about governance should instead be incorporated in management commentary across areas of content such as the entity's business model and risks. Investors emphasised that the focus of reporting should be on the effect of governance on the entity's financial performance, financial position and prospects, rather than on a description of the entity's governance policies.

Key matters and material information

Key matters

51 As stated in paragraph 26, many investors emphasised that management commentaries sometimes lack focus and material information is sometimes obscured by less important information.

52 The Exposure Draft proposed that management commentary should focus on key matters—matters that are fundamental to the entity’s ability to create value and generate cash flows, including in the long term. The Exposure Draft also proposed guidance on identifying key matters and examples of key matters for each area of content.

53 All investors commenting on the proposal for management commentary to focus on key matters supported this proposal. Many investor comment letters also expressed a view that the proposed guidance on key matters would provide a suitable and sufficient basis for management to identify key matters.

54 Most investors commenting on the identification of key matters agreed that it should be based on the matters monitored by management. However, another investor recommended that the effect of a key matter on the entity should be disclosed even if the matter is not monitored by management.

Material information

55 The Exposure Draft:

(a) proposed that management commentary should provide material information, that is information that could reasonably be expected to influence investors’ decisions; and

(b) proposed guidance on making materiality judgements and examples of information that might be material.

56 Most investors commented on the proposal for management commentary to provide information that is material for investors’ decision-making and supported the proposal. Almost all investors commenting on the proposed guidance on making materiality judgements expressed a view that it is sound and appropriate. A few investors cautioned the IASB against providing examples that are too granular because that might result in providing immaterial information that is not useful to investors.

57 One investor recommended that the definitions of material information used in the Practice Statement and by the future ISSB should be aligned and suggested that the term ‘investor materiality’ could be an intuitive way to refer to materiality in these contexts.

Metrics

58 The Exposure Draft stated that:

(a) material information is likely to include metrics that are derived from metrics that management uses to monitor key matters and to measure progress in managing those matters; and

(b) metrics that play a role in determining management compensation are likely to be material. Furthermore, if management commentary includes a metric that is similar to, but not the same as, a measure that plays a role in determining management compensation, it shall explain how the metric and that other measure relate to each other.

59 The Exposure Draft proposed:

(a) requirements that apply to all metrics, namely requirements for clarity, accuracy, comparability, and coherence; and

(b) additional requirements that apply to forecasts and targets, if management decides to include them in management commentary.

60 The proposals include specific requirements for clarity and accuracy of adjusted measures of financial performance, including:

(a) labelling the measure using a name that is not misleading; and

(b) reconciling the amount reported for the measure to the most directly comparable amount presented or disclosed in the financial statements.

61 Many investors emphasised the importance of metrics in making management commentary focused and concise and stated that metrics (for example, staff turnover

or number of workplace accidents) often provide more useful information than generic narrative statements.

62 All investors commenting on the approach of not specifying a list of metrics that an entity would be required to provide supported this approach, arguing that relevant metrics are likely to be entity- and industry-specific. Many investors further stated that reporting metrics used by management provides insight into the quality of management's stewardship. However, one investor noted that certain aggregated metrics may not be used by management, but still provide useful information to investors. Furthermore, many investors emphasised that it is important to them that metrics are comparable:

(a) between similar entities (which suggests that entities should consider metrics published in analyst reports covering the entity's industry and engage in an active dialogue with investors); and

(b) between periods for the same entity (which may require the restatement of prior period metrics if the way the entity calculates metrics has changed).

63 All investors commenting on this topic also supported the other proposed requirements for metrics. Some investors, while supporting the proposed requirements for metrics that play a role in determining management compensation, suggested that management commentary should give greater prominence to such metrics, including an explanation of why these metrics were chosen and how they relate to creating shareholder value. For example, compensating management of a bank only on asset growth rather than on a risk-adjusted basis could indicate to investors that management is pursuing an overly aggressive growth strategy.

64 As noted in paragraph 26, many investors stated that adjusted financial performance measures reported in management commentary are often not well explained or even misleading. Investors supported the proposed requirements in the Exposure Draft relating to such metrics. Additionally, they highlighted the importance of such metrics being calculated on a consistent basis and suggested that entities should also be required to provide reasons for why such adjusted metrics were chosen.

65 A few investors suggested that metrics used to monitor an entity's non-financial performance or position should be included in the management commentary only if they are needed to explain the entity's financial performance or financial position for the reporting period. However, other investors argued that such a condition is not appropriate because material metrics could also relate to factors that could affect the entity's future financial performance or financial position.

Long-term prospects, intangible resources and relationships and ESG matters

66 The Exposure Draft included an appendix that provided examples of how the proposed requirements and guidance would apply to reporting on matters that could affect the entity's long-term prospects, on intangible resources and relationships and on environmental and social matters. The Exposure Draft did not propose comprehensive requirements for reporting on an entity's governance because governance is typically regulated by local laws, which may also require entities to provide specified information about governance.

67 Most investors commenting on the proposed guidance said they thought it should help preparers identify information that meets investors' needs. However, a few investors echoed the concerns noted in paragraph 38 that the flexibility of the guidance may result in management omitting material information.

68 Some investors suggested that, to further assist preparers of management commentary, the guidance should be:

(a) supplemented with more detailed case studies; and

(b) subject to a post-implementation review to assess whether any amendments are required.

69 Some investors emphasised the importance of:

(a) information about sustainability-related matters that significantly affect the entity's business model and the industry in which the entity operates;

(b) sustainability-related metrics that are comparable with those disclosed by other similar entities;

(c) metrics that provide insight into an entity's intangible resources and relationships, for example staff turnover and customer satisfaction scores; and

(d) addressing governance in management commentary to the extent that it affects the entity's financial performance and financial position or its prospects (see paragraph 50).

70 Investors further suggested that in preparing management commentary, management should not:

(a) adopt a checklist approach to ESG disclosures;

(b) include long narrative descriptions of intangible resources and relationships; or

(c) attempt to ascribe a monetary value to intangible resources and relationships.

Other topics

71 Investor comment letters provided feedback on various other proposals in the Exposure Draft.

Attributes of information in management commentary

72 All investors commenting on the proposed requirement that information in management commentary should be complete, balanced and accurate supported this requirement. Furthermore, these investors agreed that information is more useful to investors if it is also clear and concise, comparable and provided in a way that enhances its verifiability. Moreover, these investors supported the proposed guidance to help management ensure that information in management commentary possesses these attributes. However, some investors asked the IASB to clarify the relationship between these attributes and the qualitative characteristics of useful financial information set out in the *Conceptual Framework for Financial Reporting*.

73 Investors also made the following suggestions:

(a) more guidance on the presentation of management commentary (for example, the location in the annual report) could aid comparability of information across different jurisdictions; and

(b) preparers of management commentary should be encouraged to improve the clarity of language used in management commentary.

Including information in management commentary by cross-reference

74 Some investors commented on the proposals for including information in management commentary by cross-reference to other reports, and supported those proposals. They stated that including information by cross-reference is a practical way to avoid duplication and repetition. However, many of those investors emphasised the need to ensure that information is not included by cross-reference to other reports that are subject to a lower level of assurance or cover a different time period than the management commentary. Some investors suggested that management commentary should provide a summary of the key messages in the cross-referenced information.

Statement of compliance

75 Some investors commented on and supported the proposals that:

(a) entities be permitted to state compliance with the revised Practice Statement even if their financial statements are not prepared in accordance with IFRS Standards;

(b) entities be required to include an explicit and unqualified statement of compliance if they comply with all of the requirements of the Practice Statement; and

(c) entities may choose to include a qualified statement of compliance if they comply with some of the requirements of the Practice Statement.

Effects analysis

76 Most investor comment letters agreed with the likely benefits of the proposals discussed in the effects analysis included in the Basis for Conclusions on the Exposure Draft, including an improved focus on entity-specific information and the provision of better information on topics of particular interest to investors. One investor emphasised that the benefits of the Management Commentary project will depend on whether steps are taken to promote the application of the final document in practice. Investors did not comment on the likely costs for preparers.

Effective date

77 Some investors supported the proposal for the Practice Statement to be effective for annual periods ending at least one year after the date of its issue. However, one investor noted that if a transition period of one year is not considered sufficient in particular jurisdictions, those jurisdictions could decide to mandate compliance with the Practice Statement from a later date.

Question for IASB members

Question for IASB members
Do you have any questions or comments on the feedback reported in this paper?

Appendix—Information that investors consider important

A1 In outreach meetings and comment letters, investors highlighted particular types of information that they consider important. In some cases, they suggested giving more prominence to particular disclosure objectives or to examples of information that might be material. In other cases, they suggested adding disclosure objectives or examples that were not included in the Exposure Draft.

A2 Many investors highlighted the importance of information about management's funding and capital allocation strategies, in particular:

(a) with regards to management's funding strategy:

(i) the target capital structure (typically expressed as a target leverage ratio) and funding mix (in terms of maturity and subordination), including an explanation of underlying assumptions;

(ii) the maximum acceptable leverage ratio in stress conditions;

(iii) plans to achieve the target leverage ratio and funding mix, including planned issuances of new debt or renegotiations of existing debt; and

(iv) the liquidity management strategy.

(b) with regards to management's capital allocation strategy:

(i) management's capital expenditure priorities;

(ii) management's acquisition strategy and criteria used to evaluate potential acquisitions and other investments;

(iii) metrics used to evaluate the success of past acquisitions and other investments, both individually for significant acquisitions and collectively for the entity's acquisition strategy; and

(iv) management's plans to distribute profit or capital to its shareholders (for example, through dividends or share buy backs).

A3 Many investors highlighted the importance of information about the entity's external environment, in particular information about:

(a) the entity's competitive landscape, including the concentration of competitors and competing technologies;

(b) the entity's current and target market share in various market segments; and

(c) the evolution of the marketplace, such as new entrants into the market.

A4 A few investors emphasised the usefulness of particular types of information relating to the entity's financial performance and financial position, including information about:

(a) financial performance measures by operating segment, for example operating margins;

(b) the sensitivity of the reporting period's financial performance to particular variables such as commodity prices or foreign exchange rates;

(c) forecasts of future financial performance together with the sensitivity of these forecasts to external factors;

(d) assumptions used in estimating forecast revenue, gross profit, operating expenses and research and development costs;

(e) explanations of differences between actual financial performance and previous forecasts of financial performance;

(f) movements in debt and equity balances between the start and the end of the reporting period; and

(g) long-term contractual commitments that are not reflected in the financial statements.

A5 Investors also highlighted the following types of information that could be useful:

(a) metrics used to calculate management compensation;

(b) the entity's legal structure, in particular any restrictions on distributions to investors;

(c) information about the entity's ability to create value using new technology;

(d) the length and complexity of the entity's supply chain;

(e) incidents that occurred during the reporting period in relation to the entity's key risks, for example:

  (i) occupational health and safety;

  (ii) environmental matters;

  (iii) fraud and corruption; and

  (iv) cybersecurity; and

(f) information about the entity's strategic position, analysed using frameworks such as Porter's Five Forces model (comprising competition in the industry, potential of new entrants into the industry, power of suppliers, power of customers and threat of substitute products) or the SWOT framework (strengths, weaknesses, opportunities and threats).