

STAFF PAPER

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IASB® meeting

Project	Management Commentary		
Paper topic	Feedback summary—Key matters and material information		
CONTACTS	Joan Brown	jbrown@ifrs.org	+44 (0)20 7246 6916
	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743
	Matt Chapman	mchapman@ifrs.org	+44 (0)20 7246 6971

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 of paper

- 1 The papers for this meeting summarise feedback on the International Accounting Standards Board (IASB)'s proposals for a revised Practice Statement on management commentary (Practice Statement), as set out in the Exposure Draft *Management Commentary* (Exposure Draft).
- 2 This paper summarises feedback on the proposed requirements for management commentary to focus on key matters and provide material information.
- 3 This paper does not include feedback on the proposed definition of material information or on the guidance on making materiality judgements proposed in Chapter 12 of the Exposure Draft. That feedback will be discussed at a future meeting.
- 4 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.
- 5 This paper does not ask the IASB to make decisions but invites IASB members' questions and comments on the feedback.

Structure of paper

- 6 This paper includes:
- (a) a recap of the Exposure Draft proposals (paragraphs 7–11);
 - (b) an overview of the key messages in the feedback (paragraphs 12–13);
 - (c) summaries of the feedback on:
 - (i) the requirements to focus on key matters and provide material information (paragraphs 14–19);
 - (ii) key matter terminology (paragraphs 20–23); and
 - (iii) guidance on identifying key matters (paragraphs 24–25).

Exposure Draft proposals

Material information

- 7 Paragraph 3.2 of the Exposure Draft proposed that information required to meet the objective of management commentary should be provided if it is material, and:

In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of the management commentary and of the related financial statements.

Key matters

- 8 Chapters 5–10 of the Exposure Draft (setting out the disclosure objectives for each area of content) proposed that management commentary should focus on key matters, that is:

Matters that are fundamental to an entity's ability to create value and generate cash flows, including in the long term.

- 9 Chapters 5–10 also included examples of key matters and Chapter 4 (introducing Chapters 5–10) included a section with general guidance on key matters.
- 10 To explain the relationship between the notions of material information and key matters, the Exposure Draft noted that:
- (a) it is likely that much of the information that is material to investors will relate to key matters (paragraphs 3.16 and 4.8); but
 - (b) material information does not necessarily relate to a key matter (paragraph 3.17). For example, some matters might not be key for an entity even though investors would generally expect them to be key for entities operating in the industry or jurisdiction in which the entity operates. In such cases, management considers whether any information about the matter is material. Material information is likely to include an explanation of why the matter is not key for the entity (paragraph 4.13).
- 11 The requirement to focus on key matters was one of several proposals designed to address a shortcoming in management commentaries—that they sometimes fail to focus on matters most important to an entity’s prospects. Paragraphs BC77–BC79 of the Basis for Conclusions explained that the IASB proposed the requirement to help management make materiality judgements—not to replace materiality as a threshold for determining what information to include in management commentary. The Basis for Conclusions also noted that materiality is not an attribute of a matter, it is an attribute of information about that matter.

Key messages in feedback

- 12 Many respondents commented on the proposal to require management commentary to focus on key matters. Most of those respondents—including all the investors commenting—supported the proposal. However, many suggested the IASB needs to clarify the way in which the requirement to focus on key matters interacts with the requirement to provide material information.

- 13 Some respondents suggested reviewing the terminology. Their main concern was that that the term ‘key matter’ could be confused with the term ‘key audit matter’, which is now widely used in independent auditors’ reports.

Requirements to focus on key matters and provide material information

- 14 Many respondents commented on the proposal to require management commentary to focus on key matters. Most of those respondents—including all the investors and many of the accounting firms and standard-setters commenting—supported the proposal:

More information does not necessarily guarantee better communication. We are concerned that material information might be obscured by a flood of less important information.

Therefore, we believe requiring a focus on key matters in management commentary is essential, in order for it to be a truly useful and effective tool for the management to communicate with investors and creditors.

CL81 Corporate Reporting Users’ Forum

We believe that focusing on key features or aspects of the six areas of content (helpfully mapped in Figure 1) provides important structure to entities as they prepare management commentary. *CL5 Value Reporting Foundation*

- 15 However, many respondents commenting—including almost all the accounting firms, a regulator and some accountancy bodies and standard-setters commenting—suggested the IASB needs to clarify the way in which the requirement to focus on key matters interacts with other requirements in the Exposure Draft, especially the requirement to provide material information.

- 16 Comments suggested a few respondents interpreted the requirement to focus on key matters as:

- (a) a second disclosure threshold that would apply in addition to, or above, the materiality threshold, and could lead to the omission of material information; or

- (b) a requirement to provide information beyond that required by the disclosure objectives.

17 Suggestions for clarifying the interaction included:

- (a) clarifying the requirements by:
 - (i) locating the requirement to focus on key matters in the same section of the Practice Statement as the requirement to provide material information (instead of splitting them between Chapters 3 and 4);
 - (ii) explaining more explicitly the link and distinction between the matters that are important to the entity’s future success (key matters) and the information needed to understand those matters (material information);
 - (iii) including in the Practice Statement (not only the Basis for Conclusions) the clarification that materiality is not an attribute of a matter, it is an attribute of information about that matter;
- (b) clarifying the supporting guidance by:
 - (i) locating all the guidance on identifying key matters and material information together (instead of dispersing it widely throughout the Practice Statement);
 - (ii) being clearer that material information might not always relate to a key matter and that not all information about key matters is material, perhaps using diagrams or flow charts; and
 - (iii) omitting guidance relating to possible but unlikely situations—a respondent suggested that material information about a non-key matter is an unlikely combination.

18 Few respondents raised any concerns about the ability of an entity’s management to identify matters that are key for the entity. However, an accounting firm, while agreeing with the requirement to focus on key matters, suggested that identifying key matters could be challenging:

... Key matters may not be anticipated in all instances. For example, we would suggest, after having the experience of the Covid-19 pandemic, that the impact of a pandemic is a potential key risk impacting all entities, but prior to the Covid-19 pandemic, not many, if any, would have identified it as a key matter. There is a chance that the requirement to identify key matters may put reporting entities in a difficult position, after such risks have materialised. As a result, there is a risk that this approach could result in entities providing numerous “key matters” disclosures, regardless of likelihood, to cover all possible eventualities to ensure they address the requirements of the proposals in the ED. If this were to occur, the key matters would become a laundry list of items which would then obscure those which are most relevant.

CL9 EY

19 Some respondents—including some accounting firms, accountancy bodies and preparers of financial statements—suggested removing the requirement to focus on key matters completely, on the grounds that:

- (a) that requirement is unnecessary and overcomplicates the Practice Statement requirements. In support of this view, respondents argued that:
 - (i) information should be included in management commentary if it is material, irrespective of whether it relates to a key matter;
 - (ii) the requirement to focus on key matters serves the same purpose as the disclosure objectives; or
 - (iii) the list of examples in the Exposure Draft of information that might be material would be not different in the absence of the concept of key matters.
- (b) the requirement adds operational complexity so would increase the burden on preparers of management commentary:

One solution would be to eliminate the concept of ‘key matters’ from the Practice Statement and simply state that the extent of information required is dependent on how material a matter is for the enterprise value creation process. This would be consistent with the concept of materiality and would simplify the structure of the Practice Statement...

CL68 Deloitte

Key matter terminology

- 20 Some respondents, of various types, expressed concern about the use of the word ‘key’ as a label for key matters and the word ‘fundamental’ in the definition of a key matter.
- 21 Most were concerned about the similarity of the term ‘key matter’ to the term ‘key audit matter’, which is now widely used in independent auditors’ reports to describe the matters that the auditors have judged to be most significant in their audit. Respondents were concerned that the similarity could lead to confusion of the two terms, or questions about whether the key matters on which management commentary focuses need to be aligned with key audit matters discussed with auditors.
- 22 Suggested remedies included:
- (a) changing the label used to describe key matters. Suggestions for alternative labels included:
 - (i) notifiable, reportable, key commentary or critical matters;
 - (ii) key areas of focus; or
 - (iii) high impact factors;
 - (b) combining the discussion of key matters with the discussion of materiality (so the meaning of key matters is clearer); or
 - (c) explaining the relationship between key matters and key audit matters.
- 23 A few respondents also expressed concern that the terms ‘key’ and ‘fundamental’ are not used or defined in IFRS Standards with the meaning proposed in the Exposure Draft, and it is unclear how they should be viewed relative to the defined term ‘material’.

Guidance on identifying key matters

- 24 Some respondents provided feedback on the proposed guidance on identifying key matters. Most of those commenting expressed broad support for the guidance,

agreeing that it would provide a suitable and sufficient basis for management to identify key matters. Some reasons given for supporting the guidance were that:

- (a) practical examples are always helpful; and
- (b) the guidance is comprehensive enough—making it more detailed could risk the guidance becoming a checklist, and the requirements appearing to be more rules-based than intended.

25 A few respondents suggested ways of enhancing the guidance:

- (a) the Capitals Coalition¹ suggested that guidance on *how* to identify key matters is more useful than examples of key matters. The coalition suggested its own guidance—the *Natural Capital Protocol* and the *Social and Human Capital Protocols*—could be useful.
- (b) an accountancy body noted that the examples of key matters were organised in the Exposure Draft by area of content. It said it agreed with this presentation. But it suggested that in integrated reporting practices, all areas of content are assessed together to identify key matters, and these key matters are then incorporated into strategies and measured and monitored. These processes are all logically connected and the Practice Statement should explain the process flow.

Question for IASB members

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

¹ The Capitals Coalition is a global collaboration that develops, advocates for, and advances understanding of natural, social, human and produced capitals. The Coalition works with organisations and individuals to understand the value that flows from these capitals and to ensure that that value is included in decision-making.