
ISSB Meeting

Date	October 2024
Project	Supporting Implementation of IFRS S1 and IFRS S2
Topic	Connectivity considerations related to the IASB's Management Commentary project
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This paper has been prepared for discussion at a public meeting of the International Sustainability Standards Board (ISSB). This paper does not represent the views of the ISSB or any individual ISSB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Sustainability Disclosure Standards. The ISSB's technical decisions are made in public and are reported in the ISSB *Update*.

Purpose

1. This paper provides the International Sustainability Standards Board (ISSB) with an update on the International Accounting Standards Board (IASB)'s Management Commentary project and the staff's analysis and recommendations related to connectivity. Specifically, the paper considers the interaction between ISSB Standards and the IASB's Management Commentary project and whether and how the ISSB might consider amending requirements in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* related to the location of disclosures if an entity also applies the revised IFRS Practice Statement 1 *Management Commentary* (Management Commentary Practice Statement).
2. At this meeting, the ISSB will be asked to make a decision. However, no action will be taken until the IASB finalises the Management Commentary project and decides to proceed to issue a revised Management Commentary Practice Statement. Thus, if the ISSB agrees with the staff's recommendation in this paper, when the IASB finalises the Management Commentary project the staff will present a further paper to the ISSB confirming next steps.

Structure of the paper

3. The paper is structured as follows:
 - (a) introduction (paragraphs 4–6);
 - (b) staff recommendation (paragraph 7);
 - (c) background (paragraphs 8–23):
 - (i) information provided applying ISSB Standards and location of disclosures (paragraphs 8–13);
 - (ii) IASB Management Commentary project (paragraphs 14–23);
 - (d) staff analysis (paragraphs 24–27);
 - (e) staff recommendation (paragraphs 28–33); and
 - (f) question for the ISSB (paragraph 34).

Introduction

4. This paper first discusses the relationship between the information included in a management commentary report prepared applying the revised Management Commentary Practice Statement and the information required to be disclosed applying ISSB Standards. The paper then discusses the requirements in ISSB Standards related to location of sustainability-related financial disclosures and the interaction of those requirements with the revised Management Commentary Practice Statement. IFRS S1 does not specify a required location for sustainability-related financial disclosures within an entity’s general purpose financial reports, however it does identify various possible locations, including management commentary.
5. In September 2024, as part of the IASB’s work to finalise its Management Commentary project, the IASB tentatively agreed to acknowledge information about sustainability-related factors in the objective of management commentary. Although neither the IASB nor the ISSB require the use of IFRS Practice Statement 1 *Management Commentary* in preparing management commentary, entities that apply

both the revised Management Commentary Practice Statement and ISSB Standards would benefit from clarity on whether sustainability-related financial disclosures could or should be provided within management commentary prepared applying that revised Management Commentary Practice Statement.

6. The IFRS Foundation *Constitution* states that one of the objectives of the IFRS Foundation, through the IASB and ISSB, is to develop in the public interest, high quality, understandable, enforceable and globally accepted standards (referred to as ‘IFRS Standards’) for general purpose financial reporting based on clearly articulated principles. Further, the ISSB and IASB are required to establish procedures for working with each other with the objective of developing IFRS Standards that are compatible, and avoid inconsistencies and conflicts. The IASB has stated that, in finalising its proposals in the Management Commentary project, it will collaborate with the ISSB. The ISSB confirmed as part of its agenda priority decisions that connectivity with the IASB was an important consideration in all of the ISSB’s work. This paper considers how the ISSB could provide clarity about the interaction between ISSB Standards and the revised Management Commentary Practice Statement in relation to location of sustainability-related financial disclosures.

Staff Recommendation

7. The staff recommends that, *subject to the IASB finalising the Management Commentary project and proceeding to issue the revised Management Commentary Practice Statement*, the ISSB propose amending the requirements in IFRS S1 related to the location of sustainability-related financial disclosures. Specifically, that as a consequence of the IASB publishing a revised Management Commentary Practice Statement, IFRS S1 be amended to require an entity that applies that Practice Statement (whether voluntarily or when required to do so)¹ to include the information required by ISSB Standards in management commentary—to the extent that such

¹ It is noted that in practice the Management Commentary Practice Statement might be applied ‘directly’ or could be reflected or incorporated in regulatory requirements and thus the intention would be that amendments to IFRS S1 contemplate both circumstances.

information meets the requirements of that Practice Statement²—unless a jurisdictional or regulatory requirement prevents this.

Background

Information provided applying ISSB Standards and location of disclosures

8. IFRS S1 requires an entity to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.
9. Paragraph 2 of IFRS S1 provides a description of the concepts underlying sustainability-related risks and opportunities.³ Paragraph BC46 of the Basis for Conclusions on IFRS S1 notes that these concepts build on concepts from the Integrated Reporting Framework. The fundamental concepts in the Integrated Reporting Framework emphasise that an entity's ability to create, preserve and erode value for itself over time—and hence to generate returns for the entity's investors, lenders and other creditors—is inextricably linked to value that the entity creates, preserves or erodes for others.
10. ISSB Standards are designed to be applied regardless of the generally accepted accounting principles or practices (GAAP) the entity uses in preparing its related financial statements. That is, ISSB Standards are GAAP agnostic and as a result can be applied regardless of whether the related financial statements are prepared applying IFRS Accounting Standards or other GAAP. This is described in paragraph BC5 of the Basis for Conclusions on IFRS S1:

² The revised Management Commentary Practice Statement will set out requirements for entities that prepare management commentary that complies with the revised Management Commentary Practice Statement (see paragraphs 1.2–1.5 of the IASB's [Exposure Draft Management Commentary](#)).

³ Paragraph 2 of IFRS S1 states that 'Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity's dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity'.

BC5 IFRS S1 applies to sustainability-related financial disclosures provided as part of an entity's general purpose financial reports. IFRS S1 is designed to require the disclosure of information that complements an entity's financial statements, regardless of which generally accepted accounting principles or practices (GAAP) the entity uses in preparing those financial statements...

11. However, while both IFRS Accounting Standards and IFRS Sustainability Disclosure Standards do not require the other to be used, the IFRS Foundation *Constitution* establishes that the IASB and ISSB are responsible for developing a complementary set of standards that result in the 'provision of high-quality, transparent and comparable information in financial statements and in sustainability disclosures that is useful to investors and other participants in the world's capital markets in making economic decisions'.

Location of disclosures applying ISSB Standards

12. Paragraph 60 of IFRS S1 requires that the sustainability-related financial disclosures are provided as part of an entity's general purpose financial reports. However, beyond that IFRS S1 does not specify a required location. Paragraph 61 provides observations on possible locations within those reports:

61 Subject to any regulation or other requirements that apply to an entity, there are various possible locations in its general purpose financial reports in which to disclose sustainability-related financial information. Sustainability-related financial disclosures could be included in an entity's management commentary or a similar report when it forms part of an entity's general purpose financial reports. Management commentary or a similar report is a required report in many jurisdictions. It might be known by or included in reports with various names, such as 'management report', 'management's discussion and analysis', 'operating and financial review', 'integrated report' or 'strategic report'.

13. Paragraph 62 of IFRS S1 requires that if information provided applying ISSB Standards is in the same location as information disclosed to meet other requirements—such as information provided in applying the revised Management Commentary Practice Statement—the sustainability-related financial disclosures are

clearly identifiable and not obscured by that additional information. Additionally, paragraphs 63 of IFRS S1 permits an entity to provide information required by ISSB Standards by using a cross-reference to another report published by the entity.

IASB Management Commentary project

14. The IASB is in the process of revising IFRS Practice Statement 1 *Management Commentary* that was issued in 2010. The IASB's research indicated that since the Management Commentary Practice Statement was issued in 2010, investors' information needs have evolved and were not always being met in practice. The IASB's objective in the Management Commentary project is to develop a comprehensive set of requirements and guidance that would enable companies to bring together, in a single, concise and coherent narrative, information about financial, **sustainability-related** and other factors that are fundamental to the company's ability to create value and generate cash flows, including in the long term. In developing its proposals, the IASB sought to consolidate and build on innovations in narrative reporting, including those introduced by national standard-setters, the Integrated Reporting Framework and the Recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).⁴
15. The IASB published the Exposure Draft *Management Commentary* (Exposure Draft) in May 2021 before the establishment of the ISSB in November 2021. In 2022, the IASB paused the project, awaiting the outcome of the ISSB's Request for Information Consultation on Agenda Priorities. In April 2024, in light of the feedback on that Consultation, the ISSB decided not to add to its work plan a research project on integration in reporting—which could have built on the Exposure Draft *Management Commentary*, the Integrated Reporting Framework and other relevant sources. Following this decision, in June 2024 the IASB decided to finalise the Management Commentary project by making targeted refinements to the

⁴ The objective of the Management Commentary project is taken from the 'About' section of the Management Commentary project webpage of the IFRS website at the following link: [IFRS - Management Commentary](#).

proposals in the Exposure Draft. In making that decision, the IASB noted that the revised Management Commentary Practice Statement would provide a stepping-stone towards greater integration in reporting in the future.

16. At its September 2024 meeting, the IASB discussed the staff's proposed approach to redeliberations and the scope of possible targeted refinements based on the feedback on the Exposure Draft and subsequent developments in the reporting landscape. The IASB intends to continue its discussions about targeted refinements to the proposals in the Exposure Draft in the coming months and is expected to issue the revised Management Commentary Practice Statement in the first half of 2025.
17. One of the targeted refinements that the IASB considered in September 2024 relates to the objective of management commentary and the role of management commentary in complementing other information in general purpose financial reports, including information about sustainability-related factors.
18. Paragraph 3.1 of the Exposure Draft describes the objective of management commentary as providing information that:
 - 3.1 An entity's management commentary shall provide information that:
 - (a) enhances investors and creditors' 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.
19. The role of information about matters that affect long-term prospects is further described in paragraph 4.16 of the Exposure Draft:
 - 4.16 Investors and creditors are particularly interested in information about matters that could affect an entity's long-term prospects. Such matters could include matters relating to the entity's intangible resources and relationships- including resources not recognised as assets in the entity's financial statements- and environmental, social and governance (ESG) matters.

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20. As noted in paragraph 15 of this paper, the Exposure Draft was published before the establishment of the ISSB (and before the issuance of the inaugural IFRS Sustainability Disclosure Standards); therefore, the Exposure Draft did not use the term ‘sustainability-related financial disclosures’ and did not comment on the relationship between management commentary and sustainability-related financial disclosures apart from stating that ‘In the future, entities might be able to apply standards issued by that board [ISSB] to help them identify some of the information needed to comply with the Practice Statement’.⁵ Thus, in light of the development of ISSB Standards, the IASB is considering both the information included within management commentary and the role of management commentary in complementing other information in general purpose financial reports, including information in sustainability-related financial disclosures, if that information is provided outside the management commentary.
21. At its September 2024 meeting the IASB tentatively decided to make several targeted refinements to the proposals in the Exposure Draft, including to acknowledge:
- (a) information about sustainability-related factors in the objective of management commentary; and
 - (b) that management commentary complements other information in general purpose financial reports, including information in sustainability-related financial disclosures, if that information is provided outside of management commentary.
22. While ISSB Standards do not require the Management Commentary Practice Statement to be used, it is anticipated that there may be entities that choose or are required by jurisdictions to apply both ISSB Standards and the revised Management Commentary Practice Statement. In the light of this, and due to the IASB and ISSB responsibilities set out in the Constitution and their stated commitment to facilitate

⁵ Paragraph IN1 of the Exposure Draft

connectivity, the staff have considered the interaction between ISSB Standards and the IASB's revised Management Commentary Practice Statement.

23. The IASB is in the process of redeliberations. Thus, it is important that the ISSB's discussions are understood in the context of this stage of the Management Commentary project.

Staff Analysis

24. The staff think that it would be helpful for stakeholders if the ISSB considers whether sustainability-related financial disclosures—the information required to be disclosed applying ISSB Standards—can or should be located in management commentary prepared applying the revised Management Commentary Practice Statement to the extent that such information meets the requirements of that revised Management Commentary Practice Statement. This would support connectivity in the IASB and ISSB products and the resulting reporting, and the objective set out in the IFRS Constitution of developing a set of standards that are compatible and to avoid inconsistencies and conflicts.
25. Paragraph BC47 of the Basis for Conclusions on IFRS S1 explains that the concepts that underly sustainability-related risks and opportunities are broadly consistent with the concepts and guidance in the IASB's Exposure Draft Management Commentary:

BC47 These concepts that underlie sustainability-related risks and opportunities are broadly consistent with the concepts and guidance in the IASB's Exposure Draft Management Commentary. For example, the Exposure Draft Management Commentary explains that an entity's activities create value for the entity if they enhance or preserve the net present value of the entity's future cash flows. Conversely, the entity's activities erode value if they reduce the net present value of the entity's future cash flows. It also explains that creating value is a precursor to generating cash flows. Conversely, some activities might increase cash inflows in the short term but can erode value in the long term.

26. The IASB's September 2024 tentative decisions indicate that the management insights in management commentary include information about sustainability-related factors that could affect the entity's ability to create value and generate cash flows in the future. The staff think that the management commentary report can be a suitable location for sustainability-related financial disclosures given the focus of IFRS S1 on information about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.
27. However, in considering the location of disclosures provided applying ISSB Standards there are a number of important considerations:
- (a) *Jurisdictional requirements*: an important reason why IFRS S1 does not require a particular location within the general purpose financial reports is to ensure that IFRS S1 does not conflict with jurisdictional requirements. Paragraph BC143 of the Basis for Conclusions of IFRS S1 explains:

BC143 [...] IFRS S1 does not prescribe the exact location of sustainability-related financial disclosures in general purpose financial reports. The ISSB acknowledges that jurisdictions might specify the exact location in which an entity is required to provide its sustainability-related financial disclosures. Management commentary—or a similar report if it forms part of an entity's general purpose financial reports—is a possible location for sustainability-related financial disclosures.
 - (b) *Assurance*: there may be assurance considerations regarding the scope of information subject to assurance. That is, assurance requirements may differ for sustainability-related financial information and other information included within the management commentary.
 - (c) *Information provided by cross-reference*: IFRS S1 permits an entity to provide information required by ISSB Standards to be included by cross-reference (subject to specific criteria) to another report published by an entity such as the related financial statements. For example, including information about how sustainability-related risks and opportunities have affected an entity's financial

position, financial performance and cash flows for the reporting period may be best provided in the notes to the financial statements.

- (d) *An entity may not prepare a management commentary report using the revised Management Commentary Practice Statement:* other general purpose financial reports may be used to locate sustainability-related financial disclosures such as a report prepared applying the Integrated Reporting Framework.

Staff Recommendation

28. Given the concepts that underpin IFRS S1 and the tentative decisions made by the IASB in September 2024, the staff believe that it would be appropriate to signal that sustainability-related financial information prepared applying ISSB Standards should be included within management commentary prepared applying the revised Management Commentary Practice Statement to the extent such information meets the requirements in that revised Management Commentary Practice Statement. However, given the considerations noted in paragraph 27 of this paper, the staff do not think that it would be appropriate for the ISSB to require that sustainability-related financial information provided using the ISSB Standards *always* be included in management commentary.
29. The staff recommends that, *subject to the IASB finalising the Management Commentary project and proceeding to issue the revised Management Commentary Practice Statement*, the ISSB propose amending the requirements in IFRS S1 related to the location of sustainability-related financial disclosures. Specifically, that as a consequence of the IASB publishing a revised Management Commentary Practice Statement, IFRS S1 be amended to require an entity that applies that Practice Statement (whether voluntarily or when required to do so), to include the information required by ISSB Standards in management commentary—to the extent that such information meets the requirements of that Practice Statement—unless a jurisdictional or regulatory requirement prevents this.
30. Taking this approach the intention is to ensure that:

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- (a) only disclosures provided applying ISSB Standards that meet the requirements of the revised Management Commentary Practice Statement are included in management commentary prepared applying the revised Management Commentary Practice Statement;
 - (b) the amended requirement in IFRS S1 on location of disclosures only applies when including the information required by ISSB Standards in management commentary is possible given jurisdictional and other regulatory requirements such as assurance requirements; and
 - (c) the ability to provide information required by ISSB Standards using the cross-reference requirements is maintained.
31. This recommendation would mean that IFRS S1 would still be location-agnostic (within the general purpose financial reports) when necessary to accommodate jurisdictional requirements. That is, IFRS S1 would still permit an entity to provide its sustainability-related financial disclosures in an alternative location to management commentary when regulatory requirements mandate that the entity provide its sustainability-related disclosures elsewhere. It is not the ISSB's role to mandate the type of general purpose financial reports an entity provides, in the same way it does not mandate the GAAP that should be applied in the preparation of the related financial statements. The staff recommendation would still permit an entity to provide its sustainability-related financial disclosures in another location in an entity's general purpose financial report if the entity does not apply the revised Management Commentary Practice Statement. For example, if an entity prepares a report using the Integrating Reporting Framework they may include the sustainability-related financial disclosures in that report.
32. The information required to be provided in management commentary prepared applying the Management Commentary Practice Statement is determined by the IASB. Thus information disclosed applying the ISSB Standards would only be included in management commentary if that information meets the requirements of the revised Management Commentary Practice Statement. The staff's

recommendation is subject to the finalisation of the IASB's Management Commentary project and the IASB deciding to proceed to issue the revised Management Commentary Practice Statement. The staff will provide the ISSB with an update on this at the appropriate time when a final recommendation would be made to the ISSB. For the avoidance of doubt, this means that the staff will not proceed with work related to amending IFRS S1 until a final recommendation and decision is made by the ISSB at a subsequent ISSB meeting.

33. If the ISSB decides to propose such a requirement—that is, for sustainability-related financial information prepared applying ISSB Standards to be included in management commentary prepared applying the revised Management Commentary Practice Statement, to the extent that such information meets the requirements of that Practice Statement—that would require an amendment to IFRS S1 and thus would require exposure and public consultation in an Exposure Draft. This standard setting work would be informed by the IASB's redeliberations in the Management Commentary project and the timing would be based on the timing of the IASB's finalisation of its revised Management Commentary Practice Statement.

Question for the ISSB

34. The staff presents the following question for the ISSB.

Questions for the ISSB

Do you agree with the staff recommendation in paragraph 29 that the ISSB, subject to the finalisation of the IASB's Management Commentary project and proceeding to issue a revised Management Commentary Practice Statement, propose amending IFRS S1 to require an entity that applies the Management Commentary Practice Statement (whether voluntarily or when required to do so), to include the disclosures required by ISSB Standards in management commentary, to the extent that such information meets the requirements of that

Questions for the ISSB

Practice Statement, unless a jurisdictional or regulatory requirement prevents this?