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IFRS® Practice Statement Exposure Draft ED/2021/6
Basis for Conclusions

Management Commentary

Comments to be received by 23 November 2021

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Basis for Conclusions on

Exposure Draft
Management Commentary

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This Basis for Conclusions accompanies the Exposure Draft ED/2021/6 *Management Commentary* (published March 2021; see separate booklet). Comments need to be received by **23 November 2021** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

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Basis for Conclusions on Exposure Draft *Management Commentary*

This Basis for Conclusions accompanies, but is not part of, Exposure Draft Management Commentary. *It summarises the considerations of the International Accounting Standards Board (Board) when developing the Exposure Draft. Individual Board members gave greater weight to some factors than to others.*

Introduction

BC1 The Exposure Draft sets out proposals for a revised practice statement on management commentary that, when finalised, would supersede IFRS Practice Statement 1 *Management Commentary* (Practice Statement). Revising the Practice Statement is one of the projects on Better Communication in Financial Reporting that the Board is undertaking. These projects seek to make financial information more useful and improve how financial information is communicated to users of financial reports.

The need for the project

BC2 After its initial research into developments in narrative reporting, in November 2017 the Board added to its work plan a project to revise the original Practice Statement issued in 2010 (the 2010 Practice Statement).

BC3 Since the issue of the 2010 Practice Statement, many jurisdictions and organisations have published requirements or guidelines for preparing management commentary or a similar report, or detailed topic-specific or industry-specific requirements and guidelines that cover aspects of narrative reporting—for example, the reporting on environmental, social and governance (ESG or sustainability) matters.[1] These developments have:

(a) brought innovations intended to meet the information needs of users of financial reports; but

(b) created a complex and confusing reporting landscape in which entities:

(i) may be required to apply local laws or regulations that specify only general requirements but may want more guidance to help them prepare management commentary that meets those requirements; or

(ii) may be unclear whether and how in preparing management commentary they can apply various alternative topic-specific or industry-specific requirements and guidelines, some of which are designed to provide information that is useful to users other than investors and creditors.

1 Throughout this Basis for Conclusions, the term ‘management commentary’ refers to all reports that complement an entity’s financial statements and provide management’s insights into factors that have affected the entity’s financial performance and financial position, and factors that could affect the entity’s ability to create value and generate cash flows in the future.

BC4 The Board noted an increased interest in narrative reporting, both from investors and creditors, and from other users of financial reports. Investors and creditors increasingly ask for information that complements an entity's financial statements to provide more insight into its long-term prospects.

BC5 However, the Board's research indicates that management commentaries do not always provide investors and creditors with the information they need. Identified shortcomings in practice include management commentaries:

(a) failing to focus on matters important to the entity's prospects by failing to provide material information about such matters, or by obscuring such information with immaterial information about less important matters;

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

(c) focusing on short-term matters and providing insufficient discussion of matters, such as systemic risks or strategic challenges, that could affect the entity's long-term prospects;

(d) providing insufficient information about matters that increasingly affect the entity's ability to create value and generate cash flows, and are matters of increasing interest to investors and creditors—for example, information about intangible resources and relationships and ESG matters;

(e) being fragmented or difficult to reconcile to information in the entity's financial statements or to information in other reports the entity has published;

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

(g) being incomplete—for example, by covering only some of the matters important to the entity's prospects, or by lacking information that investors and creditors need to fully understand the implications of these matters; and

(h) being unbalanced—for example, by placing undue emphasis on positive aspects of the entity's performance.

Approach to the revision

BC6 The revision of the Practice Statement is intended to help entities provide management commentaries that better meet the information needs of investors and creditors.

BC7 The Board's research and outreach have shown that the 2010 Practice Statement:

(a) has influenced the development of other narrative reporting requirements and guidelines; and

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(b) covers all major areas of content that need to be discussed in management commentary, though it lacks detail in some aspects.

BC8 Therefore, in developing the Exposure Draft the Board has used the 2010 Practice Statement as its starting point. The Board's revisions seek to reflect innovations in narrative reporting and prevent the shortcomings in practice listed in paragraph BC5.

BC9 The Board proposes that management commentary would continue to focus on the information needs of investors and creditors (see paragraphs BC39–BC41).

BC10 In developing its proposals, the Board considered:

(a) the findings of its research into requirements, guidelines and practice on narrative reporting. That research included an analysis of the responses from 24 national standard-setters to the Board's July 2018 request for information about the requirements and commonly applied non-mandatory guidelines on management commentary in their jurisdictions. The analysis also covered the EU non-financial reporting directive (2014/95/EU) and the related European Commission guidelines on non-financial reporting, and the International Integrated Reporting Framework, because some of the respondent jurisdictions require or encourage management to apply these requirements or guidelines in preparing a management commentary.[2]

(b) comments received from the Board's consultative groups, in particular comments from:

(i) the Management Commentary Consultative Group that the Board established to advise it on this project. The Consultative Group met four times to discuss initial ideas for requirements and guidance to be included in the Exposure Draft and also commented on initial drafting of this Exposure Draft.

(ii) the Board's other consultative groups, including the Capital Markets Advisory Committee, the Global Preparers Forum, the Accounting Standards Advisory Forum and the Emerging Economies Group. Each of these groups commented on particular topics.

(c) research by standard-setters, accounting firms, investor groups and other organisations into narrative reporting practice and into investor needs.

(d) documents that the Board published after the 2010 Practice Statement, namely:

(i) the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) revised in 2018; and

(ii) IFRS Practice Statement 2 *Making Materiality Judgements*.

2 The Board continues to monitor developments in narrative reporting, including in sustainability reporting, and will consider them when it discusses the feedback received on this Exposure Draft.

BC11 The Board proposes an objectives-based approach in the revised Practice Statement (see paragraphs BC69–BC71). The Board is seeking to provide comprehensive, clear and structured requirements and guidance that could help to encourage high-quality and globally consistent management commentary by providing a more effective basis for:

(a) management to prepare management commentary that provides more useful information to investors and creditors.

(b) regulators to enforce the Practice Statement and for auditors to provide external assurance on management commentary. Having an effective basis for enforcement and assurance could help lawmakers who wish to mandate compliance with the Practice Statement in their jurisdictions.

BC12 The Board has heard increasing concerns about two of the shortcomings in practice identified in paragraph BC5: lack of focus beyond short-term matters, and a failure to provide sufficient information about intangible resources and relationships and ESG matters. To help management identify information that needs to be included in management commentary on matters that could affect an entity's long-term prospects, on intangible resources and relationships and on ESG matters, the Board proposes to provide in an appendix to the revised Practice Statement an overview of the requirements and guidance that management is likely to need to consider in deciding what information it needs to provide about these matters (see paragraphs BC82–BC84 and proposed Appendix B to the draft Practice Statement).

Interaction with the IFRS Foundation Trustees' project on sustainability reporting

BC13 As explained in paragraph BC84, the Board envisages that an entity could apply the revised Practice Statement in conjunction with narrative reporting requirements or guidelines issued by other bodies or organisations and addressing specific topics such as environmental, social or other sustainability matters. Management commentary could be an appropriate location for information about environmental and social matters that an entity's management has identified by applying other requirements or guidelines, and that is material to investors and creditors in the context of management commentary.

BC14 The Trustees of the IFRS Foundation (Trustees) are considering whether the Foundation should play a role in the development of sustainability reporting standards. In April 2021, the Trustees published the Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation* Constitution *to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*. The proposed amendments would enable the Foundation to create a board for setting IFRS sustainability standards. In the future, entities might be able to apply standards issued by that board to help them identify some of the information needed to comply with the Practice Statement. The Board will consider developments in the Trustees' work when it discusses the feedback received on this Exposure Draft.

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Interaction with the Board's other projects

BC15 In developing its proposals, the Board has considered how they would fit in with its proposals:

(a) in the Exposure Draft *General Presentation and Disclosures* published as part of the Primary Financial Statements project (see paragraph BC129); and

(b) in the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* (see paragraph BC76).

Terminology

BC16 The Board noted that an entity's management commentary is often prepared by a larger group of individuals than those involved in preparing its financial statements, and that some of these individuals may be unfamiliar with the terminology in IFRS Standards and the *Conceptual Framework*. Therefore, the Board proposes to use plain and non-technical language as much as possible. Appendix A to the draft Practice Statement explains the meaning of terms used in the Exposure Draft.

The scope of the revision

BC17 The Board proposes a comprehensive set of requirements and guidance that cover:

(a) procedures for issuing management commentary;

(b) the objective of management commentary;

(c) each area of content to be discussed in management commentary;

(d) attributes of information in management commentary; and

(e) metrics that management includes in management commentary.

Status of the Practice Statement (paragraph 1.5)

BC18 In 2010, the Board issued guidance on management commentary in the form of a practice statement rather than as an IFRS Standard, because the Board was of the view that it was for individual jurisdictions to make their own judgements on whether:

(a) entities should be required to present management commentary as well as their financial statements; and

(b) entities preparing financial statements in accordance with IFRS Standards should also be required to prepare management commentary in accordance with the Practice Statement.

BC19 In developing the Exposure Draft, the Board concluded that its reasons for issuing the document as a practice statement were still valid. The Board also noted that:

(a) many jurisdictions have their own local requirements or guidelines on the preparation of management commentary; and

(b) issuing the Practice Statement as a mandatory document could create an unnecessary barrier to a jurisdiction's continued adoption of IFRS Standards if the jurisdiction does not adopt the revised Practice Statement.

BC20 Therefore, the Board proposes to retain the status of the Practice Statement, meaning that:

(a) the Practice Statement is not an IFRS Standard; and

(b) an entity can prepare financial statements that comply with IFRS Standards without preparing a management commentary that complies with the Practice Statement.

BC21 As a result, an entity would apply the Practice Statement if:

(a) local laws or regulations require the entity to do so; or

(b) it chooses to do so—for example, if it is subject to no local laws or regulations on preparing management commentary, or if doing so could help the entity provide more useful information to investors and creditors while still meeting local laws or regulations that do not conflict with the Practice Statement.

BC22 Descriptions of the 2010 Practice Statement have sometimes called it non-binding, non-mandatory or voluntary. The draft Practice Statement does not include such descriptions because they have caused confusion. The Practice Statement is indeed 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. However, the Practice Statement is mandatory in the sense that 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 (see paragraphs BC30–BC32). To signal that point more clearly than the non-directive wording used in the 2010 Practice Statement, the wording in the Exposure Draft uses directive language such as 'an entity shall…' to identify the requirements.

Identification, authorisation and statement of compliance

BC23 The Board proposes to update and clarify some procedural requirements for entities that are required or choose to prepare management commentary by applying the Practice Statement, namely:

(a) identifying management commentary and the related financial statements (see paragraphs BC24–BC25);

(b) authorising management commentary (see paragraphs BC26–BC29); and

(c) including a statement of compliance (see paragraphs BC30–BC38).

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Identifying management commentary and the related financial statements (paragraphs 2.1–2.3)

BC24 Paragraph 3.1 proposes that the objective of an entity's management commentary is to provide information that enhances investors and creditors' understanding of the entity's financial performance and financial position reported in its financial statements, and that 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.

BC25 Some entities provide management commentary as a stand-alone report and some others provide it with other information as part of a larger report. The Board proposes to require an entity to:

(a) identify the financial statements to which a management commentary relates and explain in the management commentary how to access those financial statements if they are not part of the same report. Management commentary is designed to be a commentary accompanying financial statements. It can meet its objective only if the related financial statements are available to users of the management commentary whenever the management commentary is available, and on the same terms.

(b) distinguish information contained in its management commentary from other information provided in the same report or in other reports published by the entity. Making this distinction is essential for clarity. Moreover, the distinction is even more important if management commentary is subject to external assurance but other information accompanying the management commentary, in the same report or separately, is subject to a different level of external assurance or no external assurance.

(c) identify the reporting period that the management commentary and the related financial statements cover. Management commentary covers the same reporting period as the related financial statements.

Authorisation of management commentary (paragraph 2.4)

BC26 The Board cannot assume or prescribe that the date of authorisation of an entity's management commentary is the same as the date of authorisation of the related financial statements, or that bodies or individuals authorising management commentary are the same as those authorising financial statements. Authorising these documents depends upon local legal or regulatory requirements, and on the entity's governance and reporting procedures.

BC27 The Board proposes to require an entity to:

(a) state the date on which its management commentary was authorised for issue. It is important for investors and creditors to know that date because management commentary does not reflect events after this date.

(b) identify the bodies or individuals who authorised management commentary for issue. This information tells investors and creditors who takes responsibility for the management commentary and whose perspective it provides.

BC28 The Board also considered whether the revised Practice Statement should include requirements for a more comprehensive statement of authorisation, such as:

(a) a description of the extent of management's responsibility for the management commentary (statement of responsibility);

(b) a description of the integrity or governance of the process applied in preparing the management commentary; or

(c) a conclusion that the management commentary meets particular objectives.

BC29 The Board proposes not to include in the revised Practice Statement any of the requirements mentioned in paragraph BC28. The Board decided against proposing such requirements because jurisdictions already have various requirements on whether management commentary should include a statement of authorisation in management commentary and on the specifics of such a statement. Introducing such requirements in the Practice Statement could create unnecessary practical difficulties for entities that are subject to local requirements, without providing significant benefits for investors and creditors.

Statement of compliance (paragraphs 2.5–2.6)

BC30 The Board considered how best to inform investors and creditors about the basis of preparation of management commentary.

BC31 The Board concluded that it is important for the revised Practice Statement to retain the existing requirement that an entity can make an unqualified statement of compliance only if its management commentary complies with all requirements in the Practice Statement. In all other cases an unqualified statement of compliance would be misleading.

BC32 The Board proposes to require an entity to include an explicit and unqualified statement of compliance if its management commentary complies with all requirements in the Practice Statement. In the Board's view, the Exposure Draft proposes comprehensive, clear and structured requirements that would form an effective basis for asserting compliance with the Practice Statement. An entity would be able to make an unqualified statement of compliance with the Practice Statement only if its management commentary meets all proposed requirements, namely:

(a) it meets the objective set out in paragraph 3.1, providing information material to investors and creditors;

(b) it provides information that meets the disclosure objectives for all areas of content;

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(c) it provides information with the attributes specified in Chapter 13 of the draft Practice Statement; and

(d) all metrics in the management commentary comply with the requirements in Chapter 14 of the draft Practice Statement.

BC33 The Board proposes to permit an entity to include a qualified statement of compliance with the Practice Statement, but only if its management commentary identifies the departures from the requirements of the Practice Statement and gives reasons for those departures. In the Board's view, this proposal:

(a) could encourage voluntary application of the Practice Statement. Permitting only an unqualified statement of compliance could set a high hurdle for reporting and a barrier to adopting the revised Practice Statement. For example, some entities may want to comply with the Practice Statement to improve the quality and credibility of information in their management commentary but may not be able to do so because they need time to work towards full compliance.

(b) would allow entities to apply the Practice Statement alongside local requirements. For example, the proposal would allow entities to make a qualified statement of compliance if they comply with most requirements in the Practice Statement but are unable to comply with particular requirements that conflict with local regulatory requirements, such as restrictions on including forward-looking information.

(c) would provide clear and specific requirements for making qualified statements of compliance. These requirements could lead to better disclosure of the basis of preparation in cases of qualified compliance, and in those cases improve the usefulness of information in management commentary.

Compliance with the Practice Statement by entities that do not apply IFRS Standards (paragraph 2.2)

BC34 The Board considered whether to permit an entity to assert that its management commentary complies with the Practice Statement:

(a) only if the entity has prepared its financial statements in accordance with IFRS Standards;

(b) only if the entity has prepared its financial statements in accordance with either IFRS Standards or concepts similar to those underpinning IFRS Standards; or

(c) without specifying any criteria for the basis of preparation of the related financial statements.

BC35 The Board concluded that compliance with the revised Practice Statement would not rely on the financial statements including all the information required by IFRS Standards or on them being in accordance with concepts similar to those underpinning IFRS Standards. The Board reached this conclusion because the Board's proposed requirements for the revised Practice Statement focus on objectives: the objective of management commentary and disclosure objectives for areas of content within management commentary. The information needed to meet those objectives might depend, among other things, on the information provided in the related financial statements, and the information in the financial statements would in turn depend partly on the basis of their preparation. However, the revised Practice Statement would require management commentary to meet specified objectives, rather than to provide specified information; so, compliance with the requirements of the Practice Statement would rely on meeting those objectives.

BC36 Meeting the objective of management commentary could be difficult or even impossible in extreme circumstances—for example, if the related financial statements are prepared on a cash basis instead of an accruals basis and disclose little further information. Thus, the Board considered whether to restrict the circumstances when an entity could assert compliance with the Practice Statement; for example, by permitting such an assertion only if the related financial statements are prepared by applying concepts similar to those underpinning IFRS Standards.

BC37 However, the Board decided that such a restriction could be difficult to apply because it would require an entity to judge whether concepts are 'similar'. Such a restriction could also raise unnecessary barriers to adoption of the Practice Statement. In addition, the Board expects that if an entity prepares financial statements in accordance with concepts very different from those underpinning IFRS Standards, the entity is unlikely to apply the Practice Statement, so any need for such a restriction is unlikely to arise in practice.

BC38 The Board proposes to require an entity to disclose in its management commentary the basis on which its financial statements are prepared if they do not comply with IFRS Standards. This proposal seeks to avoid investors and creditors assuming that the related financial statements were prepared in accordance with IFRS Standards if they were prepared on a different basis.

Primary users of management commentary (paragraphs 3.7–3.9)

BC39 As the Board noted in developing the 2010 Practice Statement, management commentary forms part of general purpose financial reporting. Consequently, management commentary focuses on the same primary users as do general purpose financial reports. The *Conceptual Framework* identifies them as 'existing and potential investors, lenders and other creditors'.

BC40 The Board proposes to retain this description of the primary users of management commentary. The Exposure Draft refers to them as 'investors and creditors'.

BC41 Some standard-setters and other organisations specify a broader range of users of narrative reports, particularly in sustainability reporting. The Board acknowledges that other parties might also find management commentary useful—for example, employees, government agencies and members of the public. However, the proposed objective of management commentary focuses

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on meeting the information needs of investors and creditors. As explained in paragraph 1.10 of the *Conceptual Framework*, general purpose financial reports, including management commentary, are not primarily directed at other groups, so they may need other or additional information.

Objective of management commentary (paragraphs 3.1–3.4)

BC42 The 2010 Practice Statement describes the objective of management commentary as follows:

> Management commentary should provide users of financial statements with integrated information that provides a context for the related financial statements. Such information explains management's view not only about what has happened, including both positive and negative circumstances, but also why it has happened and what the implications are for the entity's future.
>
> Management commentary complements and supplements the financial statements by communicating integrated information about the entity's resources and the claims against the entity and its resources, and the transactions and other events that change them.
>
> Management commentary should also explain the main trends and factors that are likely to affect the entity's future performance, position and progress. Consequently, management commentary looks not only at the present, but also at the past and the future.

BC43 As noted in paragraph BC5, in practice management commentaries do not always meet the information needs of investors and creditors. The Board is seeking to clarify the objective of management commentary and make it more specific to help entities judge whether their management commentary meets the objective.

BC44 The Board proposes three main clarifications to the objective, namely:

(a) linking it with assessments made by investors and creditors and confirming more prominently that management commentary needs to provide information that is material to investors and creditors (see paragraphs BC46–BC49);

(b) clarifying how it differs from the objective of financial statements (see paragraphs BC50–BC53); and

(c) linking it with the entity's ability to create value and generate cash flows (see paragraphs BC54–BC58).

BC45 The Board proposes to replace the reference to management's view in the objective with a more detailed explanation of that concept in explanations supporting the objective (see paragraphs BC59–BC61). The objective would not refer directly to communicating integrated information. Instead, the Board proposes in Chapter 13 of the draft Practice Statement to require information in management commentary to be presented as a well-integrated, coherent whole. Furthermore, the proposed guidance on achieving balance captures the idea of describing both positive and negative circumstances. The guidance does this by explaining that management commentary discusses both favourable and unfavourable matters and provides both favourable and unfavourable information about them.

Link to assessments made by investors and creditors and emphasis on materiality (paragraphs 3.2–3.3)

BC46 The Board proposes to introduce an explicit link between the objective of management commentary and investors and creditors' assessments that the *Conceptual Framework* describes in discussing the objective of general purpose financial reporting. The need for that link arises because management commentary is part of general purpose financial reporting, and thus it needs to provide information that contributes to meeting the objective of such reporting. In discussing that objective, the *Conceptual Framework* explains that investors and creditors need information that enables them to assess:

(a) an entity's prospects for future cash flows; and

(b) how efficiently and effectively management has used and protected the entity's economic resources, as a steward of those economic resources.

BC47 In the Board's view, linking the objective of management commentary explicitly to investors and creditors' assessments mentioned in paragraph BC46 would help management to prepare management commentary that meets the objective. An explicit link to those assessments would:

(a) clarify that management is responsible for providing the information that is useful for investors and creditors' assessments, but is not itself responsible for making the assessments; and

(b) underline the importance of providing a long-term view in management commentary.

BC48 The Board proposes to introduce that explicit link by requiring that information provided to meet the objective is material. That link is completed in two steps:

(a) the proposed definition of material information refers to decisions that investors and creditors make (see paragraph BC106); and

(b) the proposed explanation in paragraph 3.3 clarifies that those decisions depend on investors and creditors' assessments of an entity's prospects for future cash flows and of management's stewardship of the entity's resources.

BC49 The Exposure Draft proposes guidance intended to help management make materiality judgements (see paragraphs BC103–BC113).

Difference from the objective of financial statements

BC50 As general purpose financial reports, financial statements and management commentary both seek to provide information useful to investors and creditors in assessing an entity's prospects for future cash flows and in assessing management's stewardship of the entity's resources (see paragraph

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BC46). The Board proposes to set out the objective of management commentary in a way that makes clear how that objective differs from the objective of financial statements.

BC51 Financial statements focus on financial information about an entity's assets, liabilities, equity, income and expenses.[3] The 2010 Practice Statement stated that management commentary is intended to help investors and creditors to understand information included in the related financial statements by providing context for the financial statements, and by complementing them (see paragraph BC42). However, management, auditors and others may be unsure about what contextual and complementary information management commentary should provide.

BC52 Therefore, the Board proposes to clarify that an entity's management commentary should 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.

BC53 Management commentary designed to meet the proposed objective includes more discussion and analysis than financial statements, is likely to include more non-financial information (for example, about an entity's intangible resources that are not recognised as assets in the entity's financial statements) and may be more likely to include some information that is forward-looking.

Ability to create value and generate cash flows (paragraphs 3.10–3.14)

BC54 As noted in paragraph BC46, management commentary would be required to provide information that helps investors and creditors assess an entity's prospects for future cash flows. The Board proposes to explain that for this assessment investors and creditors need:

(a) information to understand factors that could affect the amount or timing of the entity's future cash flows, or that affect the uncertainty about their amount and timing. Investors and creditors need this information to help them assess whether the entity's future net cash inflows are likely to provide the entity with a return that compensates it sufficiently for both the time that elapses before those cash flows occur and the uncertainty in the amount and timing of the cash flows.

(b) information that might relate to events that span more than one time horizon. Investors and creditors need this information because they assess the entity's future cash flows across all time horizons—the short, medium and long term.

3 See paragraph 3.2 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*).

BC55 Some narrative reporting requirements and guidelines, including some applying to sustainability reporting, use the notion of 'value creation' or 'enterprise value'. For some stakeholders, 'value creation' implies a longer-term horizon than do terms that refer to an entity's prospects for generating cash flows.

BC56 The Board proposes to explain that by 'value creation' it means the creation of value for the entity and hence for its investors and creditors. The Board's focus on meeting investors and creditors' information needs means its notion of value creation does not include creating value for other parties, for example, for customers, employees or society in general, unless creating or destroying value for those other parties could affect the entity's ability to create value for itself. For example, an entity might need to describe its adverse impacts on the natural environment if those impacts could lead to future regulation or societal pressure that could curtail the entity's activities or that could impose additional costs on the entity.

BC57 In the Board's view, the notions of value creation and prospects for generating cash flows are closely related, and both cover all time horizons. An entity's activities create value if they enhance or preserve the present value of the entity's future cash flows. Conversely, an entity's activities erode value if they reduce the present value of the entity's future cash flows. Therefore, the Board proposes that the objective of management commentary should refer to an entity's 'ability to create value and generate cash flows'. Providing information to help investors and creditors understand an entity's ability to create value and generate cash flows is also central to the Board's proposed disclosure objectives for all areas of content.

BC58 The Board concluded that referring to an entity's ability to create value and generate cash flows would emphasise:

(a) the need to provide a long-term view in discussing factors underlying the entity's prospects; and

(b) the link between value creation and income, expenses and cash flows resulting from the value created through the entity's operating, investing and financing activities and reported in the entity's financial statements.

Management's perspective (paragraphs 3.18–3.19)

BC59 The 2010 Practice Statement states that management commentary should provide management's perspective of the entity's performance, position and progress. That is, management should explain how and why the entity's performance falls short of, meets or exceeds previous expectations. The Board proposes to retain a statement that management commentary provides management's perspective, because providing management's explanations and analysis of the entity's financial statements and setting out management's expectations for the future is inherent to management commentary.

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BC60 The 2010 Practice Statement states that management commentary should derive from the information that is important to management in managing the business. The Board proposes to retain a statement that management commentary derives from information used by management, because the Board's consultative groups confirmed that management is best placed to know what information about the business is important and so is useful to investors and creditors in making their assessments. The Board also proposes to explain that if management uses information for managing the business, that fact is one indication (but not the only possible indication) that the information (or information derived from it) might be material to investors and creditors (see paragraph 12.4).

BC61 The introduction to the 2010 Practice Statement refers to 'management' as 'the persons responsible for the decision-making and oversight of the entity. They may include executive employees, key management personnel and members of a governing body'. The Board did not provide a specific description of management in 2010 because jurisdictional requirements determine who prepares and approves management commentary. The Board does not propose to change this approach and has not included in the Exposure Draft an explanation of who management are.

Areas of content

BC62 To help management meet the objective of management commentary, the Board proposes to:

(a) identify the areas of content that need to be discussed in management commentary (see paragraphs BC66–BC68).

(b) include disclosure objectives for each area of content (see paragraphs BC69–BC76).

(c) require management commentary to focus on key matters. The Board would supplement that requirement by providing examples of possible key matters for each area of content (see paragraphs BC77–BC79).

(d) explain that, for each area of content, material information is likely to include metrics that management uses to monitor key matters and to measure progress in managing those matters. The Board also proposes requirements that would apply to metrics reported in management commentary (see paragraphs BC125–BC134).

BC63 To help management meet the disclosure objectives, the Board also proposes that the revised Practice Statement includes examples, for each area of content, of information that might be material (see paragraphs BC80–BC81).

BC64 Furthermore, the Board considered how to help management provide useful information on matters that could affect an entity's long-term prospects, on intangible resources and relationships and on ESG matters (see paragraphs BC82–BC84). These matters are of particular interest to investors and creditors.

BC65 Paragraphs BC85–BC94 discuss other aspects of proposed requirements and guidance on the areas of content.

Areas of content and the link between them (paragraphs 4.1–4.2)

BC66 The 2010 Practice Statement specifies five areas of content that need to be discussed in an entity's management commentary:

(a) the nature of the business;

(b) management's objectives and its strategies for meeting those objectives;

(c) the entity's most significant resources, risks and relationships;

(d) the results of operations and prospects; and

(e) the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.

BC67 The Board now proposes to identify six areas of content to be included in management commentary. These areas correspond to the areas of content identified in the 2010 Practice Statement, but:

(a) 'resources and relationships' would now form a separate area of content because resources and relationships, including those not recognised in the entity's financial statements, play an increasing role in entities' ability to create value and generate cash flows. Furthermore, because resources and relationships do not affect an entity in the same way as risks, investors and creditors need information about resources and relationships that is different from information about risks.

(b) 'the external environment', currently discussed as part of the business model, would now form a separate area of content. The Board proposes its separation because factors and trends in the external environment may affect not only an entity's business model, but also management's strategy for sustaining and developing that model, as well as the entity's resources and relationships, or the risks the entity faces. Also, investors and creditors increasingly request information about environmental and social factors affecting the entity's ability to create value and generate cash flows.

(c) 'prospects' would no longer feature in a single area of content. Information about prospects is expected to be important for investors and creditors, but would be covered by requirements and guidance throughout all areas of content, in particular in explaining management's strategy, the entity's external environment and risks. The Board also proposes to provide in an appendix to the revised Practice Statement an overview of the requirements and guidance to help management provide information about matters that could affect the entity's long-term prospects (see paragraphs BC82–BC84 and Appendix B to the draft Practice Statement).

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(d) ‘metrics’ would no longer form a separate area of content. Instead, they would be discussed as part of the proposed requirements on selecting and presenting information in management commentary (see paragraphs BC125–BC134).

BC68 The six areas of content are interrelated. Management would need to apply the requirements proposed in Part C of the draft Practice Statement in selecting and presenting the information about these areas of content so that management commentary meets its objective. The Board’s proposals would not require an entity to apply the structure, sequence or headings proposed in the Exposure Draft in order to comply with the requirements in the Practice Statement.

Disclosure objectives (paragraphs 4.3–4.6, 5.5–5.7, 6.4–6.6, 7.5–7.7, 8.3–8.5, 9.5–9.7 and 10.4–10.6)

Overall approach to disclosure

BC69 The Board considered two approaches to developing requirements for disclosure that might lead to management commentary meeting its objective:

(a) a prescriptive approach providing a detailed and prescriptive list of disclosure requirements intended to meet most of the common information needs of investors and creditors in most circumstances; and

(b) an objectives-based approach that specifies disclosure objectives that the information provided is required to meet and provides guidance on what an entity might need to disclose to meet those objectives.

BC70 The prescriptive approach would require the Board to identify all matters about which information is likely to be material to investors and creditors and to require specific disclosures about them. In the Board’s view that would not be feasible because:

(a) the proposed objective of management commentary means that management commentary might need to explain a broad range of matters that affected an entity’s financial performance and financial position or could affect them in the future; and

(b) the matters that might need to be discussed, and the information that might be material about those matters, is highly entity specific—it would depend on the entity’s activities, the industry in which it operates and the entity’s circumstances.

BC71 Therefore, the Board proposes an objectives-based approach that specifies disclosure objectives.

Considerations in developing disclosure objectives

BC72 The 2010 Practice Statement includes broad descriptions of what management needs to discuss for each area of content. Those broad descriptions could be viewed as broad disclosure objectives. However, the Board considers that they are not prominent or specific enough to help management identify information needed to meet these implied objectives.

BC73 The Board proposes to replace those broad descriptions with explicit disclosure objectives for each area of content. The disclosure objectives are intended to provide clarity about the required contents of management commentary and to help:

(a) management identify entity-specific information that needs to be included for management commentary to meet its objective. (Meeting the disclosure objectives is necessary if an entity wants to claim compliance with the Practice Statement.)

(b) providers of external assurance and regulators assess whether the information provided meets the objective of management commentary.

BC74 In developing the disclosure objectives, the Board sought to identify investors and creditors' information needs related to each area of content by considering:

(a) the Board's research on the information needs of investors and creditors for that area;

(b) the Board's findings on shortcomings in narrative reporting practice in that area;

(c) the Board's research on requirements and guidelines issued by other standard-setters;

(d) the guidance in the 2010 Practice Statement; and

(e) feedback from the Board's consultative groups.

BC75 For each area of content, the Board proposes disclosure objectives comprising:

(a) a headline objective describing the overall information needs of investors and creditors for that area of content;

(b) assessment objectives describing investors and creditors' assessments that rely on information provided for the area of content; and

(c) specific objectives describing the detailed information needs of investors and creditors for the area of content.

BC76 The Board's proposals for objectives-based disclosure requirements in this project are generally consistent with the proposed guidance for developing disclosure requirements in Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*. However, in order to create an effective basis for assessing compliance with the Practice Statement, the Board's proposals for the Practice Statement include objectives-based requirements focused on

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investors and creditors' assessments (assessment objectives) rather than describing the assessments solely within background explanatory information. In developing the proposed disclosure objectives, the Board also considered the disclosure objectives of recently issued IFRS Standards.

Key matters (paragraphs 4.7–4.14, 5.8–5.9, 6.7–6.8, 7.8–7.10, 8.6–8.9, 9.8–9.10 and 10.7–10.8)

BC77 The Board proposes that management commentary should focus on key matters. Matters would be identified as key if they are fundamental to the entity's ability to create value and generate cash flows. Understanding that ability helps investors and creditors to assess the entity's prospects for future cash flows and management's stewardship and ultimately to make investment decisions.

BC78 The Board proposes to introduce the notion of key matters to help management make materiality judgements in preparing management commentary (see paragraph BC111(b)(ii)). both the *Conceptual Framework* and the Exposure Draft, materiality is an attribute of information, not an attribute of matters. For the same reason, the Board proposes the term 'fundamental' rather than 'material' in the definition of key matters to convey how important those matters are for the entity's ability to create value and generate cash flows. The terms 'key' and 'fundamental' are not meant to replace materiality as a threshold for determining what information should be included in management commentary.

BC79 To help an entity's management identify the key matters that are specific to that entity, the Board proposes to include in the revised Practice Statement guidance supporting the definition of key matters and examples of possible key matters.

Examples of information that might be material (Chapter 15)

BC80 The Board proposes to include in the Practice Statement examples of information that might be material to help management identify entity-specific information that needs to be included in management commentary to meet the disclosure objectives for each area of content. The examples are each linked to a specific disclosure objective.

BC81 The Board does not propose to specify in Chapter 15 items of information that should always be required. As discussed in paragraphs BC69–BC71, the Board proposes an objectives-based rather than a prescriptive approach to disclosure.

Information about long-term prospects, intangible resources and relationships and ESG matters (paragraphs 4.16–4.17 and Appendix B)

BC82 As noted in paragraph BC12, one reason for starting the project was to help management identify what information to provide on interrelated matters of particular interest to investors and creditors—on matters that could affect an entity's long-term prospects, on intangible resources and relationships and on

ESG matters. Appendix B to the draft Practice Statement provides an overview of requirements and guidance throughout the Practice Statement that management is likely to need to consider in deciding what information it needs to provide about these matters. The Board's proposed objectives-based approach does not include a prescriptive list of information to be provided about these matters, but is intended to result in management commentary including information about those matters that is specific to the entity and material to investors and creditors.

BC83 The Board does not propose to require comprehensive or detailed reporting on an entity's governance because governance is typically regulated by local laws.

BC84 As noted in paragraph BC3, many jurisdictions and organisations have published topic-specific or industry-specific requirements or guidelines on environmental and social matters, other sustainability-related topics or other aspects of narrative reporting. In the Board's view, management commentary would be an appropriate location for information that needs to be disclosed to comply with such requirements and guidelines:

(a) if some of the information is material to investors and creditors, providing the information in management commentary would help meet the objectives-based requirements of the Practice Statement; and

(b) if the rest of the information is not material to investors and creditors, an entity could still provide that other information in its management commentary if the entity presents that information in a way that avoids obscuring material information (see paragraph 13.18).

Other considerations

Link to value creation and cash flows

BC85 The objective of management commentary requires an entity to provide information that gives 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.

BC86 The Board proposes to link the requirements for all areas of content to this objective, and so to the need to explain an entity's ability to create value and generate cash flows. In particular:

(a) the proposed headline disclosure objective for business model is to provide information that enables investors and creditors to understand how the entity's business model creates value and generates cash flows. The proposed headline disclosure objectives for other areas of content build on this disclosure objective. For example, the headline disclosure objective for management's strategy is to provide information that enables investors and creditors to understand management's strategy for sustaining and developing the entity's business model—and so, for sustaining and developing the entity's ability to create value and generate cash flows.

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(b) all areas of content include a requirement to focus on key matters, that is on matters that are fundamental to the entity's ability to create value and generate cash flows.

Business model

BC87 'Business model' is a term commonly used in narrative reporting requirements, guidelines and practice and also in academic literature. The Board's research indicated that there is no single widely accepted description of business model.

BC88 The Board intends the term 'business model' to describe what an entity does and how it does it. The Board based its proposed description of a business model on the definition of a business in IFRS 3 *Business Combinations*.[4] In the light of the proposed objective of management commentary, the Board adjusted that definition to refer to an entity's ability to create value and generate cash flows.

BC89 Building on the guidance in IFRS 3 on the elements of a business, the Exposure Draft explains that a cycle of creating value and generating cash flows within a business model involves integrated processes by which an entity obtains inputs to its operations, transforms those inputs into outputs, sells those outputs, delivers them to customers and collects cash. The proposed description of a business model highlights that 'business model' covers those processes that could create value or generate cash flows across all time horizons, including in the long term.

BC90 In IFRS 9 *Financial Instruments*, the term 'business model' and related guidance are used in a more specific context than in the Exposure Draft and are not designed to apply in preparing management commentary. IFRS 9 uses the term to refer to an entity's business model for managing its financial assets and focuses on those aspects of business model that are relevant in determining how to classify those assets for measurement purposes. In contrast, in the Exposure Draft, the term covers the entire cycle of value creation and cash flow generation and not just the management of financial assets.

BC91 Depending on the circumstances, management might need to identify and describe in management commentary one or more than one business model. In the light of the Board's proposals on coherence, information about the entity's business model would need to be provided in a way that allows investors and creditors to relate that information to information about operating segments in the entity's financial statements (see paragraph 13.30). IFRS 8 *Operating Segments* defines an operating segment as a component of an entity meeting three criteria specified in that Standard.

Financial and non-financial performance

BC92 The 2010 Practice Statement states that management commentary should clearly describe an entity's financial and non-financial performance.

4 See Appendix A to IFRS 3 *Business Combinations*.

BC93 The proposed headline disclosure objective for financial performance and financial position refers to an entity's financial performance and financial position reported in its financial statements.

BC94 The Exposure Draft does not use the terms 'non-financial performance' or 'non-financial position' in setting out the requirements for areas of content because these terms have no widely accepted definition. However, information about both types of performance is required in management commentary. Specifically, information about what some stakeholders refer to as an entity's non-financial performance and non-financial position would be provided by meeting the proposed disclosure objectives for the business model, management's strategy, resources and relationships, risks and external environment, in particular in relation to:

(a) developments in the key matters; and

(b) management's progress in managing those key matters.

Attributes of useful information in management commentary

BC95 As explained in paragraph BC5, the Board's research has indicated that information currently provided in management commentary is not always useful. In particular, it sometimes lacks the attributes the *Conceptual Framework* describes as the 'qualitative characteristics' of useful financial information.

BC96 In the Board's view, one factor that contributes to shortcomings in current reporting practice is that some preparers of management commentaries may not understand what attributes make information useful for investors and creditors, and what attributes make that information more useful.

Approach to developing requirements and guidance on attributes

BC97 The Board proposes to retain the 2010 Practice Statement requirement that information in management commentary should possess the attributes of useful financial information set out in the *Conceptual Framework*. The Board also proposes to provide guidance to help management apply this requirement.

BC98 In developing such guidance, the Board took into consideration that:

(a) management commentaries are often prepared by a larger group of individuals than just the individuals involved in preparing financial statements, and some individuals in the larger group may not be familiar with IFRS Standards and the *Conceptual Framework*.

(b) information in management commentaries is broader than information in financial statements. For example, management commentaries are likely to contain more qualitative and forward-looking information than financial statements and to provide information about matters that may not have led to recognition or even disclosure in the financial statements.

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BC99 Accordingly, the Board proposes that the revised Practice Statement:

(a) include brief descriptions of each attribute of useful information, based on the corresponding description of the qualitative characteristic in the *Conceptual Framework* but using language that is as plain as possible. The Board proposes to use more everyday labels for some of the characteristics although the concepts are the same: ‘balance’ instead of ‘neutrality’, ‘accuracy’ instead of ‘freedom from error’, and ‘clarity and conciseness’ instead of ‘understandability’.

(b) provide further guidance on attributes intended to help prevent the shortcomings in current reporting practice, to help preparers provide more useful qualitative or forward-looking information, or to clarify areas that preparers find challenging.

BC100 The Board proposes to provide guidance on the three components of faithful representation set out in the *Conceptual Framework*: completeness, balance and accuracy, but not directly on the overarching characteristic of faithful representation. The Board’s research suggests that preparers of management commentary may not widely use or understand the term ‘faithful representation’.

BC101 The *Conceptual Framework* distinguishes between fundamental qualitative characteristics (relevance and faithful representation) that make information useful and enhancing qualitative characteristics (understandability, comparability, verifiability and timeliness) that make useful information more useful. In a similar manner, the Exposure Draft states that management commentary should provide material information and that the information should be complete, balanced and accurate, whereas clarity and conciseness, comparability and verifiability make information in management commentary more useful. For simplicity, the Exposure Draft includes a single list of required attributes for information in management commentary without explicitly distinguishing fundamental attributes from enhancing attributes.

BC102 Table 1 compares the qualitative characteristics of useful financial information set out in the *Conceptual Framework* with attributes of useful information in management commentary, as set out in the Exposure Draft.

Table 1—Useful information

Qualitative characteristic described in the *Conceptual Framework*	**Attribute described in the draft Practice Statement**	**Further guidance proposed for management commentary**
Relevance and its entity-specific aspect —materiality	Materiality (paragraphs 3.2, 3.15–3.17 and Chapter 12)	Guidance on identifying material information that needs to be provided (see paragraphs BC103–BC113). For simplicity, the Exposure Draft refers only to materiality which is an entity-specific aspect of relevance.
Completeness	Completeness (paragraphs 13.4–13.6)	Guidance on providing complete information about possible future events, because information about them is more likely to be material in the context of management commentary than in the context of financial statements. Guidance on including in management commentary standing information that is unchanged from previous periods. Guidance on information about events after the end of the reporting period.
Neutrality	Balance (paragraphs 13.7–13.10)	Guidance on selecting matters to discuss in management commentary and on providing balanced information about those matters. Guidance on providing balanced information about aspirational matters —for example, management targets.

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Qualitative characteristic described in the *Conceptual Framework*	**Attribute described in the draft Practice Statement**	**Further guidance proposed for management commentary**
Freedom from error	Accuracy (paragraphs 13.11–13.12)	An explanation that accuracy does not necessarily mean perfect precision in all respects and that the degree of precision needed and attainable varies for various types of information. Examples of how to achieve accuracy for various types of qualitative and quantitative information, including descriptions, estimates and forecasts.
Understandability	Clarity and conciseness (paragraphs 13.13–13.21)	Guidance on providing clear information, including guidance on selecting the clearest form of presentation. Guidance on providing concise information, including guidance on including material information by cross-reference (see paragraphs BC117–BC124). Guidance on including immaterial information—for example, if an entity needs to provide that information to comply with local laws, regulations or other requirements.
Comparability	Comparability (paragraphs 13.22–13.23)	Emphasis that an entity should prioritise providing material information over comparability.

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Qualitative characteristic described in the *Conceptual Framework*	**Attribute described in the draft Practice Statement**	**Further guidance proposed for management commentary**
Verifiability	Verifiability (paragraphs 13.24–13.26)	Guidance on providing information in management commentary in a way that enhances its verifiability. Guidance on providing sufficient explanation to allow investors and creditors to decide whether to use information that might not be verifiable—for example, forward-looking information.

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Qualitative characteristic described in the *Conceptual Framework*	**Attribute described in the draft Practice Statement**	**Further guidance proposed for management commentary**
Timeliness	–	The Board proposes not to list timeliness as an attribute of useful information in management commentary because: (a) the timing of publication of management commentary is a local jurisdictional and regulatory matter. (b) management commentary can still have confirmatory value, and therefore be useful, even if it is published after the financial statements. For example, it can help investors and creditors to compare the information in management commentary with their previous expectations.
–	Coherence (paragraphs 13.27–13.30)	The Board proposes to introduce coherence as an attribute specific to information in management commentary (see paragraphs BC114–BC116).

Making materiality judgements (Chapter 12)

BC103 The 2010 Practice Statement notes that materiality is an entity-specific aspect of relevance, and requires an entity's management to include in management commentary information material to that entity.

BC104 As noted in paragraph BC5, the Board's research indicates that management commentaries do not always provide investors and creditors with the information they need. In particular, the Board noted that management commentaries sometimes:

(a) fail to focus on matters that are important to an entity's prospects, by failing to provide material information about such matters or by obscuring such information with immaterial information about less important matters; and

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

BC105 As explained in paragraph BC48, the Board proposes to require information provided to meet the objective of management commentary to be material. The proposed definition of 'material information' is taken from the definition of that term in the *Conceptual Framework* and IFRS Standards, with the inclusion of a reference to the fact that the context is management commentary.[5] The definition explains, that in that context, 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.

BC106 The proposed definition refers to decisions made on the basis of management commentary and related financial statements because:

(a) referring only to management commentary could imply that investors and creditors can make appropriate decisions on the basis of the management commentary alone, without also reading the financial statements. Making decisions on the basis of management commentary alone would not be appropriate because management commentary is designed to complement financial statements.

(b) management commentary and financial statements contribute to the same objective (the objective of general purpose financial reporting set out in the *Conceptual Framework*) and provide information to support the same assessments (assessments of an entity's prospects for future cash flows and of management's stewardship of the entity's resources). These assessments would be based on both management commentary and the related financial statements.

BC107 To avoid misinterpretation, the Board proposes to clarify that:

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5 The *Conceptual Framework* states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity (see paragraph 2.11 of the *Conceptual Framework*).

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(a) management commentary is designed to complement financial statements so, by design, most information in the financial statements does not need to be duplicated in management commentary; and

(b) information in the financial statements needs to be provided in management commentary to the extent necessary to meet the proposed objective of management commentary and the proposed disclosure objectives for the areas of content or to provide coherence between the management commentary and financial statements.

BC108 Making materiality judgements could be more challenging in preparing management commentary than in preparing financial statements because:

(a) management commentary contains more explanatory and forward-looking information than financial statements contain. Materiality judgements are more challenging for such information than for quantitative information.

(b) IFRS Standards explicitly identify a large proportion of the information that entities need to consider including in financial statements. Explicit identification is more difficult in the case of the Practice Statement, which can explicitly identify only a much smaller proportion of the information that entities need to consider including in management commentary.

BC109 Accordingly, and to prevent shortcomings in practice of the kind mentioned in paragraph BC104, the Board proposes guidance on making materiality judgements in the context of management commentary. That proposed guidance builds on the guidance in IFRS Practice Statement 2 *Making Materiality Judgements*. Additional guidance is included on making materiality judgements relating to information about possible future events that have not affected the entity's financial performance or financial position, are not reported in the entity's financial statements and have uncertain outcomes.

BC110 The Board intends to consider whether to develop a proposal to add to Practice Statement 2 similar additional guidance for materiality judgements made in preparing financial statements.

BC111 The Board proposes that the revised Practice Statement:

(a) emphasise that in making materiality judgements management should consider the common information needs of a clearly defined set of users (investors and creditors) without considering those information needs that are unique to specific subgroups of investors or creditors (see paragraphs BC39–BC41).

(b) provide guidance on identifying information that might be material. In particular, the Board proposes:

  (i) to include disclosure objectives for each area of content, and examples of information about them that might be material to help management identify information that is material in an entity's circumstances.

(ii) to introduce a notion of 'key matters' as a tool to help management in making materiality judgements in the context of management commentary and provide guidance on identifying those key matters (see paragraphs BC77–BC79). (The Board proposes to define 'key matters' as matters that are fundamental to the entity's ability to create value and generate cash flows, including in the long term. Because of their fundamental effect on the entity's ability to create value and generate cash flows, it is likely that much of the information that is material to investors and creditors will relate to key matters.)

(iii) to provide a description of indications that information might be material—for example, if it relates to a key matter, it is derived from information management uses for managing the business, or it has been included in the entity's capital market communications.

(iv) to explain that an entity might apply narrative reporting requirements and guidelines published by other organisations to help it identify material information.

(c) provide guidance on assessing whether information is material.

(d) provide guidance on how much to aggregate information so that material information is neither omitted because of aggregating too much, nor obscured by immaterial information if not aggregated enough.

BC112 Entities may wish to apply the revised Practice Statement alongside local laws, regulations or other requirements or guidelines for narrative reporting. Some of these requirements or guidelines may require entities to disclose information that would not be judged material according to the Board's proposals. To encourage application of the revised Practice Statement alongside local requirements, the Board proposes to permit management commentary to include such information if it does not obscure information material to investors and creditors.

BC113 Paragraph 3.2 proposes to require management commentary to provide material information. The Board's Management Commentary Consultative Group discussed whether there should be an exception permitting an entity not to disclose information that is material but commercially sensitive. Members of the Consultative Group expressed mixed views. Furthermore, the disclosure requirements of IFRS Standards do not generally include exceptions for commercially sensitive information: there is an exception in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which applies only to 'extremely rare' cases in which disclosure of information could prejudice seriously the entity's position in a dispute with other parties. For these reasons, the Exposure Draft does not propose an exception for commercially sensitive information.

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Coherence (paragraphs 13.27–13.30)

BC114 As noted in paragraph BC5, some management commentaries provide fragmented information. To promote a more interconnected narrative in management commentary that would allow investors and creditors to understand the relationships between pieces of information, the Board proposes a requirement that information in management commentary should be coherent. The Board proposes guidance on determining how to make:

(a) information about a key matter coherent—so that management commentary provides enough information about each key matter for investors and creditors to assess the implications of that matter; and

(b) information in management commentary as a whole coherent—so that connections between pieces of information are clear.

BC115 The Board also heard that management commentaries are not always consistent with the related financial statements. Because an entity's management commentary is intended to enhance investors and creditors' understanding of the entity's financial statements, the Board proposes to require that management commentary provides information in a way that allows investors and creditors to relate that information to information in the entity's financial statements.

BC116 In the Board's view, information in an entity's management commentary should also be consistent with other information provided by the entity—for example, in investor presentations, on the entity's website or in other publicly available communications. Therefore, the Board proposes that management commentary should identify and explain any areas of apparent inconsistency between the information in management commentary and other information provided by the entity.

Including information by cross-reference (paragraphs 13.19–13.21)

BC117 Investors and creditors have expressed concerns that information is often duplicated across an entity's management commentary, financial statements and other reports. The Board considered whether entities can reduce such duplication by including information in management commentary by cross-reference to other reports.

BC118 The 2010 Practice Statement states that 'when practicable, management should avoid duplicating in its management commentary the disclosures made in the notes to its financial statements'. However, the 2010 Practice Statement does not explicitly refer to including information in management commentary by cross-reference to an entity's financial statements.

BC119 In developing its proposals on including information by cross-reference, the Board:

(a) considered the analysis in the Discussion Paper *Disclosure Initiative—Principles of Disclosure* and subsequent feedback from stakeholders about including disclosures in financial statements by cross-reference;[6]

(b) reviewed other standard-setters' approaches to including information in management commentary by cross-reference; and

(c) considered feedback from its consultative groups.

BC120 Permitting inclusion of information in management commentary by cross-reference could give rise to concerns about:

(a) fragmentation, especially if many cross-references are included, causing investors and creditors to look elsewhere for much of the material information, which could make management commentary less clear; and

(b) the status of information included by cross-reference, its availability and whether that information is current.

BC121 The Board proposes to permit including information in management commentary by cross-reference to another report because:

(a) doing so could help to limit the duplication of information across an entity's reports, to make management commentary more concise and to reduce 'disclosure overload';

(b) most stakeholders consulted in developing the Exposure Draft broadly agreed with this approach in at least some cases, notably for cross-references to financial statements; and

(c) doing so is allowed in some jurisdictions, especially within an annual reporting package that includes management commentary.

BC122 The Board proposes that information included in management commentary by cross-reference becomes part of that management commentary even though it is actually located in another report. As a consequence of that principle:

(a) this information would need to comply with the other requirements of the Practice Statement—for example, it would need to possess all the attributes required for information in management commentary;

(b) the report with that information would need to be available to investors and creditors whenever the management commentary is available, and on the same terms; and

(c) the bodies or individuals who authorise the management commentary for issue would take the same degree of responsibility for information included by cross-reference as they do for the information included directly within management commentary.

6 See Discussion Paper *Disclosure Initiative—Principles of Disclosure*.

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BC123 The Board also proposes restrictions on including information by cross-reference. These restrictions relate to the precision of a cross-reference, the period covered by the other report and the need for that other report to be up to date. In the Board's view, the proposed principle and restrictions would help limit excessive cross-referencing, which could obscure material information. The Board also proposes to clarify that because management commentary is designed to complement financial statements, most information in an entity's financial statements does not need to be duplicated in its management commentary (see paragraph BC107).

BC124 Including information in management commentary by cross-reference differs from:

(a) signposting complementary non-financial information outside management commentary to provide detail which may be of interest to investors and creditors in some cases but is not material in the context of management commentary—for example, signposting to a governance report containing detailed governance information that would not be judged material in the context of management commentary; and

(b) acknowledging an external source of a statistic or of other information included in management commentary.

Metrics (Chapter 14)

All metrics (paragraphs 14.4–14.13)

BC125 The 2010 Practice Statement lists 'the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives' as an area of content to be discussed in management commentary.

BC126 The Board proposes to include requirements and guidance on providing metrics in management commentary in Part C—*Selection and presentation of information*—of the revised Practice Statement.

BC127 The Board does not propose to specify a list of metrics that an entity would be required to provide in management commentary because information about metrics that are specific to an entity and reflect the industry in which it operates, and its other circumstances, is likely to be more useful to investors and creditors. The Board decided that instead of providing a list of required metrics, it is better for the revised Practice Statement to provide guidance for management to identify entity-specific material information, including metrics, related to matters discussed in management commentary. In the Board's view, material information, in the context of an entity's management commentary, is likely to include metrics derived from metrics an entity's management uses to monitor key matters and to measure progress in managing those key matters. For each area of content, the Board proposes to provide examples of metrics sometimes used to monitor key matters and progress in managing them. The Board's proposals would also permit management to use detailed topic-specific or industry-specific requirements or guidelines issued by other bodies to identify metrics that might be material to investors and creditors.

BC128 In developing its proposals on metrics, the Board considered the requirements in the 2010 Practice Statement. The Board also reviewed academic literature on the use of metrics and requirements and guidelines issued by other standard-setters and by securities regulators. The review covered metrics derived by adjusting measures presented in an entity's financial statements (sometimes called 'alternative performance measures' or 'non-GAAP measures').

BC129 The Board's proposals on metrics have a broader scope than its proposals on management performance measures in Exposure Draft *General Presentation and Disclosure* because:[7]

(a) that Exposure Draft defined management performance measures as subtotals of income and expenses that are used in public communications outside financial statements, to complement totals or subtotals specified by IFRS Standards, and to communicate to users of financial statements management's view of an aspect of an entity's financial performance. Management commentary may need to discuss a broader range of metrics—for example, metrics used to monitor key aspects of the entity's financial position or cash flows, or to monitor key matters.

(b) the proposed requirements for metrics in management commentary would apply to all metrics in management commentary, with further requirements proposed for metrics derived by adjusting measures presented or disclosed in the entity's financial statements and for forecasts and targets related to the metrics included in management commentary.

BC130 An entity's financial statements may already include some of the disclosures that the Board is proposing. As explained in paragraph 13.17, under the Board's proposals such information would be duplicated in management commentary only if it were necessary to meet the proposed disclosure objectives and the proposed objective of management commentary, or to provide coherence between the management commentary and financial statements.

Forecasts and targets (paragraphs 14.14–14.17)

BC131 The Board does not propose to introduce a requirement to include forecasts or targets in management commentary. The proposed requirements focus on providing information to help investors and creditors assess an entity's prospects for future cash flows rather than on management's assessments of the entity's prospects. However, the proposals do not preclude management from including forecasts or targets in management commentary; for example, to explain its aims or milestones on the path towards achieving those aims.

7 See Exposure Draft *General Presentation and Disclosure*.

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BC132 The Board proposes requirements for providing useful information about forecasts and targets that management includes in management commentary. In particular, the Board proposes that management commentary should:

(a) identify the metric of current-period performance or position to which the forecast or target relates;

(b) explain the method used to calculate the forecast or target amount and the inputs to the calculation;

(c) disclose the actual amount for the current reporting period and the forecast or target amount;

(d) analyse and explain variances and implications of those variances; and

(e) explain how to access a previously published forecast or target for a period that extends beyond the reporting period, if an entity made such a forecast, and explain whether the forecast has been updated since its publication.

BC133 An entity may have previously published a forecast or target in a publicly available communication. Under the Board's proposals, management commentary would provide the information described in paragraph BC132 not just about forecasts and targets included in management commentary, but also about forecasts and targets included in the entity's other publicly available communications. Consequently:

(a) the information about forecasts and targets related to metrics discussed in management commentary would be provided to all investors and creditors in one place—management commentary—so they would not need to search for that information in the entity's other communications.

(b) variances would be explained not just against forecasts and targets included in management commentary, but also against forecasts and targets included in other publicly available communications. This kind of explanation could help investors and creditors assess management's success in achieving its past forecasts and targets, and so assess management's stewardship of the entity's resources.

(c) investors and creditors would be aware of all published forecasts and targets related to metrics in management commentary that extend beyond the reporting period and that could provide an insight into management's perspective of the entity's future performance and position. The Board has heard that investors and creditors find information about management's assumptions made in developing forecasts and targets helpful for their own assessments of an entity's prospects for future cash flows.

BC134 The Board does not expect this proposal to be onerous for preparers, because it relates to forecasts and targets that they have already prepared and included in public communications, and is limited to forecasts and targets related to metrics included in management commentary.

Effective date and transition (paragraph 1.6)

BC135 The Board proposes that the revised Practice Statement supersede the 2010 Practice Statement for annual reporting periods beginning on or after the date of its issue.

BC136 In deciding on a proposed effective date, the Board noted that entities would need time to review the contents of the revised Practice Statement and create or adjust their internal systems and control procedures to ensure that they provide material information in management commentary and present it in a way that helps investors and creditors. The time needed would depend on an entity's current narrative reporting system, as well as on an entity's facts and circumstances, such as its size and the local requirements or regulations that apply to its narrative reporting. The Board's proposed effective date would give entities at least one year before their management commentary would be required to comply with the revised Practice Statement.

BC137 The Board proposes to permit early application of the revised Practice Statement. Early application could allow entities to better meet investors and creditors' information needs. The Board found no disadvantages for investors and creditors that could result from early application.

BC138 The Board does not propose any specific transitional provisions. The reason for this is that the information in management commentary is expected to be derived from information already used by management in managing the business, so an entity would not need to produce information specifically for management commentary.

Expected effects of the proposals

BC139 The Board is committed to assessing, and sharing knowledge about, the likely costs of implementing proposed new requirements and the likely ongoing application costs and benefits of those proposals—these costs and benefits are collectively referred to as 'effects'. The Board gains insight into the likely effects of its proposed new requirements through its formal exposure of the proposals and through its fieldwork, analysis and consultations.

BC140 The analysis of the effects of the Board's proposals in this project focuses on the effects on the quality of financial reporting (see paragraphs BC144–BC161). Comparing the effects of the Board's proposals on practice with the effects of applying the current requirements in practice would be difficult, because the Board has little evidence of entities applying the 2010 Practice Statement. The Board also considered how its proposals could:

(a) benefit jurisdictions that choose to adopt the proposals, either in full or with some adaptation (see paragraphs BC162–BC165); and

(b) help preparers navigate the complex narrative reporting landscape (see paragraphs BC166–BC167).

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BC141 The Board also considered:

(a) the likely costs for preparers of implementing the proposals and of their ongoing application (see paragraphs BC168–BC170);

(b) the likely costs for investors and creditors of analysing the resulting information (see paragraphs BC171–BC172); and

(c) an overall assessment of the likely benefits compared with the likely costs (see paragraphs BC173–BC177).

BC142 The effects analysis is mainly qualitative, rather than quantitative. Initial and subsequent costs and benefits are likely to vary among stakeholders. Quantifying costs and, particularly, benefits is subjective and difficult. No sufficiently established and reliable techniques quantify either costs or benefits in this type of analysis. The analysis is of the likely effects of the proposals rather than their actual effects, because these cannot be known prior to application.

BC143 The Board sought to understand the potential effects of its proposals as it developed the Exposure Draft. The project and its likely effects were discussed:

(a) at four meetings with the Management Commentary Consultative Group, the main consultative group on the project;

(b) on 13 occasions with the Board's other consultative groups, including the Capital Markets Advisory Committee, the Global Preparers Forum, the Accounting Standards Advisory Forum and the Emerging Economies Group; and

(c) at 70 meetings with stakeholders, including investors and creditors, preparers, academics, standard-setters and regulators.

Likely effects of the proposals on the quality of financial reporting

BC144 In assessing how the proposed requirements are likely to affect the quality of financial reporting, the Board identified these expected improvements:

(a) an improved focus and provision of entity-specific information (see paragraphs BC145–BC148);

(b) the provision of better information on topics of particular interest to investors and creditors (see paragraphs BC149–BC152);

(c) the provision of more coherent information (see paragraphs BC153–BC154);

(d) other improvements to the quality of information in management commentary (see paragraphs BC155–BC158); and

(e) benefits to the quality of electronic reporting (see paragraphs BC159–BC161).

Focus on key matters and entity-specific information

BC145 Investors and creditors expressed concern that some management commentaries lack entity-specific information or fail to focus on matters important to an entity's prospects by failing to provide material information about such matters or by obscuring such information with immaterial information.

BC146 To help management meet investors and creditors' information needs, the Board's proposals would require management commentary to provide material entity-specific information and focus on key matters. The Board also proposes guidance to help management make materiality judgements. Instead of requiring specified disclosures, the Board proposes an objectives-based approach intended to help management make materiality judgements that reflect the entity's circumstances. The Board proposes to introduce the notion of 'key matters' as a tool for identifying material information.

BC147 The Board's proposed objectives-based approach may necessitate more effort from management than an approach requiring specified disclosures in all cases for all entities or for all entities in a given industry. Nevertheless, the Board expects that its proposed approach would result in the provision of more meaningful entity-specific information in management commentary than would result from other approaches.

BC148 The Board expects that providing guidance on materiality would lead to management better understanding how to make materiality judgements when preparing management commentary. The proposals are intended to enable management to exercise better judgement, so that management commentary provides material information and focuses on key matters that are fundamental to the entity's ability to create value and generate cash flows.

Information of particular interest to investors and creditors

BC149 The Board noted investors and creditors' increasing demand for information about the following interrelated matters:

(a) matters that could affect an entity's long-term prospects;

(b) intangible resources and relationships; and

(c) ESG matters.

BC150 Paragraphs BC82–BC84 and Appendix B to the draft Practice Statement discuss the Board's approach to reporting on these matters. The Appendix provides an overview of the Board's proposed requirements and guidance that management is likely to need to consider in deciding what information to provide about them.

BC151 The Board's proposed objectives-based approach to identifying and reporting information about matters of particular interest to investors and creditors is designed to:

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(a) require management commentary to provide information about matters of particular interest to investors and creditors, if that information is material (see paragraph BC82). Management could apply other organisations' requirements or guidelines in identifying some information that might be material in the context of management commentary.

(b) be a basis for management to consider the entity's circumstances in making judgements on the materiality of information, and to reassess what information is material as the entity's circumstances evolve and as investors and creditors' needs evolve.

BC152 The Board expects that these proposals would lead to management commentary providing material information about matters that could affect an entity's long-term prospects, about intangible resources and relationships and about environmental and social matters. The Board expects that such information would help investors and creditors:

(a) assess the scalability, resilience, adaptability and durability of the entity's business model and understand management's long-term strategy;

(b) assess the extent to which the entity's business model and management's strategy depend on intangible resources and relationships, including those not recognised in the entity's financial statements, and the factors that could affect the availability or quality of those resources and relationships; and

(c) understand environmental and social matters that could fundamentally affect the entity's ability to create value and generate cash flows, including as a result of the environmental or social impacts of the entity's activities disrupting the entity's key relationships.

Coherence of information

BC153 Investors and creditors have expressed concern about a lack of coherent discussion in management commentary, and a lack of consistency between information in management commentary and the information that an entity publishes in its financial statements or in other reports.

BC154 The Board expects that its proposals in paragraphs 13.27–13.30 would help management to increase the coherence of:

(a) the information provided on each matter throughout management commentary;

(b) the discussion of different matters in management commentary; and

(c) the information in management commentary with the information in the related financial statements and in other publicly available communications.

Other improvements to the quality of information

BC155 Investors and creditors have told the Board that information in management commentary sometimes lacks characteristics of useful financial information set out in the *Conceptual Framework*, such as comparability, balance or verifiability.

BC156 The Board considered the likely effects of its proposals on comparability of information in management commentary. The Board's proposed objectives-based approach relies on an entity's management identifying matters and information about those matters that need to be included in management commentary. That approach could lead to less comparable information than might be produced if entities were to apply detailed industry-specific or topic-specific requirements. However, asking all entities to provide specified information or metrics on the same matters could lead to entities reporting immaterial information or discourage entities from applying judgement in considering whether they need to disclose material information that is not explicitly specified. Investors and creditors do not benefit from information that is comparable but not material in an entity's circumstances. The Board's approach is designed to lead entities to provide information in management commentary that is more entity-specific than is sometimes the case in existing practice.

BC157 The Board's proposals could make information in management commentary more comparable in practice because they:

(a) include more detailed disclosure objectives and guidance to help entities meet those objectives than were included in the 2010 Practice Statement, and in some local requirements and guidelines.

(b) require information in management commentary to be provided in a way that enhances comparability. If management is aware that other entities with similar activities provide particular information to investors and creditors, it would need to consider whether that information would be material in the context of the entity's own management commentary. The proposals also permit entities to apply requirements and guidelines issued by other organisations to identify information that might be material. By choosing to apply widely used industry-specific or topic-specific guidance, an entity could improve comparability of information in management commentary. However, the Board's proposals would require entities to prioritise providing material information over comparability. Entities would not be permitted to substitute immaterial information that is comparable for material information that is less comparable.

BC158 The Board's proposals are also designed to make information provided in management commentary:

(a) more balanced. The proposals explain that management commentary should not give more prominence to favourable information than to unfavourable information, and should not exaggerate or obscure favourable or unfavourable information. For example, in describing its

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strategy, management would be expected to discuss the risks that could threaten the implementation of its strategy, not only the opportunities being pursued.

(b) more complete. For example, for each area of content the proposals include explicit disclosure objectives and suggest what information might need to be provided in management commentary to meet those disclosure objectives.

(c) more verifiable. For example, the proposals explain that information in management commentary is more verifiable if it can be corroborated by comparing it with other information available to investors and creditors about the business, about other businesses or about the external environment.

Quality of electronic reporting

BC159 Financial statements and narrative reports are increasingly used in electronic rather than printed form, so the Board has developed its proposals to help improve the quality of electronic reporting.

BC160 The IFRS Taxonomy contains few elements for information likely to be included in management commentary. It allows blocks of information in management commentary to be tagged using broad IFRS Taxonomy elements, such as 'nature of business' or 'management's objectives and its strategies for meeting those objectives'. The more structured and more detailed requirements in the revised Practice Statement than in the 2010 Practice Statement could facilitate better electronic reporting by providing more specific IFRS Taxonomy elements for management commentary. In particular, the IFRS Taxonomy would include elements reflecting specific disclosure objectives for each area of content. For example, for 'strategy' the IFRS Taxonomy elements could reflect specific disclosure objectives:

(a) the drivers of the strategy, including the opportunities management has chosen to pursue;

(b) aims of the strategy;

(c) milestones on the path towards achieving those aims;

(d) plans for reaching the milestones and achieving the aims;

(e) the financial resources required to implement the strategy and management's approach to allocating financial resources; and

(f) progress in implementing the strategy.

BC161 Tagging information in more detail could make accessing information in electronic form easier for investors and creditors. More detailed tagging could also contribute to easier comparison of information, both between entities and over time for one entity.

Likely benefits for jurisdictions of adopting the proposals

BC162 The Board proposes to retain the status of the Practice Statement. Accordingly, local lawmakers and regulators would continue to determine whether entities within their jurisdiction should be required to provide management commentaries, whether those commentaries should comply with the Practice Statement and whether they should be subject to any form of external assurance.

BC163 The Board has been developing comprehensive requirements that focus on information that investors and creditors need and guidance to help management identify that information and present it clearly. Comprehensive requirements, including clear disclosure objectives, are designed to provide an effective basis for:

(a) enforcement of the Practice Statement; and

(b) external assurance on management commentary.

BC164 Comprehensive requirements that could lead to improvements in the quality of reporting (discussed in paragraphs BC144–BC161), would provide a better basis for mandating the revised Practice Statement, and could encourage local regulators to do so.

BC165 When the 2010 Practice Statement was issued, it influenced the development of local requirements and guidance even in jurisdictions where it was not adopted or applied directly by entities. In revising the Practice Statement, the Board seeks to better meet the information needs of investors and creditors by incorporating into its proposals innovations in narrative reporting requirements and guidelines and by aiming to prevent the shortcomings it had identified in reporting practice. Requirements better reflecting investors and creditors' information needs could encourage jurisdictions to reflect the revised proposals in local requirements.

Clarity about interaction with other requirements and guidelines

BC166 Because of the large number of separate and overlapping developments in narrative reporting, the Board heard concerns from entities about the difficulty of navigating the complex narrative reporting landscape, in particular in sustainability reporting.

BC167 In this project, the Board is not seeking to endorse any particular set of requirements or guidelines. The Board's proposals would help entities navigate this landscape by explaining how the revised Practice Statement relates to requirements and guidelines issued by other standard-setters. In particular, the Board envisages that entities could apply the revised Practice Statement:

(a) in conjunction with narrative reporting requirements or guidelines issued by other bodies for use by entities in specific industries or addressing specific topics, such as sustainability reporting. The Board views management commentary as an appropriate location for

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information about environmental and social matters that is material to investors and creditors (see paragraph BC84).

(b) alongside local laws or regulations whose objectives are similar to the objective of management commentary proposed by the Board. Where local laws or regulations specify only general requirements, an entity could apply the proposed requirements and guidance to help it identify information that might enable it to comply with the laws or regulations. Conversely, where local laws or regulations are detailed and prescribe disclosure of specific information, management commentary could include all of that information if it is provided in a way that does not obscure material information with information not required by the revised Practice Statement.

Likely costs of the proposals

Likely costs for preparers of implementing the proposals and of ongoing application

BC168 The Board expects that the implementation and ongoing application of the proposals are unlikely to lead to significant costs in producing information specifically for management commentary. Significant costs are unlikely because information in management commentary is expected to be derived from information used by management in managing the business and is also expected to reflect management's perspective.

BC169 The costs of implementing the proposals and ongoing application are likely to relate to:

(a) establishing and maintaining rigorous internal systems for identifying information to include in management commentary;

(b) determining how to present that information so it is helpful to investors and creditors;

(c) establishing quality-control procedures appropriate for information to be published; and

(d) external assurance costs, if local laws or regulations require external assurance of management commentary or if an entity chooses to engage auditors.

BC170 Those costs would depend on an entity's reporting systems. The costs may be significant for entities that do not currently prepare any management commentary. However, the costs of implementing the proposals and of their ongoing application are likely to be more limited for preparers that apply requirements or guidelines on management commentary issued by other standard-setters if those requirements or guidelines:

(a) set out an objective of management commentary similar to the objective proposed in the Exposure Draft, focusing on the common information needs of investors and creditors;

(b) specify that information in management commentary needs to possess attributes similar to those proposed in the Exposure Draft; and

(c) cover similar areas of content and have similar disclosure objectives.

Likely costs for investors and creditors of analysing the resulting information

BC171 The Board's proposals are based on investors and creditors' information needs. The Board therefore expects the proposals to make investors and creditors' analyses easier, and save investors and creditors costs by providing them with better information for their analyses.

BC172 The Board expects the revision of the Practice Statement and resulting updates to the IFRS Taxonomy to result in more accessible and comparable information in management commentaries in electronic form. Such information is likely to reduce investors and creditors' costs if they access management commentary electronically, and may make using management commentary in electronic form feasible for investors and creditors that do not already do so.

Overall assessment of likely benefits compared with likely costs

BC173 In summary, the Board's proposals are expected to result in:

(a) an improved focus on key matters and provision of entity-specific information in management commentary;

(b) provision of material information of particular interest to investors and creditors, including information on matters that could affect an entity's long-term prospects, on intangible resources and relationships and on ESG matters;

(c) information that is more coherent within management commentary and with the entity's financial statements and other publicly available reports;

(d) other improvements to the quality of information in management commentary, including information that is more balanced, complete, comparable and verifiable; and

(e) more detailed tagging of information in management commentaries, which could lead to easier access to management commentary in electronic form.

BC174 The Board's proposals could also:

(a) make it easier for lawmakers and regulators to enforce the revised Practice Statement and for auditors to provide assurance on management commentary, or to enhance the level of assurance they provide; and

(b) encourage lawmakers and regulators to reflect the proposals in local requirements.

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BC175 The proposals would clarify how the Practice Statement could be applied with requirements and guidelines issued by other standard-setters or other bodies.

BC176 The Board considers that implementing its proposals would provide more benefits than the 2010 Practice Statement, because the Board has designed the proposals to better meet investors and creditors' information needs.

BC177 In the Board's view, the likely benefits of implementing and adopting the revised Practice Statement would significantly outweigh the likely costs of implementing the proposals and of ongoing application.

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