
IASB meeting

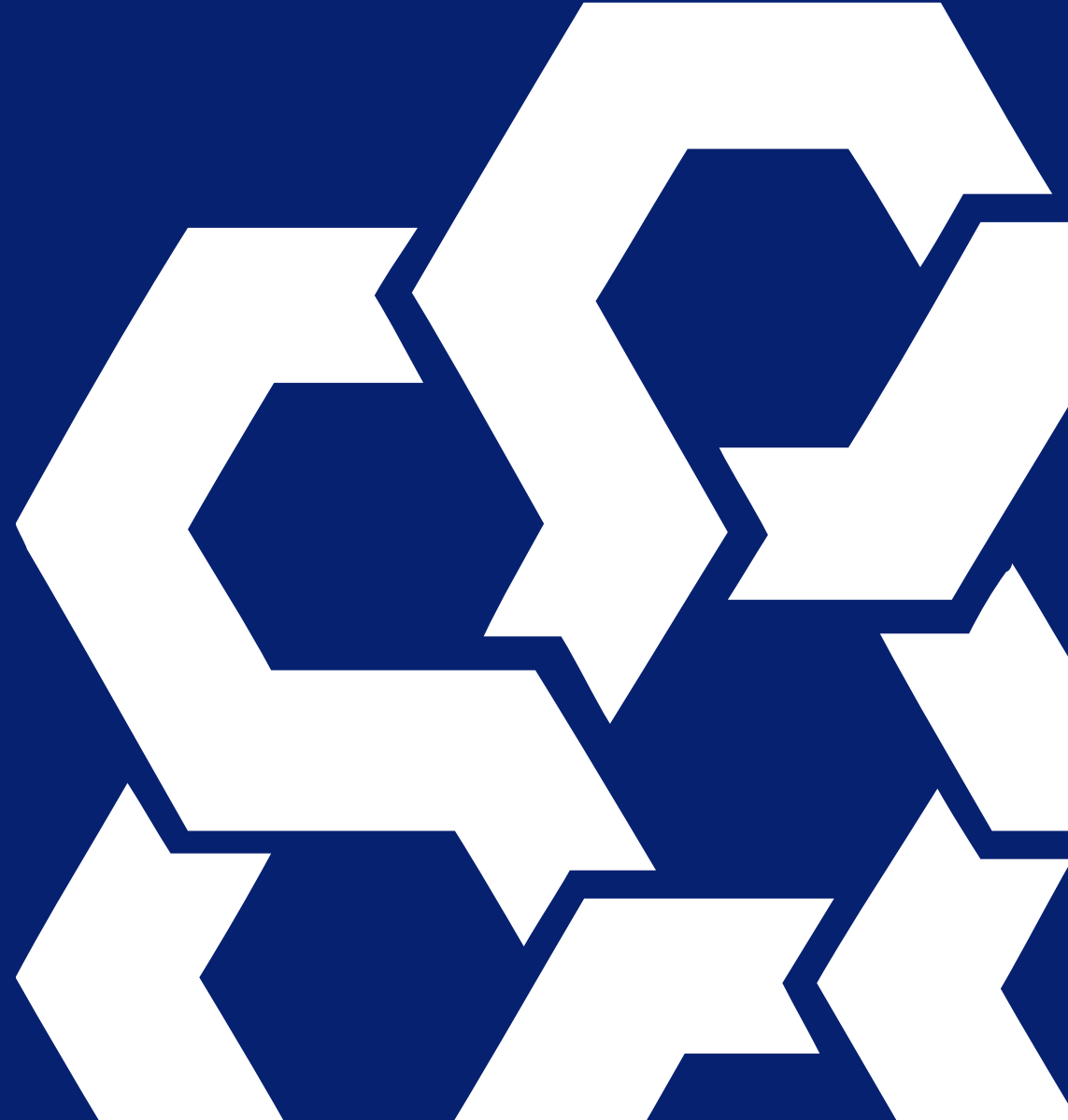
Date	May 2023
Project	Management Commentary
Topic	Education Session—Comparison between <i>Management Commentary</i> Exposure Draft and the <i>Integrated Reporting Framework</i>
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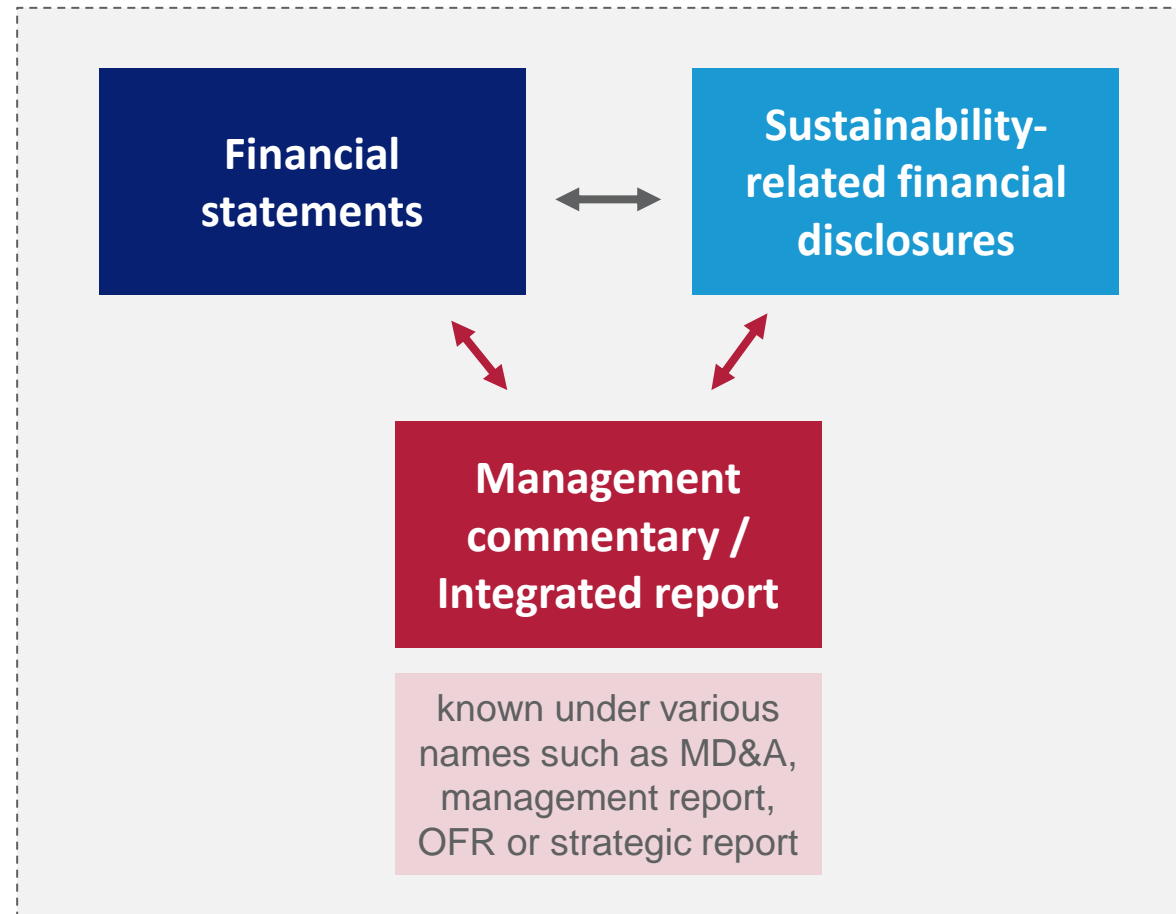
Agenda

- Introduction
- The staff's analysis of similarities and differences between the *Management Commentary* Exposure Draft (MC ED) and the *Integrated Reporting Framework* (IR Framework)
 - The essentials
 - Value creation and related concepts
 - Materiality and other principles
 - Content elements
- Feedback from consultative groups—IFRS Advisory Council and Integrated Reporting and Connectivity Council (IRCC)

Introduction



General purpose financial reports



Regulatory landscape

Financial statements

IFRS Accounting Standards adopted in 145 jurisdictions.*

Management commentary / Integrated report

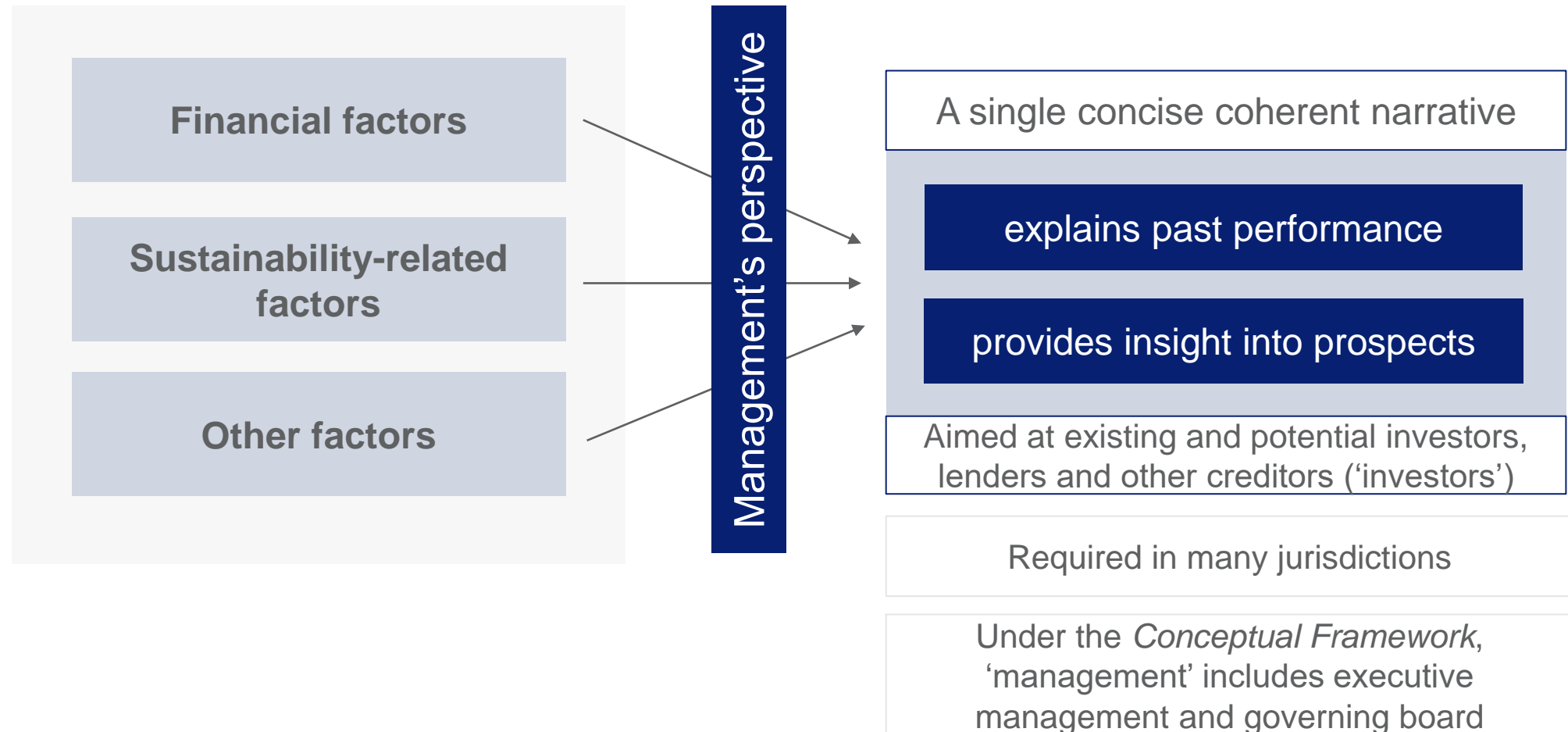
Subject to local laws and regulations on management commentary or a similar report.
IFRS PS1 *Management Commentary* is being overhauled.
The role of the IR Framework differs across jurisdictions.

Sustainability-related financial disclosures

The ISSB is developing a global baseline for capital markets that is interoperable with local requirements and broader sustainability reporting requirements.

*Source: [IFRS Foundation website](#), accurate as of May 2023

What is 'management commentary'?

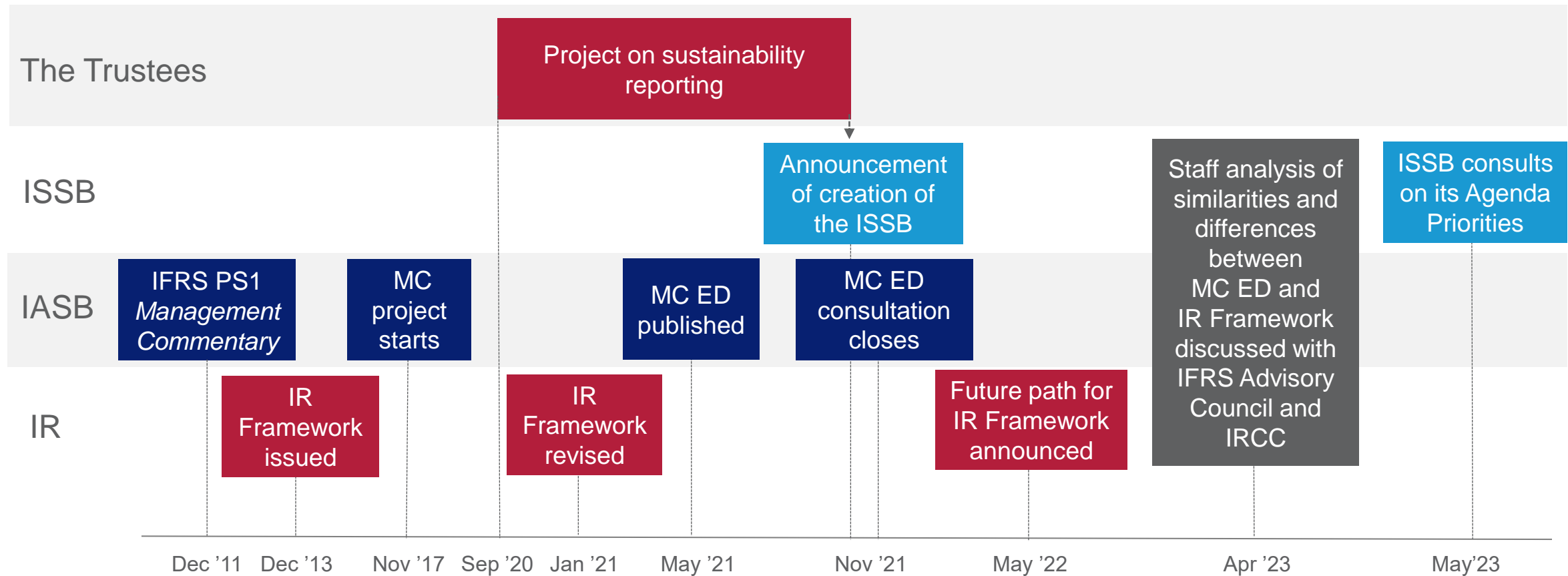


What is integrated report(ing)?

An ***integrated report is a concise communication*** about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term.

Integrated reporting is a ***process*** founded on integrated thinking that results in a periodic integrated report by an organization about value creation, preservation or erosion over time and related communications regarding aspects of value creation, preservation or erosion.

The journey



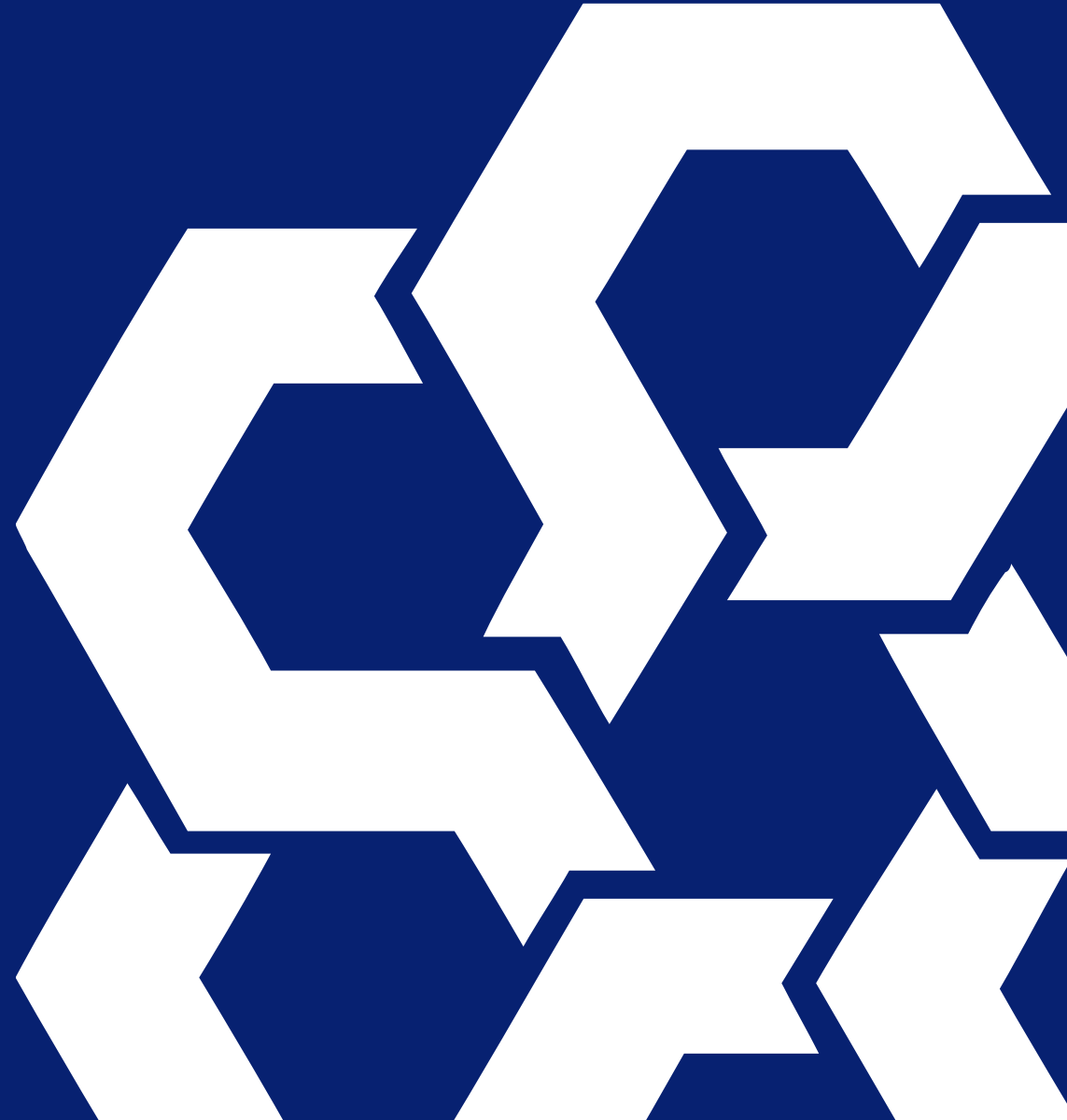
Recent highlights

The Chairs of the IASB and ISSB acknowledged that there are similarities and differences between the MC ED and the IR Framework and committed to consider opportunities to address that

Stakeholders highlighted the need for connectivity and asked the IASB to collaborate with the ISSB on the Management Commentary project

The ISSB is seeking feedback on its priorities, including a potential project on 'integration in reporting'

Comparison between the IR Framework and the MC ED— The essentials



Basis of analysis

- Based on a paragraph-by-paragraph comparison of the MC ED and the IR Framework by members of the Integrated Reporting and Connectivity team and Management Commentary project team
- Based on the IR Framework as written without considering adaptations made by preparers in practice to meet the needs of other stakeholders

Key observations from the initial analysis



Management commentary and integrated report have **similar objectives**, providing investors with insights for assessing an entity's prospects. Sometimes integrated reports are adapted to meet information needs of other audiences.



The MC ED and the IR Framework incorporate **similar principles and notions of value creation**. An entity's '**resources and relationships**' or '**capitals**' play a prominent role in both documents.



The requirements specified in the MC ED and the IR Framework should result in **similar information** being provided in the reports*. However, the way in which the requirements are specified can be different.

* The IR Framework includes additional requirements for information about an entity's governance.

Complementary approaches



IR Framework

Principles-based design, emphasising the **key notions to be applied**

Reporting requirements are specified by reference to **high level questions about the entity the report must answer**



Similar report content



MC ED



Principles-based design, specifying the **types of information to be provided**

Reporting requirements are specified by reference to **investors' information needs, including the assessments investors need to make about the entity**

Main features of reports

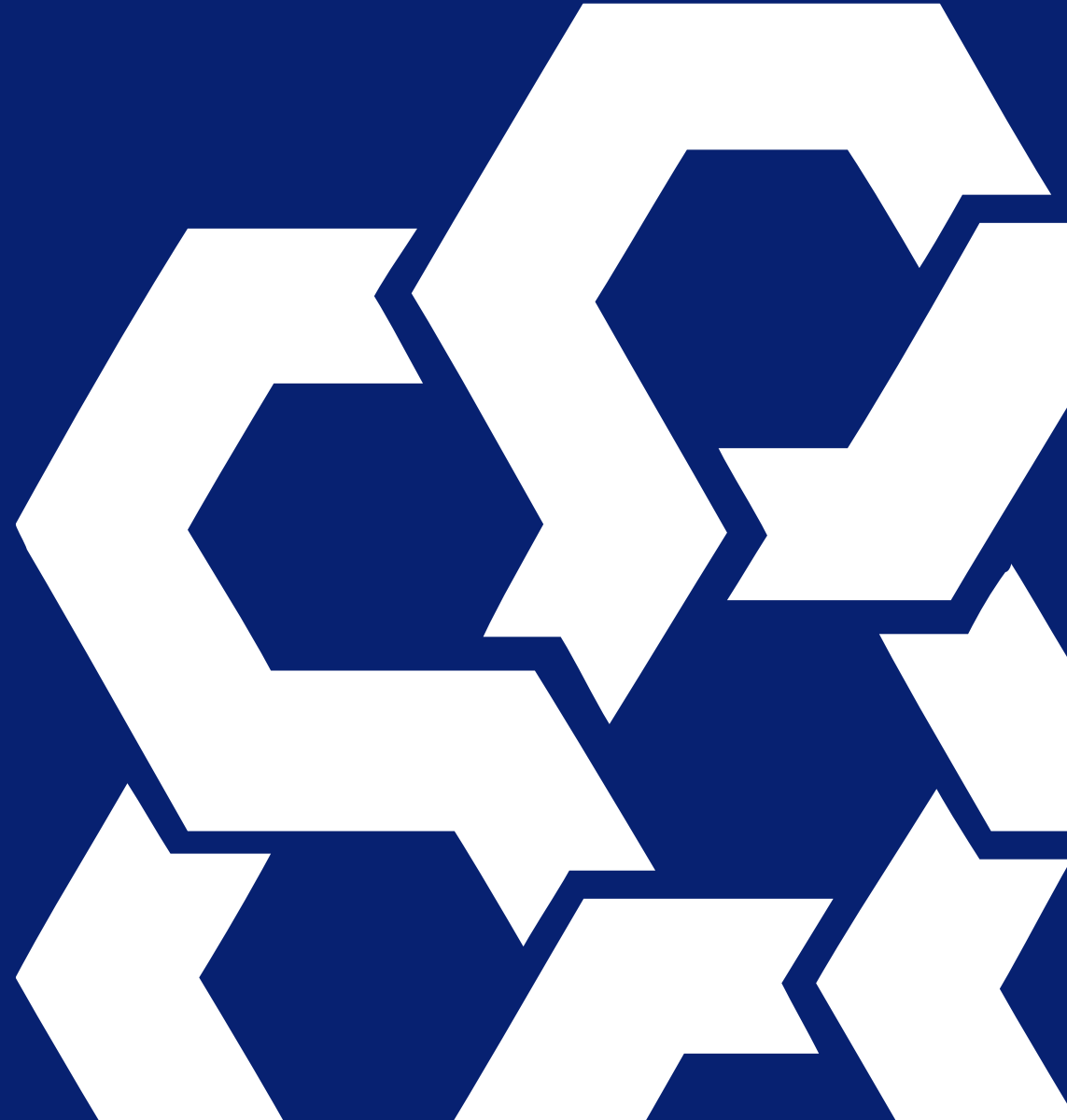
IR Framework

MC ED

Responsibility	Those charged with governance (which may include executive management)	Management (which may include members of a governing body)*
Audience	Primary audience is providers of financial capital. All stakeholders interested in value creation benefit.	Aimed at needs of investors and creditors. Other stakeholders may find the report useful.
Purpose of the report	Explain how the organization creates, preserves or erodes value over time	Enhance understanding of financial statements and provides insights into factors that could affect ability to create value over time

*A narrower interpretation of the term 'management' compared to the meaning in the *Conceptual Framework* could result in a substantive difference in the content of the reports.

Comparison between the IR Framework and the MC ED— Value creation and related concepts

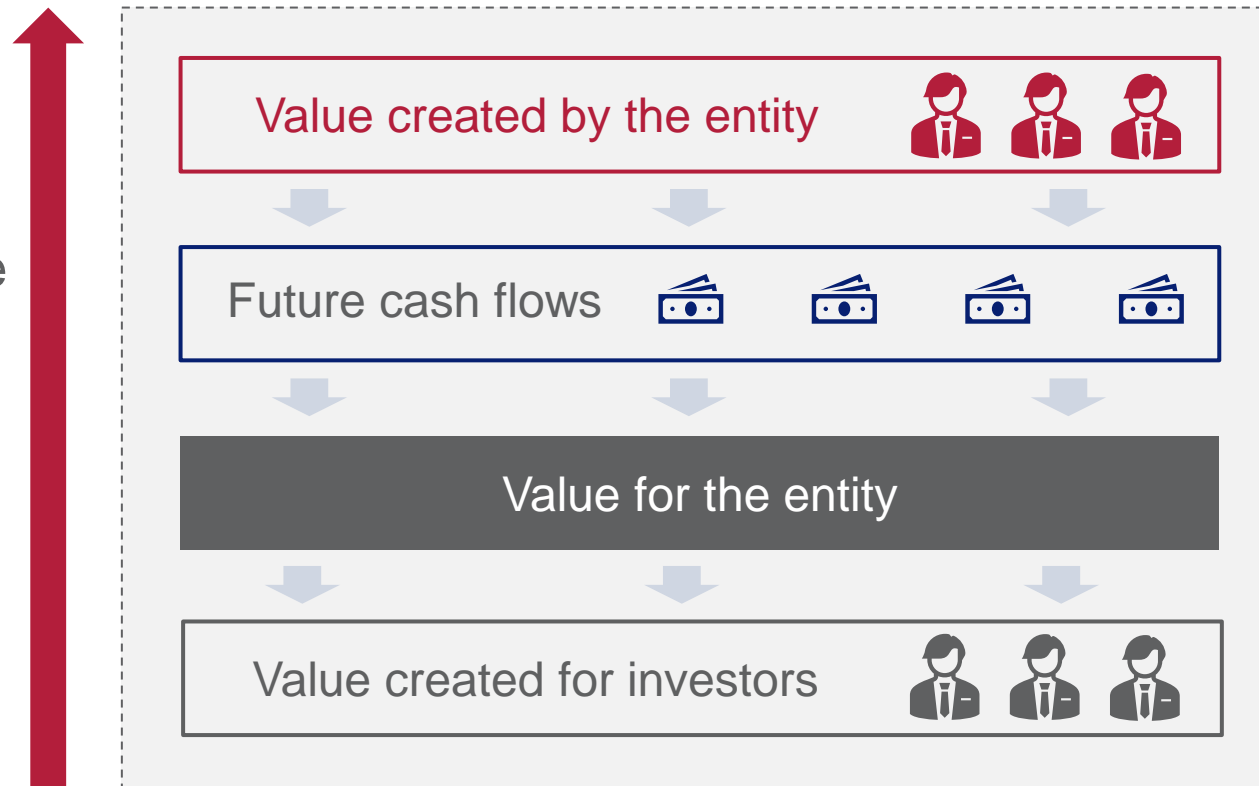


Value creation, preservation and erosion

- Both documents focus on the entity's ability to create value for ***itself***, and its impacts on ***others*** to the extent those impacts affect that ability
- The IR Framework emphasises the link between ***value created or eroded for others*** and value for the entity. The document defines value creation, preservation and erosion in terms of ***changes in the capitals***
- The MC ED emphasises that an entity's activities create value if they enhance or preserve the present value of the entity's ***future cash flows***

Illustrating the complementary perspectives

IR Framework
emphasises the link between value for the entity and value for others



MC ED
emphasises the link between value for the entity and cash flows

‘Capitals’ and ‘resources and relationships’

- **Prominent role** in both documents.
- In the IR Framework, ‘**the capitals**’ is as a **fundamental concept** linked to value creation. The document describes six forms of capital that organisations depend on for their success: financial, manufactured, intellectual, human, social and relationship, and natural.
- In the MC ED, ‘**resources and relationships**’ forms an **area of content**. The document requires information on how entity manages the resources and relationships that are fundamental to its ability to create value.

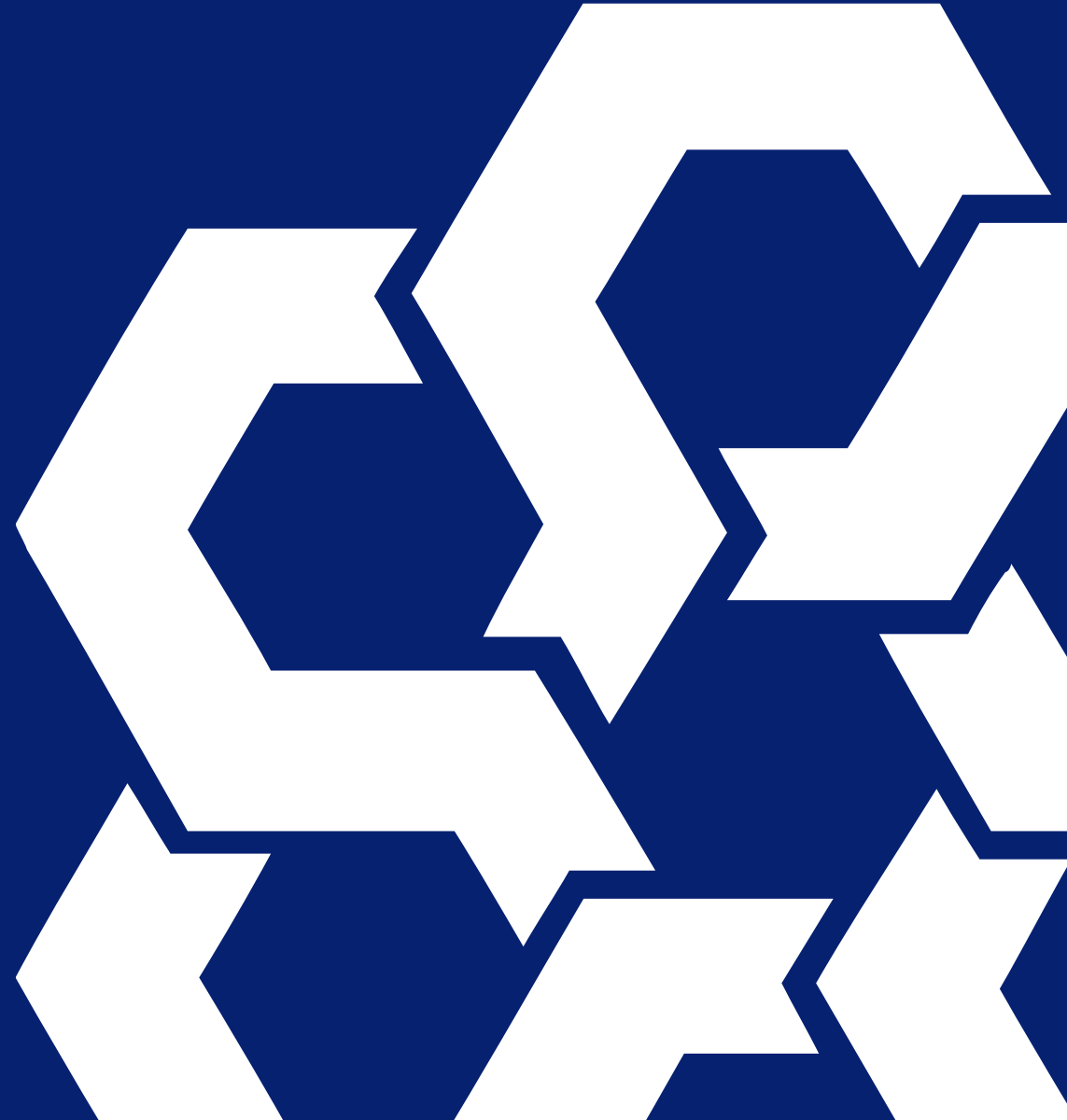
Stakeholder relationships

- Both documents require information about the *nature and quality of stakeholder relationships*
- In the IR Framework, stakeholder relationships is a **guiding principle** emphasising the **link** between value created or eroded for others and value for the entity itself
- In the MC ED, stakeholder relationships forms part of the ‘resources and relationship’ **area of content**

Progress, outcomes and impacts

- Both documents require information (including quantitative) about ***how an entity is managing its resources and relationships***
- The IR Framework requires information on the ***outcomes for the capitals*** where this information is needed to understand the value created for the entity
- The MC ED requires information about ***progress in managing the entity's resources and relationships*** and information about ***impacts*** if those impacts affect the entity's ability to create value

Comparison between the IR Framework and the MC ED— Materiality and other principles

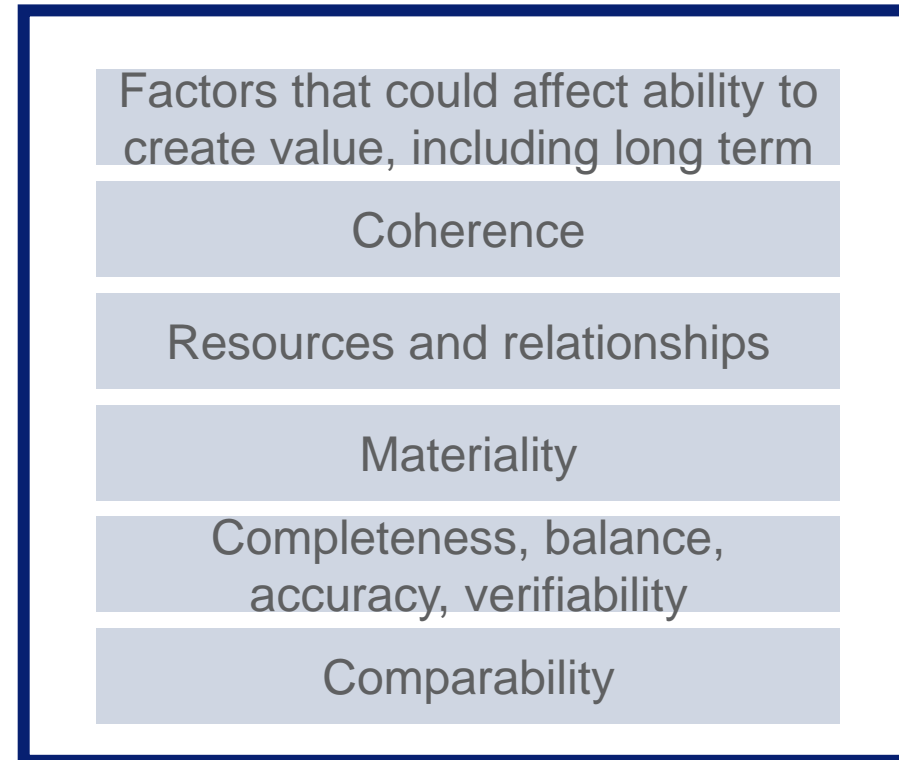


Guiding principles and their equivalents

IR Framework



MC ED



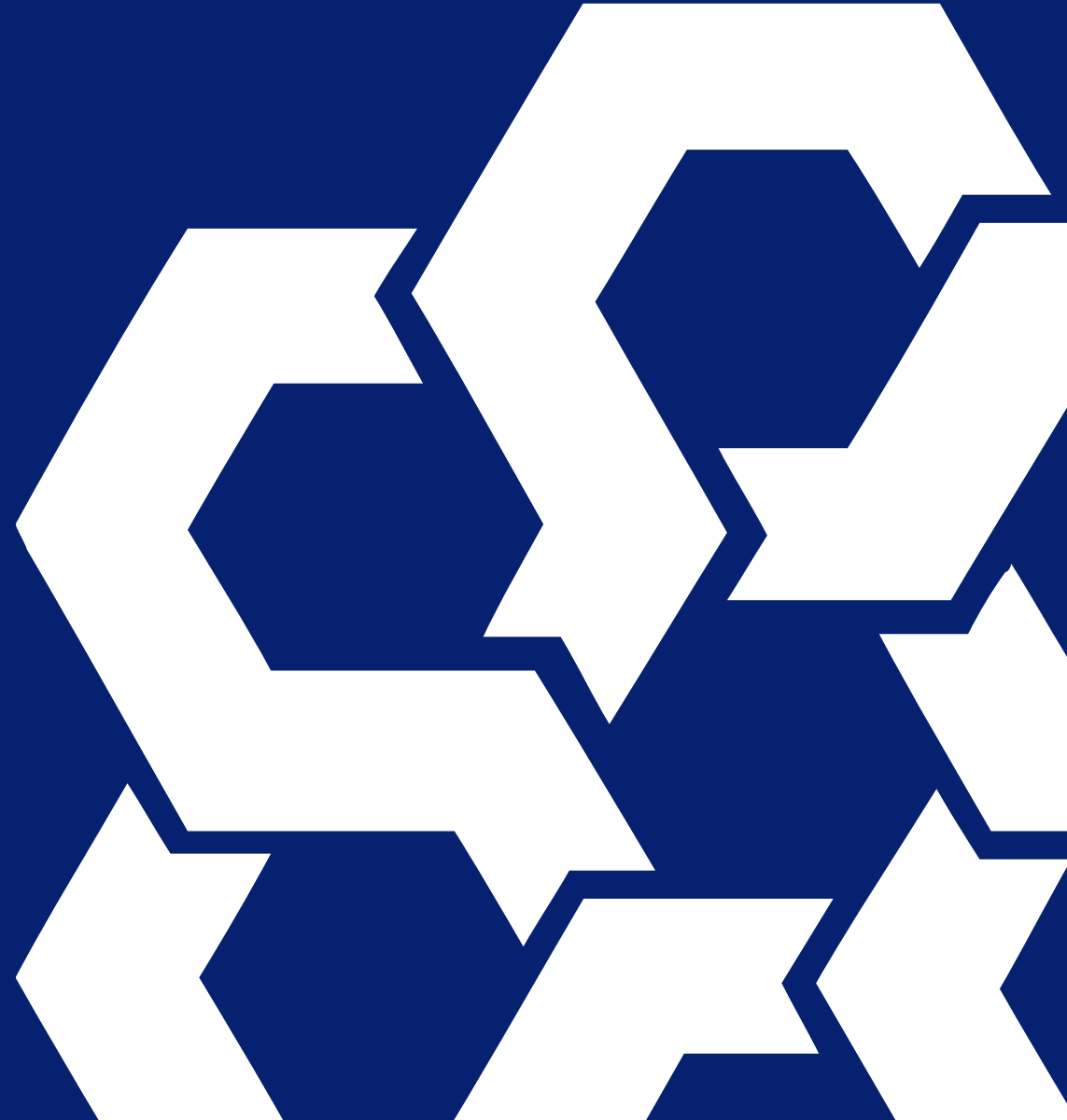
Identifying material information

- In theory, the concepts of materiality should result in the **same information** due to the **investor focus** and the anchor in **value for the entity**, but differences can arise in practice due to different approaches
- The definition in the MC ED is based on the *Conceptual Framework*: information is material if it could **influence investors' decisions**
- Close alignment between '**material matters**' in the IR Framework (those that could substantively affect the ability to create value) and '**key matters**' in the MC ED (those fundamental to the ability to create value)

Connectivity and coherence of information

- Both documents emphasise the need for connection between:
 - *elements within the report*, and
 - the report and *other sources of information* (specifically *financial statements* in the MC ED)
- IR Framework specifically addresses *trade-offs between capitals*

Comparison between the IR Framework and the MC ED— Content elements



Content requirements compared

	Key similarities						Key differences	
IR Framework	Business model	Strategy and resource allocation	Risk and opportunities	Org overview & external environment	Performance	Outlook	Governance	Basis of preparation
MC ED								
Business model	✓						<div style="background-color: #d9e1f2; padding: 10px; text-align: center;"> <p>✗ Not an explicit requirement of the MC ED</p> </div>	
Strategy		✓	✓		✓	Addressed in each MC ED content area		
Risks			✓			Specified as an objective in the MC ED		
External environment				✓*				
Financial performance and financial position					✓*			
Resources and relationships	✓ Addressed by the IRF 'capitals' concept							

* Similar, but some differences

Information about governance

- The IR Framework has governance as a ***separate content element*** and requires information on how an organisation's governance structure supports its ability to create value
- There is ***no separate area of content*** for governance in the MC ED. Many respondents to the MC ED suggested adding more explicit requirements on governance

Design of disclosure requirements for areas of content

IR Framework

Requirement to answer a question about the organisation

Guidance for applying the requirement

MC ED

headline objective

assessment objectives

specific objectives

examples of information for each specific objective

Example—requirements for business model

IR Framework

An integrated report should answer the question: What is the organisation's business model?

Guidance on describing the aspects of the business model:

- inputs
- business activities
- outputs
- outcomes

MC ED

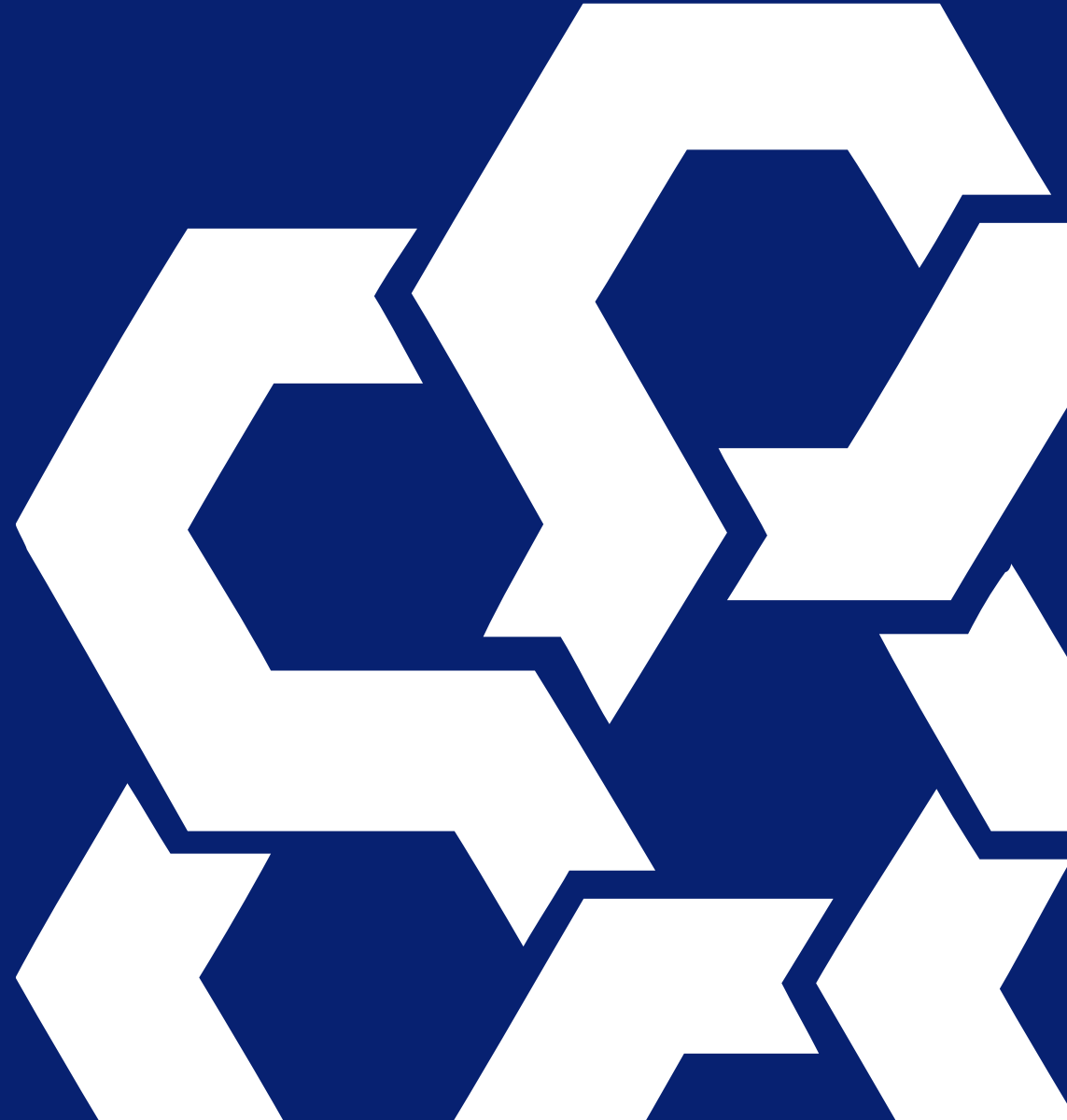
Investors need to understand...

Investors need to assess...

Investors need to understand...

- how the company's business model creates value
- how effective the company's business model is
- how scalable and adaptable it is
- how resilient and durable it is
- the range, nature and scale of the entity's operations
- the cycle of creating value
- impacts of the company if relevant to ability to create value
- progress in managing the company's business model

Feedback from consultative groups



Feedback from the IFRS Advisory Council

Questions for IFRS Advisory Council members*

- What role could management commentary and integrated report play in facilitating connectivity?
- Do you think that the IFRS Foundation should work together with local regulators and other stakeholders in this area? If yes, what steps would you envisage? If no, why not?
- How would you approach further alignment between the MC ED and the IR Framework?
- What priority would you assign to the further alignment of the MC ED and the IR Framework relative to other work of the IASB and ISSB?

* [AP8 presented in April 2023](#). See par 22-24 of the [Meeting Summary](#).

Highlights from comments raised*

- Members commented that the staff's analysis shows that there is **substantial alignment** on the key aspects of the two documents and shows their **complementary nature**.
- Most members commenting on the path forward suggested that, in the long term, the two documents should be **consolidated**, although there were different views on how to proceed in the short term.
- Members said the IFRS Foundation has an important role to play in **improving the quality** of this type of reporting and should engage **with local regulators** to achieve this goal. Some members recommended engagement with IOSCO to assist with this.

Feedback from the IRCC

Questions for IRCC members*

- **Integrated Reporting**

In considering the areas of difference between the IR Framework and Management Commentary, how would you recommend these inconsistencies be resolved? What advice would you offer in further embedding the principles and concepts of the IR Framework in IFRS Foundation materials?

- **Integrated Thinking**

How should the IFRS Foundation position and advocate for integrated thinking as part of its role in promoting greater connectivity in reporting within a comprehensive corporate reporting model?

*[AP1 presented in April 2023](#). Meeting Summary not yet available.

Highlights from comments raised*

- In order to achieve a single corporate reporting framework **a joint approach by the IASB and ISSB would be required**.
- **Clarity on an end-game vision is needed**, both for entities that use the IR Framework and to drive forward the broader reporting ecosystem, including internal and external assurance to provide confidence.
- **A coherent reporting package is critical for investors**, which can be supported by Integrated Reporting and by aligning language and definitions used by the two boards.
- **Integrated thinking is seen as foundational to the success of the corporate reporting system** and could be encouraged through IFRS education materials.

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