EFRAG
European Financial Reporting Advisory Group

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This paper was presented for discussion at the CFSS-TEG meeting on 24 November 2021. It is provided again for background only.

ED Management Commentary

Summary and analysis of the feedback received

Objective

1 The objective of the session is to provide EFRAG CFSS and EFRAG TEG with a summary of the input received in response to EFRAG's consultation on its draft letter (DCL) to the IASB Exposure Draft *Management Commentary* (ED) and ask for members' views on the feedback.

2 This session is an opportunity for CFSS members who have not submitted a comment letter to provide their input and views for consideration by the EFRAG TEG when finalising its recommendations for approval by the EFRAG Board of a final comment letter.

3 Feedback was received through:

a) Comments letters submitted in responses to EFRAG's DCL. At the time of writing, Seven comment letters have been received[. Two of these letters were received in draft version only. All the final comment letters received have been uploaded to EFRAG's website.

b) Input provided after a targeted outreach to various working groups and panels of EFRAG (User Panel, FIWG, IAWG, Academic Panel, Advisory Panel on Intangibles, and the European Lab@EFRAG Project Task Force on reporting of non-financial risks and opportunities and linkage to the business model-PTF-RNFRO) at meetings or through questionnaires; and

c) Other outreaches and participation to external working group meetings and events with stakeholders (EAA, ESMA, Accountancy Europe, ASCG, Audit firm network).

Background

4 The Exposure Draft Management Commentary (the ED) was published in May 2021 and is open for comment until 23 November 2021.

5 EFRAG issued its draft comment letter (DCL) in response to the ED in July 2021 and it was open for comments until 15 November.

Comment letter and outreach feedback in response to EFRAG's DCL

6 The main input from the letters and outreach feedback is summarised below together with the input from other outreach activities

Statement of compliance (Q1 and Q2 if the ED)

Main positions in EFRAG's draft comment letter

7 In its draft comment letter, EFRAG supported the proposals in the ED

a) Not imposing restrictions or conditions on the basis of preparation of financial statements to which management commentary relates and requiring to disclose the basis on which its financial statements are prepared if they do not comply with IFRS Standards.

b) Requiring that management commentary that complies with all the requirements in the Practice Statement include an explicit and unqualified statement of compliance

c) Allowing a qualified statement of compliance if the management commentary identifies the departures from the requirements of the revised Practice Statement and gives reasons for those departures.

Comment letter received

8 Respondents who expressed a view on the matter supported allowing the application of the guidance in the ED to management commentaries accompanying general purpose financial statements with no restriction on their basis of preparation. One respondent also suggested extending the flexibility to sustainability reporting standards and frameworks.

9 Three respondents supported requiring that management commentaries include an explicit and unqualified statement of compliance if they comply with all the requirements.

10 Conversely, one respondent did not support requiring such a statement but just allowing it noting that the Practice Statement remained voluntary and requiring such a statement may increase cost for preparers and conflict with local regulations. Another respondent suggested to replace the statement of compliance by a simple 'basis for preparation' footnote similar to what IAS 1 paragraph 112 requires.

11 Mixed views were expressed on allowing qualified statements of compliance:

a) One respondent supported the proposal while another disagreed with allowing qualified statements as it would be difficult to operationalise and would not result in more reliable information.

b) Another respondent considered that qualified statement should be required not just allowed as proposed. This respondent also recommended that plain language should be required from preparers to indicate the level of adherence to the requirements and that the proposals in the ED were not explicit enough in that regard.

12 One respondent did not address the matter.

Feedback from other outreach activities

13 Members of the consulted EFRAG working groups did not generally object to allowing qualified statement compliance or applying the guidance in the ED to management commentary relating to financial statements not prepared in accordance with IFRS Standards.

14 It was however noted by some that allowing qualified statement of compliance may create specific challenges with the rising importance of sustainability reporting as this may not be compatible with some frameworks. Several members noted interactions with future Sustainability Standards possibly requiring placement of information in the Management Commentary. It was unclear, at this stage, whether future sustainability standards would allow a 'comply or explain' approach. Partial compliance should not lead greenwashing or be abused by preparers, to signal compliance that does not exist

15 One member noted that allowing a statement of partial compliance is an improvement but may create challenges with the rising importance of sustainability reporting as it unclear whether sustainability standards would allow a 'comply or explain' approach.

16 Another member of the consulted EFRAG working groups expressed concerns about allowing a statement of partial compliance. Considering the length of the guidance, disclosing all departures from the requirements could result in lengthy disclosures and not be very practical.

17 An audit firm stakeholder expressed concern on how a qualified statement of compliance would fit in within the overall assurance framework.

Objective of the Management Commentary (Q3 of the ED)

Main positions in EFRAG's draft comment letter

18 In its draft comment letter, EFRAG supported the proposed objective for the management commentary in the ED as it better emphasised the link between value creation and information reported in the entity's financial statements and better distinguished the role of the management commentary from the role of the financial statement.

Comment letter received

19 Most respondents supported the proposed role of the management commentary and the reference to value creation.

20 Two respondents suggested to clarify the reference to 'enterprise value' and the relationship with value creation:

a) One respondent commented that the ED has a narrow interpretation of 'enterprise value' in Chapter 3, which is at odds with the Integrated Reporting concept of value creation, and it has ignored the inter-dependencies of value creation for other parties. The concepts of 'enterprise value' had no unique and commonly accepted definition. They recommended that due to its importance for this project and the ISSB's work, a clear commonly accepted definition should be developed by the ISSB in consultation with regulators and standard-setters. Aligned with the Integrated Reporting Framework, this respondent therefore encouraged the IASB to explicitly acknowledge that management commentary can 'benefit all stakeholders interested in an organisation's ability to create value over time, including employees, customers, supplier, business partners, local communities, legislators, regulators and policy-makers.

b) Another respondent suggested a better explain the circular nature of an entity's impacts and dependencies to help preparers in making materiality judgement.

21 One respondent favoured reporting to a broader range of stakeholders. However, the respondent supported the intended objective in the ED as a steppingstone into that vision.

Feedback from other outreach activities

22 An EFRAG working group member commented that there is a missed opportunity for the IASB to address the information needs of a broader set of stakeholders than only investors and creditors.

23 Members of the consulted working groups were generally supportive of introducing a reference to value creation in the definition of the role of the management commentary.

24 One member stated that the reference to enterprise value creation could be replaced with the notion of 'investor materiality.' However, it was noted that there was a wide range of primary users of MCs (Management Commentary) with different information needs. It was also noted that the Corporate Sustainability Reporting Directive (CSRD) and the future European Sustainability Reporting Standards (ESRS) will broaden the range of stakeholders and double materiality will be considered.

25 One participant in an outreach event stated that the management commentary should not function as a repository of information (e.g., metrics) that is only shown for investors and creditors but not used by the management in its daily activities. In the participant's view the content of the management commentary should reflect how the management steers the company.

Objectives-based approach (Q4-Q5 of the ED)

Main positions in EFRAG's draft comment letter

26 In its draft comment letter, EFRAG supported the objectives-based approach combining overall and specific disclosure objectives complemented with non-binding examples of items of information.

27 However, EFRAG observed that the proposals in the ED introduced additional complexity by distinguishing three types of objectives (i.e., headline, assessment and specific objectives) and by asking preparers to assess whether the information they provide provides a sufficient basis for users to make their assessments. It will be particularly challenging for smaller entities to have to make such an assessment.

Comment letter received

28 Similar to EFRAG, respondents supported objectives-based guidance and did not generally object to the headline and specific objectives proposed.

29 Two respondents agreed with EFRAG that the proposed three-tier objectives (i.e., adding an assessment objective) may be too burdensome and noted the inconsistencies with the proposals in the ED Disclosure Requirements in IFRS Standards. They considered it to be particularly challenging to require reporting entities to assess whether the information intended to be provided can sufficiently meet the information needs of investors or other users. In these respondents' view, the specific and headline objective are sufficient, especially the headline objective could help to require the entity to address the missing elements of the business story. They recommended eliminating the assessment objectives and aligning the approach and wording with the Disclosure Initiative ED.

30 However, one respondent suggested that the IASB should consider performing field tests on its proposals to gain a better understanding of their effects. The respondent was not able to conclude on the enforceability of the requirements proposed in the ED at this early project stage.

31 One respondent also expressed concerns about the bottom-up approach outlined in paragraph 4.4 of the ED (whereby an entity first identifies the information to meet the specific objectives, then assessing if by meeting each of the specific objectives the entity also provides a sufficient basis for the assessment objectives and the

headline objectives; and identify additional information to provide at each step) as it introduces a high level of complexity by requiring the management to make high level judgements about the user's information needs.

32 Two respondents, while supporting the objective-based approach, considered that the length and complex structure of the guidance made it challenging to apply and enforce. They suggested a more concise document with a simpler structure to ensure operationality that include presenting guiding principles or attributes of useful information first, grouping requirements for each area of content together with examples of material information for easier reference. Reference was made to the Integrated Reporting Framework, which sets out the overarching fundamental concepts first and then a presentation/reporting contents section.

33 One respondent commented that the project was in an early phase and that the IASB should further observe whether or not consistency between the Disclosure Pilot project approach and the management commentary project would be required.

34 Another respondent stated that, in some cases, the assessment objectives for the area of content would seem to duplicate assessment objectives for other areas. For example, 'drivers of the entity's financial performance and financial position' would seem to overlap with objectives in relation to the external environment.

35 One respondent did not address the matter.

Feedback from other outreach activities

36 Six of the consulted EFRAG working group members considered that the suggested objective-based approach would be operational from a preparer's perspective, and that it would improve the quality of information of the management commentary from the perspective of investors and creditors. One working group member disagreed, and one member had no opinion.

37 Several members of the consulted EFRAG working groups expressed concerns about introducing a third type of objective ('assessment objectives') and the lack of alignment with the approach in the Disclosure Initiative project. Some members agreed with EFRAG's concerns on the increased complexity and cost for preparers caused They also noted that specific objectives should be granular enough to be operationalised. Some other members suggested that it should be explored whether similar principles to the ones used in the Disclosure Initiative project could be used and that the two projects should learn from each other and potentially be aligned in terms of objectives.

38 User members generally considered that the designed objectives-based approach was promising and would result in useful information. However, there was a risk that entities may consider that meeting the specific disclosure objectives is enough to also meet the overall and assessment objectives.

39 Conversely, a few members disagreed with EFRAG's view and found the concept of 'assessment objectives' to be attractive as it describes why information is useful to users. However, one of them did not find the distinction between assessment objectives and specific objectives of the 'Relationships and Resources' content area (respectively paragraph 7.5 and 7.6 of the ED) to be clear.

40 One participant in an outreach event stated that the assessment step is too burdensome for a practical application. The dividing line between the three layers is too thin to add value (as it is overlapping). The participant suggested the IASB should reconsider the proposal to add the assessment objective as a second of three layers.

41 One participant in an outreach event stated that the enforcement of high-level objectives is difficult for non-financial reports, and the assessment objective might

help to get a clearer understanding of what information to provide (especially in the non-financial area), so the participant supported the assessment objective.

Definition of terms used

42 This section does not refer to a specific question in the ED but to issues raised in EFRAG's DCL.

Main positions in EFRAG's draft comment letter

43 EFRAG welcomed the inclusion of a glossary in Appendix A but noted that some important concepts used in the guidance are not explicitly defined (strategy, risks, resources and relationships, resilience…). EFRAG recommended that the IASB expands the definitions contained in Appendix A to address the above items.

Comment letter received

44 As noted in paragraph **Error! Reference source not found.**; two respondents suggested to clarify the meaning of 'enterprise value' and 'value creation'.

45 One respondent agreed to the statement made by EFRAG that the terms "risk" and "opportunity" should be defined to create clarity in the context of the management commentary. The respondent referred to the definition used in the local standards for management commentary as potential future developments or events that could lead to a deviation (negative of positive, for risks and opportunities, respectively) from the group's forecasts or objectives.

46 Two respondents proposed to prevent inconsistency in terminology like 'value creation' and 'enterprise value,' but to adopt the same term consistently throughout, and to define this term in the practice statement consistently with the definition in the ISSB standards. The respondent also suggested to explicitly define the term 'management' in the practice statement.

47 Another respondent commented on the use of a different wording by including the word material in the context of error and that it would not be helpful as the notion of material error is not defined.

48 One respondent recommended that a clear definition of stewardship in the ED, e.g., in appendix A 'Defined terms,' would be useful.

49 Three respondents did not address the matter.

Feedback from other outreach activities

50 One consulted EFRAG working group member stated that the use of terminology in the ED should be consistent with mandatory standards. In that regard it was noted that the term 'key' is in use in some IFRSs (e.g., key personnel, key areas of uncertainties) but not necessarily with the same meaning as the definition in the ED.

51 Another consulted EFRAG working group member suggested to include a definition of managements in list of terms, separately from "those charged with governance."

Areas of content (Q6 of the ED)

Main positions in EFRAG's draft comment letter

52 In its draft comment letter, EFRAG considered that all six contents elements identified in the ED are important. The guidance on the content elements could enhance current management commentary information as they address areas that can enhance useful information for investors (business model, resources and relationships, risks); and incorporate progress within the content elements such that reporting can reflect a dynamic view of these elements (e.g., business model).

53 However, EFRAG suggested that:

a) Governance matters be addressed by the ED across the six content elements.

b) The discussion on opportunities should be given equal prominence to risks and combining the discussion on risks and opportunities would bring greater clarity to the proposed guidance as these two aspects are interrelated.

c) Off-balance sheet commitments be addressed as a supplementary area of contents.

Comment letter received

54 Similar to EFRAG, respondents generally considered that the proposed areas of content were important. They had differing views on the prominence and completeness of these areas of content as highlighted below.

Overall view on areas of content

55 One respondent stated that, similar to the Integrated Reporting Framework, the ED should include an element on 'outcomes,' to explain how an entity impacts on resources and relationships to help users understand the entity's ability to enhance enterprise value over time. The respondent also suggested adding "outcome" to the wording in Figure 1 of the ED additional to financial performance and financial position to have a broader perspective. The respondent also suggested to

(a) Match the areas 'business model' and 'strategy' with the 'strategy' core element of TCFD (Task Force on Climate-related Financial Disclosures);

(b) Match the area 'risks' with the 'risk management' core element of TCFD; and to

(c) Match the areas 'factors and trends in the external environment' and 'the entity's financial performance and financial position' with the 'metrics and targets' core element of the TCFD.

56 One respondent supported a greater alignment with the TCFD, as it could improve the interoperability of the Practice Statement and facilitate global uptake as many jurisdictions have already mandated TCFD. The Climate related Disclosures Prototype developed by the Technical Readiness Working Group to provide recommendations to the ISSB also builds on the TCFD recommendations. This approach is also supported by the G7. The respondent suggested the IASB to reconsider these six areas in the context of the future work of the ISSB as well as the potential for the principles of the Practice Statement to become a basis for the framework for connected reporting. This would improve the interoperability of the Practice Statement.

57 Another respondent considered that the presentation of the six content elements with equal emphasis placed on each was not helpful for users. In the view of this respondent, what they described as a 'vertical approach,' whereby the discussion on financial performance and position would be the central focus of the guidance would be preferable with all the other content elements being addressed to the extent that they can explain the financial performance and position and the drivers of value creation. It was noted that, for instance, not all information about the business model or governance were relevant to explain the performance or position of a company. The respondent also shared EFRAG's view that the management commentary focuses too much on the description of the content elements rather than on the usefulness of the information to assess the prospects of an entity to generate value and future cash-flow.

58 One respondent suggested the IASB to consider removing 'financial performance and position' and 'resources and relationships' from the areas of content, and adding 'governance,' 'stakeholder relationships' and 'basis of preparation' as areas of content.

Resources and relationships

59 One respondent agreed with the reference to relationships with suppliers and the proposed guidance the respondent noted that relationships with suppliers can be distinguished from other resources and relationships and forms a typical issue of intangible resources. However, the respondent considered it unclear as to which other types of relationships are addressed by the content element and suggested that this is further clarified.

Governance

60 Furthermore, one respondent noted that the ED does not address governance in the same detail as the (other) areas of content. Three respondents were of the opinion that governance should be considered as an additional area of content, which would also be the case in the local jurisdiction of one of the respondents (governance as a separate section in the management report). The respondent also emphasized that the objective of management commentary would also include reporting on management's stewardship of the entity's resources (para. 3.3 of the ED), which will not be completed without reporting on governance that is also deemed relevant for investors (as indicated by empirical evidence). Moreover, the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) contain corresponding disclosures on governance, so it is expected that governance topics will be taken up in this context by the International Sustainability Standards Board (ISSB).

61 One respondent noted that there was a need for equal reporting on governance on ESG matters as for general governance matters. Potential future changes to business model(s) of the entity might be triggered by changes in governance/regulatory environment in which the entity is operating. Hence, including the description of the governance matters would provide for a better understanding of the entity's business model(s) and its operations and provide insight into future possible changes.

Risks and opportunities

62 One respondent stated that the area of content "risk" is focused on risk while opportunities are dealt with rather marginally. The respondent expressed the view and proposed the IASB to consider that risks and opportunities shall be treated in an equal manner to avoid a biased focus on risks that results in an incomplete depiction of the factors that could affect the entity's ability to create value and generate cash flows in the future.

63 Another respondent stated that they would prefer to discuss the opportunities in the strategy area of content highlighting whether the risk is actively pursued and how it is pursued. However, several risks do not only have a downside but also an upside potential. The respondent suggested that for such risks the accompanying opportunities could be reflected in the risk area of content.

64 One respondent welcomed the clarification in paragraph 8.9 of the ED on the inclusion of risk information regardless of whether the risk is a key risk or material when it is disclosed as required by local laws or regulations. However, the respondent believes that the clause should be also refer to all areas of content.

Intangibles

65 One respondent noted with regard to the EFRAG comment on intangibles not addressed as a separate content element, that in their view reporting on intangibles should not be defined from the sole perspective of the revised Practice Statement, but from an integrated view on intangibles in management commentary, financial statements, and sustainability reports. The respondent also expressed the view that subjects such as purpose, code of conduct, behavioural aspects and other soft controls could receive more prominent attention in the areas of content.

66 One respondent did not address the matter.

Feedback from other outreach activities

67 One consulted EFRAG working group member concurred with EFRAG that governance is an important matter that should be addressed in the guidance. Some members supported EFRAG's suggestion that Governance should be addressed across the six proposed content elements. However, one member noted that a Management Commentary has a different objective than a governance report and not all information about governance would be useful for users' decision-making. Some specific requirements about governance disclosures are down to local regulators.

68 Addressing governance across the content elements was supported by several consulted EFRAG working group members. One respondent opined that, although it seemed appealing, addressing governance across the six areas of content rather that in a general section could increase complexity in practice. Another participant stated that introducing governance and giving additional guidance in this regard may be useful and may also lead to more comparable information between entities. Also, one participant noted introducing governance as a separate content element of management commentary would complete the framework of management commentary and allow investors and creditors to understand how governance supports the entity's ability to create value and generate cash flows in long term.

69 Consulted EFRAG working group member generally concurred that information about governance was important and should be addressed. One member suggested a definition that distinguishes management from "those charged with governance".

70 Some consulted EFRAG working group member added that having homogenous information on risks would be very important in the insurance sector and the member concurred with EFRAG's view that risks can be both positive and negative rather than referred to only negatively in terms of 'disruption' (to the business model, strategy …) as proposed in the ED. Risks could also be defined as uncertainties in outcome (e.g., guaranteed return on insurance contract). Giving more prominence to opportunities was also supported by four respondents while three preferred the ED's approach (i.e., addressing opportunities as a subset of strategy) and one did not express a view. One participant supporting the suggestion stated that events could either represent a positive or negative outcome, so those should be discussed in combination.

71 User members commented that:

(a) Corporate governance is an important matter that should be addressed in the Practice Statement, but there were mixed views as to whether it should be a separate content element or addressed across the six proposed content elements (as suggested in EFRAG's DCL).

(b) Off balance sheet items could be added as an additional content element, but the user members had mixed views on this suggestion. One member considered that such information would be included if it were material and if not, such disclosure is not needed.

(c) Information on opportunities did not need to be further emphasised (two members commented).

72 Providing information on climate risks and how these affect the Business Model is important, in particular in the EU (European Union) context (CSRD, SFDR etc.).

73 Addressing off-balance commitments as an additional content element was supported by several consulted EFRAG working group member while a few opposed the suggestion noting that off-balance sheet commitments should be

addressed as part of the 'financial performance and position' area of content. Another respondent stated that such information would already be presented in other areas if those would be material. One respondent did not address the question.

74 One member was wondering about the relationship between risk reporting under IFRS (e.g., detailed under IFRS 7) and the risk reporting in the management commentary. The participant suggested that the ED should further explain the relationship also with regard to the different level of detail.

75 Consulted EFRAG working group member did not generally identity additional content elements, except for already mentioned by EFRAG in the draft comment letter.

Key matters and Materiality (Q7, Q10 and Q13 of the ED)

Main positions in EFRAG's draft comment letter

76 EFRAG expressed concerns about the introduction of the concept of 'key matters,' it's interaction with materiality and the risk of possible confusion with the concept of key audit matters.

77 EFRAG considered that it was not the role of a practice statement to provide a definition of materiality (based on the definition IFRS Conceptual Framework but using different terms).

78 Lastly, EFRAG welcomed the provision of practical guidance and examples to help entities make materiality judgements in the context of the management commentary but recommended that the IASB further considers how its proposed application guidance on Materiality in the ED interacts with the guidance provided in the Materiality Practice Statement. Comment letter received

Comment letter received

Key matters

79 Respondents generally agreed with the IASB's proposal to link the content of management commentary to issues that are important and to further operationalise those issues.

80 Similar to EFRAG, two respondents expressed concerns with introducing of the notion "key matters" and questioned its interaction with the assessment of relevance and materiality on information about key matters. One respondent stated that it would be helpful if the guidance on the interaction between these concepts were pulled together in the document to help preparers understand how to apply this in practice. They noted that it was unclear whether the linkage of management commentary's content to key matters is intended to form an upstream condition of the relevance/materiality criterion. While not objecting with the notion of "key matter":

81 One respondent stated key matters should not be an 'upstream condition' of materiality as some material information could be filtered out and missed. The respondent proposed the IASB to make a clear statement that the notion of "key matter" is not an additional materiality condition. Furthermore, two respondents agreed with EFRAG that the statement in the ED that "materiality is an attribute of information, not an attribute of matters" is neither convincing nor helpful for preparer in this regard.

82 One respondent stated that the examples of key matters are too generic and based on a too narrow interpretation of the disclosure objectives to be useful to preparers. There was also no reference to natural capital in the examples of key matters provided.

83 Two of the respondents suggested to refer solely (or alternatively) to 'material information' as it used to be the case for the financial statements. Specifically, one respondent emphasised that the paragraph 3.17 of the ED states that "material information is included in management commentary even if it does not relate to a key matter." This could also prevent further confusion on why some information is disclosed or not as well as to prevent confusion regarding the preparer's process of determining what to disclose. One respondent recommended allowing the management of the reporting entity to determine what kind of information is "fundamental to the entity's ability to create value and generate cash flows," which would be in line with the management's perspective (3.18 (a) - (c) of the ED).

84 One respondent agreed with focusing disclosure on key matters but those should encompass factors explaining current performance not just future value creation.

85 One respondent replied that although the notion "key" is used in the IFRS literature (e.g., key management personnel in IAS 24 Related Party Disclosures), it would be rarely used and then it would be explicitly defined. However, the ED does not contain such a definition, which in our view is necessary. The respondent suggested the IASB to explain the link between "key matter" and "key audit matters" to prevent further confusion as a result of terminology.

86 One respondent did not address the matter.

Materiality

87 Respondents generally agreed with the clarifications in the ED concerning materiality judgments to be taken by an entity's management in identifying the information to be provided in management commentary.

88 One respondent agreed with EFRAG that materiality application deserves further guidance, as it is not done in isolation and often combined with materiality considerations used in financial statements.

89 Three respondents stated that a reference to the IASB's discussions in the Conceptual Framework and the IFRS Practice Statement 2" as a conceptual basis for this part of PS 1 would be helpful. Two respondents also suggested to consider interaction with materiality considerations for ISSB's standards when developing the final version of the Practice Statement.

90 However, one respondent suggested that the IASB should keep in mind consistency in terms of terminology and definitions, so a discussion on relevance should has taken place prior to elaborating on materiality since relevance is understood as a feature superior to materiality.

91 Regarding the disclosure of material information, a respondent also noted that peer-comparisons with regard to finding additional information that could be material would be quite common in practice and helpful for preparers. But the respondent had concerns on the wording of the provision as it could be understood as a requirement rather than a recommendation. The respondent would oppose such a requirement as it puts an undue burden on the entities.

92 Moreover, one respondent stated that it might be helpful for the IASB to further clarify that following the double materiality concept in the management commentary is not contradicting the IASB's investor perspective. This would underline the IASB's openness for an idea of connectivity between the global framework for management reporting and those advanced legislative proposals for sustainability reporting discussed intensively at EU (European Union) level.

93 Another respondent had also specific comments on

(a) Contradictions between para 6.8 (c) of the ED (access to, and the quality of, resources and relationships) and paragraph 6.6 (e) of the ED (focuses on financial resources) which would prevent a consistent application. It was also stated that investors require information about **all** (not just financial) key resources and relationships that are needed to implement an entity's strategy.

(b) Additional to the identified exclusive supplier relationships and non-substitutable resources (paragraph 7.9 (b)), it seems important to highlight that key resources and relationships also comprise those which are necessary for an entity's continuous operation – for example, a pipeline of appropriately-trained employees. There should also be an illustration to further specify how the information might be presented in detail (paragraph 7.10 of the ED). In addition to quantities of resources, the quality and affordability of resources should also be taken into account (e.g., quality of water when producing beverages and the amount of money that the entity would have to pay to obtain water at the level of quality required).

(c) To illustrate paragraph 9.10 of the ED (Collective discussion of information about interrelated factors or trends), the IASB should add examples to make this requirement applicable.

94 One respondent did not address the matter.

Feedback from other outreach activities

Key matters

95 Some of the consulted EFRAG working group members generally shared EFRAG's concerns about introducing the terms 'key matters' and using the undefined term 'fundamental. Some agreed that the term 'key' should be avoided because it would be too similar to key audit matters which might create confusion. Some other noted that the term key is already used in some standards but not the term 'fundamental.' Using both the terms 'key' and 'material' could create confusion as the former could be understood as a sort of 'filter' taking precedence over materiality. One member noted that examples of key matters were useful although differing terminology and concepts could create confusion for preparers.

96 Several consulted EFRAG working group member concurred with EFRAG that the concept of key matter could create confusion and all respondents stated that further guidance on the interaction with materiality concept would be needed. One participant noted that the combination of three layers of disclosure objectives, key matters, materiality, and qualitative characteristics results in too many layers/filters of deciding what information should be included in management commentary.

97 An academic member noted that key could undermine the materiality concept and the notion of materiality should suffice to determine what to include in management commentary. Two respondents did not support EFRAG's view, and one respondent had no opinion on this matter.

98 Some user members stated that materiality assessments are essential but complex and challenging in the context of the Management Commentary. One user member also stated that it is expected that in general Key Audit Matters discussed with the Audit Committees should be a part of the Key Matters reported on in the Management Commentary.

99 One user member suggested a focus on the needs of the targeted audience for the Management Commentary (i.e., investors) as a guiding principle. The member additionally stated that the reference to enterprise value creation could be replaced with the notion of 'investor materiality.' However, it was noted that there was a wide range of primary users of MCs with different information needs. It was also noted that the CSRD and the future European Sustainability Reporting Standards (ESRS) will broaden the range of stakeholders and double materiality will be considered.

100 One participant from an outreach event commented that the reference in ED 12.6 and 12.5 ("*Narrative reporting requirements or guidelines published by, for example,*

an industry body or an organisation with an interest in sustainability reporting could help management identify information…") depicts an additional burden for the preparer and will increase the efforts needed for ambitious companies to fully comply with the management commentary. The entity should focus on information it has set up itself and having a second step to compare it with information published by others would cause too much work.

101 Some members of the consulted EFRAG working groups shared EFRAG's concerns about introducing the terms 'key matters' and using the undefined term 'fundamental.'

102 Some audit firm stakeholders expressed the need for greater clarity on the interaction between key matters and materiality.

Materiality

103 One outreach event participant noted that guidance on materiality is especially useful, but that it would be unclear whether the guidance matches with the materiality of financial statements. The participant pointed out that there must be a clear link between material information in the management commentary and material information in the financial statements. Another participant in the event opined that there should be more guidance on materiality for long-term matters as it may be quite helpful to avoid boilerplate disclosures.

Long-term prospect, Intangibles and ESG matters (Q8 of the ED)

Main positions in EFRAG's draft comment letter

104 In its draft comment letter, EFRAG:

(a) welcomed the provision of additional guidance to help entities provide information on matters that affects their long-term perspective and in particular on intangibles and ESG matters.

(b) considered that the proposed guidance and examples on Intangibles did not emphasise enough their unique roles in value creation and suggested d that the guidance is therefore expanded and that cross-references are made to the illustrative examples contained in Appendix B.

(c) suggested that the guidance addresses the feedback loop of resources and relationships impacts that are financially material. EFRAG also considered that the guidance on ESG impacts could be strengthened in particular regarding the feedback loop of resources and relationships impacts that are financially material.

105 suggested additional illustrative examples on intangibles and ESG matters.

Comment letter received

106 Respondents generally welcomed the greater focus on long-term projects including intangibles and ESG.

107 However, similar to EFRAG, two participants noted that these topics should be given more emphasis in the ED from a conceptual point of view. It was noted that the conceptual basis following the headline "*Information about long-term prospects, intangible resources and relationships and ESG matters*" (paragraphs. 4.16 and 4.17 of the ED) was not developed enough and the content was scattered across the document. It was suggested that the IASB could better structure these issues and address them in a much more focused and conceptually sound manner.

108 Another respondent suggested that that there should be an opportunity to report about intangibles in a separate section. This respondent also noted that the ED included references to provide information across all time horizons including in the long term," but there was diversity in practice in the meaning of short, medium, and

long term. To be helpful, forward-looking information should be accompanied by clear information about the time span in years or months considered.

109 Another respondent recommended to analyse whether more comprehensive information about intangible resources is better placed and disclosed in the notes to financial statements and then cross-referenced in the management commentary.

110 One respondent recommended to clarify that the ‘intangible’ element in the Practice Statement is broader than the intangible assets recognised in the financial statements. Therefore, the following disclosures should be included:

(a) sustainability factors that the entity does not control but impacts with its operations and depends on (e.g., climate, water, ecosystems, communities), and

(b) internally generated intangibles that are not recognised in the financial statements (e.g., brands, client, and supplier relationships).

(3) Moreover, the respondent also suggested to better explain and address the concept of circularity by including a requirement to describe how an entity’s impacts on sustainability factors affect its ability to create value and generate cash flows.

111 Another respondent stated that that the requirements and guidance set out in Appendix B would not provide a suitable basis for management to identify material information, because the positioning of requirements and guidance in an appendix would imply that it is of lesser importance than the content of the main chapters. The respondent recommended the board to include examples in the main body of the practice statement. The respondent also emphasised that examples were needed to demonstrate the interdependencies between an entity’s environmental and social impact and the availability, affordability and quality of key resources and relationships, and the connections between the considerations for short, medium, and long-term timeframes, indicating that Integrated Reporting Framework and the UK Financial Reporting Council’s Guidance on the Strategic Report would provide valuable examples.

Feedback from other outreach activities

112 Several members of the consulted EFRAG working groups assessed that the ED provided sufficient and appropriate guidance to help companies identify material information about their long-term prospects, intangible resources and relationships, and ESG matters. Conversely, four members did not agree, one member considered that given the activity of the ISSB on sustainability reporting, there was no point for the Management Commentary in anticipating reporting requirements on sustainability that may pre-empt or contradict the guidance in the future standards.

113 One member noted that although ESG information had always been part of the disclosures in the Management Commentary, it was noted that the role of the Management Commentary might evolve in the future (with the future work of the ISSB and the requirements of the CSRD) towards greater consideration of ESG matters and there were positive developments to expect in that respect.

Interconnectivity between financial and sustainability reporting (Q9 of the ED)

114 In its draft comment letter, EFRAG noted that the project to revise the Practice Statement was started before the consultation and decision of the IFRS Foundation to create a sustainability board and suggested that the future International Sustainability Standards Board considers how the sustainability reporting objectives interact with the objectives and contents of this guidance.

115 EFRAG also noted that some of the guidance proposed in the ED (such as the guidance on the qualitative characteristics that useful sustainability information must

possess or the definition of materiality for sustainability information…) belonged to standard setting more than to a non-binding document such as a practice statement.

116 EFRAG's DCL suggested that consideration should be given by the IASB to the activity of the then forthcoming ISSB when it discusses the feedback received on the ED and the possible ways forward.

Comment letter received

117 Several respondents noted the interactions between the proposals in the ED and the work of the ISSB.

118 Some suggested that, the significant interactions between this Practice Statement and the standards that the ISSB will produce, the IASB should pause the project to revise the Practice Statement until there is sufficient clarity on the International Standard- Setting Board's work on sustainability reporting including the location of the information to be provided under the standards. Some suggested that Management Commentary should be managed as a joint project (or in close coordination) by the IASB and ISSB going forward.

119 One respondent noted that the revision should be a joint ISSB-IASB project (or in close cooperation) as there was a need for a global interconnected standard setting approach for corporate reporting including the development of a framework for connecting reporting' to underpin financial and sustainability reporting standard setting which could be built from the Practice Statement.

Feedback from other outreach activities

120 Some members of the consulted EFRAG working groups commented that there was a missed opportunity for the IASB to address the information needs of a broader set of stakeholders than only investors and creditors.

121 Several audit firm stakeholders suggested that the management commentary project should be jointly addressed by the IASB and ISSB.

Qualitative attributes of information (Q11 of the ED)

Main positions in EFRAG's draft comment letter

122 In its DCL, EFRAG generally agreed that qualitative attributes of information are useful but suggest that, rather than using alternative terms, the ED explains how the existing fundamental and enhancing characteristics in the Conceptual Framework apply in the context of the management commentary.

123 EFRAG supported the requirement for information in management commentary to be presented 'as a well-integrated, coherent whole' and that this coherence principle applies both within the sections of the management commentary but also with the information presented in the financial statements.

124 EFRAG expressed concerned by the requirements in the ED that management commentary shall be provided 'in a way that enhances comparability' and that management should consider 'information they know entities with similar activities commonly provide to users.

Comment letter received

125 Respondent generally did not take issue with the proposed attributes but considered like EFRAG that using a different terminology would create confusion. They suggested consistency in language.

126 Most respondents supported the introduction of the 'coherence principle and the guidance on including information by way of cross-references to enable connectivity and avoid duplications.

127 However, two respondents considered that coherence should apply only to information within the Management Commentary and between management commentary and the financial statements but not beyond that to other reports. Another respondent held an opposite view and considered that the coherence principle should be more broadly defined and suggested to consider the Integrating Reporting connectivity principles.

128 One respondent suggested to replace the reference to ‘materiality’ with ‘relevance’ and ‘accuracy’ with ‘free from errors.

Feedback from other outreach activities

129 Consulted members of EFRAG working groups did not provide detailed input on the qualitative attributes proposed in the ED.

130 Some members noted that using different terminology for the same concepts was not helpful. Some user members also noted the importance of comparability of information in particular as regards metrics (see below).

Metrics (Q12 of the ED)

Main positions in EFRAG’s draft comment letter

131 In its draft comment letter, EFRAG supported the approach proposed in this ED that non-financial information is included in the entity’s management commentary to explain the entity’s financial performance and financial position.

132 However, EFRAG recommended that the IASB should focus the scope of non-financial information and non-financial metrics presented in management commentary to those that are needed to explain the entity’s financial performance and financial position.

Comment letter received

133 Respondents generally supported the proposed guidance provided in the ED.

134 One respondent agreed to the qualitative characteristics set out in the ED for metrics and that those are widely appropriate. Unlike EFRAG, the respondent strongly supports the broad scope of “metrics” as defined in para 14.1 of the ED. The reasoning is based on the discussion around Primary Financial Statements project that revealed the widely shared concern on the too narrow scope of the term “key performance indicator.”

135 Two respondents did not agree with the IASB’s views set out in paragraph 14.10 of the ED with regard to the qualitative characteristic of “comparability” as applied to metrics reported by other entities. It seemed neither practicable nor conceptually appropriate to define a requirement in this respect.

a) This might force an entity’s management to monitor both the terminology and methods used for metrics by other entities regularly, which seems impossible in most cases or places an undue burden and a higher cost hurdle to the management. and would be made more difficult by the fact that comparable entities are not subject to the same reporting standards as the reporting entity.

b) This would not fully adhere to the principle that the Management Commentary provides Management’s views as it seems to introduce a condition that management may only present its own metrics without additional explanations if a sufficient number of other companies present the same metric and calculate it using the same methods.

c) The notion of “commonly used” metrics seems hardly feasible to operationalise as there is no mutual understanding of what “commonly used” means. One respondent also stated that it is not the primary task of reporting entities to identify the metrics that are the right and proper ones from the market perspective at large.

136 One respondent noted that the IASB should include a recommendation or advice rather than a requirement to explain differences between the method used to calculate the metrics. Another respondent suggested to omit the paragraph 14.10 of the ED.

137 One respondent recommended reconsidering the reference in paragraph 14.15 (a) of the ED to "any publicly available communication" and to limit its scope to forecasts or targets provided in the management commentary or the related financial statements. In this respect the respondent also recommended clarifying the meaning of the references to "previous expectations" in paragraph 10.5 (b) of the ED and "forecasts or targets previously published" in paragraph 10.6 (c) of the ED.

138 Another respondent expressed the view that the requirement in paragraph 14.15 to compare current period performance against previously published forecasts or targets will be particularly helpful in rendering reporting against targets more reliable and consistent, but in the light of the existing concerns further guidance may be needed to encourage entities to publish forecasts and targets.

139 One respondent held the view that – contrary to the view in EFRAG's DCL - that non-financial, information and metrics in the management commentary should not be limited 'to those that are needed to explain the entity's financial performance and financial position' as this would not fully satisfy all objectives. To meet the second objective of the management commentary (provide insight into factors that could affect the entity's ability to create value and generate cash flows across all time horizons), also other metrics should be presented, for example metrics about company's greenhouse gas emissions.

140 One respondent expressed the view that metrics (on financial and non-financial aspects) would be useful if the metrics is related to explain the financial performance. The respondent noted that metrics must be defined and the relation to the financial statements explained.

141 One respondent recommended that entities should be required to explicitly disclose how they define medium- or long-term from their entity-specific perspective.

Feedback from other outreach activities

142 Similar to EFRAG, several members of the consulted EFRAG working groups considered that the guidance on metrics was useful. Three respondents did not agree that the guidance would be useful. Five respondents supported EFRAG's suggestion that the guidance on non-financial information and non-financial metrics should be on those metrics that are needed to explain the company's performance and financial position. Two respondents however disagreed and considered that this would result in addressing the metrics that are relevant only for one of the six areas of content or that the open guidance would allow the preparer to "cherry pick" certain metrics. One respondent had no opinion.

143 One of the consulted EFRAG working group members commented that non-GAAP measures could be better addressed as they are especially important in some industries (e.g., insurance sector). Having similar or same types of metrics or KPIs (Key Performance Indicator) would support comparability.

144 One user member highlighted that, in their view, comparability and consistency with previous periods and across entities would be paramount. Only providing metrics for the current period would not be helpful for users.

145 The suggestion made by EFRAG to focus information on metrics that help understand financial performance and position attracted mixed comments from the user respondents.

146 Some user members agreed with EFRAG's suggestion.

147 One user member, while agreeing, suggested the need for clarification on if reference was being made to current or future financial performance and position.

148 One user member could not identify any situation where the non-financial performance information would not ultimately affect financial performance in the future.

149 One member suggested including 'within the context of its industry' in the examples regarding the scale of a company's operations.

150 One user member highlighted that the ability to compare metrics across periods and industries would be paramount. Only providing metrics for the current period would not be helpful for users.

Other matters (effect analysis and transition) (Q14 and Q15 of the ED)

Main positions in EFRAG's draft comment letter

Effect analysis

151 In its letter, EFRAG considered that the effects of the proposals in the ED are difficult to assess on an 'ex-ante' basis as such impacts would depend on the extent to which local lawmakers, regulators and standard setters incorporate the revised Practice Statements into their local requirements.

152 EFRAG encouraged the IASB to further research the extent to which the revised Practice Statement is used or referred to across the different jurisdictions. And to field-testing to further understand the expected impact of the proposals in the ED, their applicability, enforceability.

153 Lastly, EFRAG encourages the IASB to integrate electronic reporting into the ED's proposals for reporting management commentary information and further consider how the current IFRS taxonomy could be enhanced to address the changes introduced by the proposals in the ED as highlighted in the Basis for Conclusions. It was noted that the more detailed requirements in the revised Practice Statement offers an opportunity for the IASB to provide more specific IFRS Taxonomy elements for management commentary across the six content elements and their respective objectives. The incorporation of text block tagging may facilitate textual analysis of management commentary information and make it easier for users to identify and analyse similarities and differences between entities and across different periods.

Transition requirements

154 In its letter EFRAG assessed that:

(a) the proposal to set the effective date of the revised Practice Statement for annual periods on or after its date of issue (with early application allowed) is appropriate.

(b) However, transitional provisions would be helpful to clarify the need to provide comparative information upon the period of transition.

Comment letter received

Effect analysis

155 One respondent encouraged the IASB to field test its proposals.

156 Most respondents did not address the question on effect analysis but noted that the Practice Statement was not applied or not widely applied in their jurisdictions as local and European regulations governed the content of the Management Commentary.

157 These respondents did not identify legal or regulatory obstacles that would make it difficult for entities to apply the guidance in the ED.

Transition requirements

158 Three respondents took no issue with the proposed requirements but suggested transition requirements. However, one of these respondents subjected its support on its understanding that no comparative information would be required upon transition date.

159 One respondent suggested that the IASB does not finalise the ED but rather use the feedback gathered as input into the next strep of the project which should be developed in collaboration with the ISSB.

160 One respondent considered that the transition requirements were not an issue insofar as the guidance in the ED is non-binding.

Feedback from other outreach activities

161 Some members noted the need to allow sufficient time for preparers to apply the new requirements.

162 No specific feedback was provided on digital reporting.

Appendix 1 – List of Respondents

Respondent	Type	Country/ Region
GDV	Professional Organisation	Germany
CNC	Standard Setter	Portugal
DASB	Standard Setter	The Netherlands
Accountancy Europe	Accounting Organisation	Europe
EFFAS	User Organisation	Europe
ASCG	Standard Setter	Germany
ACCA	Accounting Organisation	Global