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Submitted via website

Brussels, 15 November 2021

**Subject: Exposure Draft: Management Commentary Accountancy Europe comment letter**

Dear Mr. Barckow,

Dear Mr. Gauzès,

We are pleased to respond to the International Accounting Standards Board's (IASB or the Board) Exposure Draft: Management Commentary (ED) and the European Financial Reporting Advisory Group (EFRAG)'s Draft Comment Letter (DCL) thereon.

Accountancy Europe acknowledges that the ED contributes to the advancement of corporate reporting. However, we note that the proposals in the ED were finalised before the decision to establish an International Sustainability Standards Board (ISSB) was made. Following the announcement to set up an ISSB, we suggest reconsidering the proposals in this ED as a joint effort between the IASB and ISSB, given the role of the management commentary (MC) may evolve and some of the proposals may feed into the ISSB's standards. Nonetheless, we see merit in analysing the feedback to the ED with the view to it making a helpful input into the next phase of work.

Accountancy Europe provides feedback to this ED in view of our ongoing contribution to the future of corporate reporting and in the context of the new ISSB announcement, as referenced above. As set out in our Cogito Paper 2019 *Interconnected standard setting for corporate reporting*[1] we strongly believe that there is a need for a global approach for interconnected standard setting for corporate reporting. This would include a 'framework for connected reporting' to underpin financial and

[1] Accountancy Europe (2019), *Interconnected standard setting for corporate reporting*, see: https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/

sustainability reporting standard setting which could be built from the Practice Statement 1 *Management Commentary* (Practice Statement) and International Integrated Reporting <IR> Framework principles. This prospect has become more feasible following the announcement of the commitment to merge with ISSB by the Value Reporting Foundation which includes the Integrated Reporting Framework and Integrated Thinking Principles.

In our vision for the future of corporate reporting, we continue to support global financial reporting standards (IFRS) as well as sustainability reporting standards. We recognise that focusing on investors, lenders and other creditors, is within the remit of the IASB and IFRS Foundation and consistent with the approach of the ISSB. Notwithstanding this, the enterprise value lens is already wide and covers impacts on broader stakeholders that may become dependencies to the entity in the short, medium and long term. As a result, the MC is likely to cover a significant portion of information needs of other stakeholders.

In Europe there is an ambition of reporting to a broader range of stakeholders under a double materiality perspective. We support this ambition and suggest that the Practice Statement (or any future framework and standards) is flexible enough to provide a base that can be topped up easily.

The 'enterprise value' approach adopted in the ED is a good steppingstone towards this ambition as it could result in reporting that could potentially cover a large part of the 'double materiality' approach as well as enabling other jurisdictions or initiatives to build on additional requirements to the Practice Statement.

Hereinafter we provide some main areas for the Board's consideration regarding the proposals in this ED, which we expand on in the Annexes to this letter.

**Clarifying what is meant by value creation and better articulating the circularity between impacts and dependencies**

We suggest the Board better defines and explains 'enterprise value' so it is clearer what the boundaries of enterprise value are. The Practice Statement could explain more clearly the relationship between enterprise value and value created for broader stakeholders to emphasise how the entity should consider its impact on broader stakeholders. In particular, the Board could better articulate the circular nature of an entity's impacts and dependencies to help preparers in making materiality judgements. These impacts on, for example, the environment or society, may become dependencies to the entity in the short, medium and long term, and thus affect the entity's ability to create value.

**Approach adopted in the ED: structure and content**

Accountancy Europe notes that the high-level nature of the proposals in the ED, including the three-tier objective-based approach to disclosures, content areas, examples of what might be material and key matters, is complicated to understand and apply.

We suggest the Board simplifies the approach and provides clearer fundamental concepts and requirements for preparers to produce comparable, consistent and reliable information, which can later be assured. The latter is increasingly important, particularly in the European Union where there is an ambition for mandatory assurance of sustainability reporting information.

In respect of content, we suggest the Board:

a) addresses governance as a separate area, drawing on the disclosures set out in the Task Force on Climate-Related Financial Disclosures (TCFD), and

b) broader outcomes (in addition to financial outcomes) need to be specified in these proposals to explain how an entity impacts on resources and relationships.

### Language and alignment

Accountancy Europe understands the Board's approach in simplifying language so the Practice Statement is easily understood by different stakeholders. However, we encourage consistency and broader alignment with existing initiatives such as:

- the TCFD, particularly in the areas of content
- the IASB's Exposure Draft: Disclosure Requirements in IFRS Standards—A Pilot Approach, for the objective-based disclosures approach
- the IFRS Conceptual Framework, for the labels and description of the quality of information.

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We kindly refer to Annex 1 and Annex 2 of this letter for our detailed responses.

Please do not hesitate to contact Jona Basha (jona@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,

Olivier Boutellis-Taft

Chief Executive

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Accountancy Europe unites 50 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

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## ANNEX 1: IASB ED – QUESTIONS FOR RESPONDENTS

We are pleased to provide below our detailed responses to the questions.

### PART A – GENERAL REQUIREMENTS

#### Question 1—The financial statements to which management commentary relates

*Paragraph 2.2 proposes that management commentary identify the financial statements to which it relates. That paragraph further proposes that, if the related financial statements are not prepared in accordance with IFRS Standards, the management commentary would disclose the basis on which the financial statements are prepared.*

*The Exposure Draft does not propose any restrictions on the basis of preparation of the related financial statements (for example, it does not propose a requirement that financial statements be prepared applying concepts similar to those underpinning IFRS Standards).*

*Paragraphs BC34–BC38 explain the Board's reasoning for these proposals.*

*(a) Do you agree that entities should be permitted to state compliance with the revised Practice Statement even if their financial statements are not prepared in accordance with IFRS Standards? Why or why not?*

*(b) Do you agree that no restrictions should be set on the basis of preparation of such financial statements? Why or why not? If you disagree, what restrictions do you suggest, and why?*

(1) Accountancy Europe welcomes this ED as it contributes to the current advancements of corporate reporting, including the recent announcement to establish an International Sustainability Standards Board (ISSB).[2] Even though the proposals in this ED were developed before the ISSB was established, there is merit in analysing feedback on these proposals with the view to it making a helpful input into the next phase of work. Although Management Commentary (MC) is the likely vehicle for reporting sustainability disclosures, we note that the role of the Practice Statement is likely to evolve and some of the current proposals in the ED would best fit in sustainability standards, whereas other of the proposals could form part of an overarching framework aimed at better addressing connectivity between the IASB and ISSB. We provide our comments in this context.

(2) Cogito Paper 2019 *Interconnected standard setting for corporate reporting*[3] outlined a vision of global corporate reporting which addresses both financial and sustainability reporting standard setting. In this vision, the financial reporting pillar remains unaltered with current global financial reporting standards (IFRS) developed by the IASB and in addition, there would be a sustainability reporting pillar that would develop sustainability reporting standards.

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[2] IFRS Foundation (2021), *IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements*, see: https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/

[3] Accountancy Europe (2019), *Interconnected standard setting for corporate reporting*, see: https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/

(3) We strongly believe that there is also a need for a ‘framework for connected reporting’ to underpin financial and sustainability reporting standard setting. It would ensure anchor points for connectivity in financial reporting standards and sustainability reporting standards. Such a framework could address materiality, connectivity, value creation, impact and dependencies, inputs and outcomes etc. The Practice Statement 1 Management Commentary (Practice Statement) and International Integrated Reporting <IR> Framework[4] principles could provide a suitable basis for the development of this framework. This prospect has become more feasible following the announcement of the commitment to merge with ISSB by the Value Reporting Foundation (VRF) which includes the Integrated Reporting Framework and Integrated Thinking Principles.

(4) The ED’s proposals provide many improvements on the 2010 Practice Statement, including increased focus on long-term prospects, value creation and connectivity with financial information. However, as mentioned above, in light of the establishment of the ISSB we suggest these proposals are reconsidered in a joint project of the IASB and ISSB to ensure connectivity in reporting.

(5) Even though the current 2010 Practice Statement is not mandated in the European Union (EU), we provide our feedback in view of our continuous contribution to the future of corporate reporting.

(6) We support the Board’s proposal to permit compliance with the Practice Statement for general purpose financial statements prepared under any financial reporting standards, rather than limiting it to the international financial reporting standards (IFRS), which is the case with the 2010 Practice Statement. Such a change may increase the uptake of the Practice Statement and may enable it to better contribute to improving the corporate reporting environment as it will not be dependent on the framework of the financial statements. This is consistent with the approach adopted in the International Integrated Reporting Framework.

(7) As a result, we do not believe that there should be any restrictions on the basis of preparation of the financial statements the MC relate to. As noted in paragraphs 1 – 3, we see the Practice Statement as an important component to building the ‘framework for connected reporting’, which could guide regional and international financial and sustainability reporting standard setters. It is important that the Practice Statement principles and guidance are independent from a financial reporting framework, so they can either be adopted or translated in various jurisdictions, including those which do not apply IFRS.

(8) We also suggest extending this flexibility to sustainability reporting standards and frameworks: there should not be restrictions on the basis of preparation of the sustainability reporting the MC relates to. As per paragraphs 1 – 3, we see a role for the Practice Statement in contributing to a framework for connected reporting. This framework should be able to be adopted in jurisdictions that apply any financial or sustainability reporting standards, be they IFRS, ISSB standards, or any other local/regional financial or sustainability reporting standards.

### Question 2—Statement of compliance

*(a) Paragraph 2.5 proposes that management commentary that complies with all of the requirements of the Practice Statement include an explicit and unqualified statement of compliance.*

*Paragraphs BC30–BC32 explain the Board’s reasoning for this proposal.*

[4] Value Reporting Foundation, *International <IR> Framework*, see: https://integratedreporting.org/resource/international-ir-framework/

*Do you agree? Why or why not?*

(b) *Paragraph 2.6 proposes that management commentary that complies with some, but not all, of the requirements of the Practice Statement may include a statement of compliance. However, that statement would be qualified, identifying the departures from the requirements of the Practice Statement and giving the reasons for those departures.*

*Paragraph BC33 explains the Board's reasoning for this proposal.*

*Do you agree? Why or why not?*

(9) Accountancy Europe does not support the proposal of a mandatory statement of compliance with the Practice Statement. The Practice Statement remains voluntary and making such a statement may increase costs for preparers, conflict with local regulations, may interfere with director's liabilities in different jurisdictions and may limit its uptake. It is more appropriate for local law makers to determine whether to mandate a statement of compliance, particularly given the evolving landscape in respect of sustainability reporting standards.

(10) We believe that the proposals in the ED are too high level to be operationalised, making a statement of compliance challenging for preparers. Preparers need to understand which requirements they need to meet to be able to assert compliance. To this end, we suggest amending the language in the ED so that there is a clear set of requirements underpinned by distinct principles and objectives. This would also be helpful from an assurance perspective.

(11) Nevertheless, we agree that it would be helpful if preparers disclosed whether they are following the Practice Statement, in providing information in its reports. Therefore, the Practice Statement could encourage, rather than require, a statement of compliance where an entity is referring to or applying the Practice Statement in its reports.

(12) In addition, we do not support a partial statement of compliance as it would be difficult to operationalise and would not result in more reliable information. A partial statement of compliance creates confusion, is very difficult to assure, and increases costs in understanding which elements of the report adhere to which parts of the Practice Statement, and for what reasons other parts are not complied with.

(13) Lastly, we suggest reconsidering using the labels 'qualified' and 'unqualified' for the statement of compliance to avoid confusion with the level of assurance provided. A 'comply or explain' terminology could be used to evidence whether the report fully complies with the Practice Statement, evidence any areas of non-compliance (if any) and explain the reason for diverging from the Practice Statement.

## Question 3—Objective of management commentary

*Paragraph 3.1 proposes that an entity's management commentary 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.*

*Paragraph 3.2 proposes that the information required by paragraph 3.1 be provided if it is material. Paragraph 3.2 states that, in the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of that management commentary and of the related financial statements.*

*Paragraphs 3.5–3.19 explain aspects of the objective, including the meaning of 'ability to create value'.*

*Paragraphs BC42–BC61 explain the Board's reasoning for these proposals.*

*Do you agree with the proposed objective of management commentary? Why or why not? If you disagree, what do you suggest instead, and why?*

(14) Accountancy Europe supports the ambition of reporting to a broader range of stakeholders as described in paragraphs 1 – 3. However, we support the intended objective in the ED as a steppingstone to that vision. On this basis, we suggest emphasizing in paragraph 3.1. of the ED that the primary purpose of the MC is as noted in item (b) of this paragraph, i.e., to provide *"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*". The Board could include item (a) as complementing this main objective.

(15) In the following paragraphs we provide suggestions on how to better clarify materiality, value creation, as well as users and stakeholders.

### Materiality approach

(16) We support the Practice Statement's enterprise value materiality approach: this would enable the MC to ensure connectivity between financial and sustainability reporting. However, we note that the ED creates confusion on the boundaries of enterprise value and as a result on what to consider when making such materiality judgements.

(17) We suggest the Practice Statement incorporates the enterprise value descriptions and visualisations as per the climate-related financial disclosure standard prototype[5] developed by CDP[6], CDSB[7], GRI[8], IIRC, SASB (the Five). The Practice Statement should explain more clearly the circularity between how an entity's activities impact (ESG) factors and how the entity's performance is dependent on those factors. This would help preparers in making the necessary materiality judgements for MC.

### Value creation

(18) Following our comments in paragraphs 16 – 17, we support the enterprise value approach to materiality taken in the ED. However, the current wording, including paragraphs 3.12 and 3.13 of the ED, creates confusion on whether value creation is constrained within the boundaries of the entity or addresses a company's impacts on other stakeholders, if these may eventually become dependencies for the company. The Practice Statement could also explain more clearly the relationship between enterprise value and value created for broader stakeholders. Given the reference to 'enterprise value creation' in paragraph 3.11 we believe it would be helpful to use this term throughout the Practice Statement so this is clearer.

(19) As a result, we also recommend the Board better articulates this circular nature of impacts and dependencies throughout the document as it is such an important concept.

(20) For example, the Board could redraft paragraph 3.13 more positively:

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[5] CDP, CDSB, GRI, IIRC, SASB, *Reporting on enterprise value Illustrated with a prototype climate-related financial disclosure standard*, see: https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Reporting-on-enterprise-value_climate-prototype_Dec20.pdf
[6] CDP, see: https://www.cdp.net/en
[7] Climate Disclosure Standards Board, see: https://www.cdsb.net/
[8] Global Reporting Initiative, see: https://www.globalreporting.org/

*"In this [draft] Practice Statement, 'value' refers to the value an entity creates for itself and hence for its investors and creditors. ~~The term does not refer to~~ <u>This includes</u> the value an entity's activities might create or erode for other parties – for example, customers, suppliers, employees or society in general <u>to the extent that</u> ~~However, management commentary includes material information about~~ the impacts of the entity's activities on other parties ~~if those impacts~~ could affect the entities' ability to create value for itself."*

(21) The <IR> Framework[9] provides useful guidance:

a. in paragraph 2.4 as "*value created, preserved or eroded by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs*", and

b. in paragraph 2.5 as "*[providers of capital are also interested in the value an organization creates for others when it affects the ability of the organization to create value for itself […]*", and lastly,

c. in paragraph 2.6 by recognising that "*the ability of an organization to create value for itself is linked to the value it creates for others*".

(22) This framework and 'integrated thinking' are key products of the VRF. Given the announcement of the commitment to merge with ISSB by the VRF the <IR> Framework terminology and fundamental concepts, particularly on value creation, could be more easily integrated in the Practice Statement.

**Users and broader stakeholders**

(23) We note that the ED identifies users as 'investors and creditors' and which are defined in Appendix A similarly to the term 'primary users of general purpose financial statements'.[10] We suggest the Practice Statement adopts the same terminology of '(primary) users' as defined and referred to in paragraph 1.2 of the IFRS Conceptual Framework. This would also align with the fact that other terms and definitions in the IFRS Conceptual Framework are carried forward in the ED, including quality of information.

(24) We understand that focusing on investors, lenders and other creditors, i.e., the (primary) users of financial statements is within the remit of the IASB and IFRS Foundation and consistent with the approach of the ISSB. Notwithstanding this, the enterprise value lens is already wide and covers impacts on broader stakeholders that may become dependencies to the entity in the short, medium and long term. As a result, the MC is likely to cover a significant portion of information needs of other stakeholders.

(25) For example, considering broader stakeholders is crucial in understanding how sustainability factors impact how an entity creates and preserves value. Therefore, we suggest the Board better recognises broader stakeholders in the proposals of the ED and clarifies how an entity should report on impacts on and outcomes for broader stakeholders that impact enterprise value.

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[9] The <IR> Framework defines 'value creation, preservation or erosion' as '*The process that results in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs*.'

[10] These include existing and potential investors, lenders and other creditors.

(26) This would create a link and allow jurisdictions such as the EU that will adopt a double materiality[11] perspective in developing sustainability reporting standards, to build upon the Practice Statement more easily (see paragraph 7).

## PART B AND APPENDIX B—AREAS OF CONTENT

### Question 4—Overall approach

*The Exposure Draft proposes an objectives-based approach that:*

*(a) specifies an objective for management commentary (see Chapter 3);*

*(b) specifies six areas of content for management commentary and, for each area of content, disclosure objectives that information provided in management commentary is required to meet (see Chapters 5–10);*

*(c) gives examples of information that management commentary might need to provide to meet the disclosure objectives (see Chapter 15); but*

*(d) does not provide a detailed and prescriptive list of information that management commentary must provide.*

*Paragraphs BC69–BC71 explain the Board's reasoning for proposing this approach.*

*Do you expect that the Board's proposed approach would be:*

*(a) capable of being operationalised—providing a suitable and sufficient basis for management to identify information that investors and creditors need; and*

*(b) enforceable—providing a suitable and sufficient basis for auditors and regulators to determine whether an entity has complied with the requirements of the Practice Statement?*

*If not, what approach do you suggest and why?*

(27) Accountancy Europe supports the overall objective of the MC as per paragraph 3.1 of the ED. However, we reiterate our comments on value creation as per paragraphs 18 – 22 above.

(28) We also appreciate the six areas of content provided in paragraph 4.1 of the ED and further elaborated on in Chapters 5 – 10 of the ED. We note some of this is consistent with the approach as adopted in the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) e.g., reflects the core pillars of strategy, risk management and metrics and targets.

(29) However, we would support greater alignment with the TCFD, as it could improve the operability of the Practice Statement and facilitate global uptake. Many jurisdictions (e.g., New Zealand[12], the United Kingdom[13], Hong Kong[14], Switzerland[15]) have already mandated TCFD. The Climate-

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[11] Please refer to paragraph 25 of the *Proposal for a Directive of the European Parliament and the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*, see: https://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:52021PC0189.

[12] News, *New Zealand first in the world to require climate risk reporting*, see: https://www.beehive.govt.nz/release/new-zealand-first-world-require-climate-risk-reporting

[13] News, *UK joint regulator and government TCFD Taskforce: Interim Report and Roadmap*, see: https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcfd-taskforce-interim-reportand-roadmap

[14] Securities and Futures Commission (2020), *Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers*, see: https://apps.sfc.hk/edistributionWeb/api/consultation/openFile?lang=EN&refNo=20CP5

[15] News, *Federal Council fleshes out proposals for sustainable Swiss financial centre*, see: https://www.admin.ch/gov/en/start/documentation/media-releases/media-releases-federal-council.msg-id81571.html

related Disclosures Prototype[16], 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.[17]

(30) We suggest the Board reconsider these six areas both in light 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 operability of the Practice Statement.

(31) To improve operability of the Practice Statement, the Board:

a. should include a separate content area on 'governance', drawing on the disclosures set out in TCFD. Governance is a key pillar within TCFD as it is crucial users understand how/if the board oversees aspects of enterprise value creation and consider all risks and opportunities that inform strategy and performance over time. This is touched on in places within the ED but given governance is central to all areas of content we believe it should be covered more comprehensively to demonstrate this.

b. should include an element on 'outcomes', similar to the <IR> Framework, to explain how an entity impacts on resources and relationships (or 'capitals' under the <IR> Framework) to help users understand the entity's ability to enhance enterprise value over time. In this spirit, we suggest rewording the box on the right side of the figure provided in paragraph 4.2. of the ED to read *"Outcomes, including the entity' s financial performance and position in the financial position"* so as to emphasise outcomes is broader than the financial outcomes in the current period financial statements.

c. could match the areas 'business model' and 'strategy' with the 'strategy' core element of TCFD

d. could match the area 'risks' with the 'risk management' core element of TCFD

e. could 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.

(32) We note that the high-level nature of the proposals in the ED, including the objective-based approach to disclosures, may challenge both operability and enforceability. The structure of the proposals is complicated to understand and apply, with elements such as six content areas, three levels of objectives, key matters, a chapter with examples that might be material and an appendix on long-term prospects, intangible resources and relationships and ESG matters.

(33) Therefore, we encourage simplification, for example following an approach similar to the <IR> Framework, which sets out the over-arching fundamental concepts first and then a presentation/reporting contents section. In our view, the fundamental concepts in the ED are not

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[16] Technical Readiness Working Group (2021), *Climate-related Disclosures Prototype, Developed by the Technical Readiness Working Group, chaired by the IFRS Foundation, to provide recommendations to the International Sustainability Standards Board for consideration*, see: https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf
[17] Euroactiv (2021), *G7 agree on 'historic steps' to make climate reporting mandatory*, see: https://www.euractiv.com/section/energy-environment/news/g7-agree-on-historic-steps-to-make-climate-reporting-mandatory/

clear and it would be beneficial to explain the relationship between enterprise value and value created for broader stakeholders (see our comments in paragraphs 16 – 22).

(34) It is important to provide clear requirements for preparers to produce comparable, consistent and reliable information, which can later be assured. In the EU, the European Commission's proposals for the Corporate Sustainability Reporting Directive (CSRD) include an ambition for mandatory assurance of sustainability reporting information. As a result, the IASB should consider developing proposals which enable consistent application, interpretation and enforcement, particularly if it is to be used as a basis for a connected framework to corporate reporting.

### Question 5—Design of disclosure objectives

*The proposed disclosure objectives for the areas of content comprise three components—a headline objective, assessment objectives and specific objectives. Paragraph 4.3 explains the role of each component. Paragraphs 4.4–4.5 set out a process for identifying the information needed to meet the disclosure objectives for the areas of content and to meet the objective of management commentary.*

*Paragraphs BC72–BC76 explain the Board's reasoning for these proposals.*

*(a) Do you agree with the proposed design of the disclosure objectives? Why or why not? If you disagree, what do you suggest instead, and why?*

*(b) Do you have general comments on the proposed disclosure objectives that are not covered in your answers to Question 6?*

(35) Accountancy Europe appreciates that these proposals were developed before the IFRS Foundation's ultimate decision on establishing an ISSB. As noted in paragraph 1, we note the role of the Practice Statement may evolve as some current content in the ED may be better covered in the sustainability standards and other content could form part of an overarching framework aimed at better addressing connectivity between commentary on enterprise value creation and the financial statements. However, we see merit in analysing the feedback to the ED with the view to it making a helpful input into the next phase of work. We provide the following comments as per the current proposals and state of play.

(36) Although we support an objective-based approach to disclosures, we believe a three-tier structure to disclosure requirements may be too burdensome. Corporate reporting beyond the financial statements is a journey, thus simplicity in the initial requirements is key to help preparers and other stakeholders.

(37) In addition, we note a mismatch between the proposals of this ED and IASB's Exposure Draft and comment letters: Disclosure Requirements in IFRS Standards—A Pilot Approach (Disclosure Requirements ED). Particularly:

a. this ED lists 3 disclosure objectives for each area of content (headline objective, assessment objectives, specific objectives), whereas the Disclosure Requirements ED focus on 2 disclosure objectives (overall objectives and specific objectives)

b. different terms are used to address the same disclosure objective: this ED labels the overall information needs of users as the 'headline objective' whereas the Disclosure Requirements ED labels them as the 'overall objective'

c. this ED addresses 'key matters' and 'metrics' to provide examples of disclosures, whereas the Disclosure Requirements ED use the term 'items of information' for the same objective

d. different wording is used for items of information that are not mandatory but may help achieve a (some) specific disclosure objective(s): this ED uses the wording '*could include*', whereas the Disclosure Requirements ED uses the wording '*while not mandatory, the following information may enable an entity to meet the disclosure objective*'.

(38) We suggest the Board adopts consistent approaches and terminology in its work to avoid confusion.

(39) Furthermore, although we support an objective-based disclosure approach, we note that the current proposals could lead to challenges in application, interpretation and enforcement. We believe the language in the ED should be amended to include a clear set of requirements underpinned by distinct principles and objectives so the information could be assured.

### Question 6—Disclosure objectives for the areas of content

*Chapters 5–10 propose disclosure objectives for six areas of content. Do you agree with the proposed disclosure objectives for information about:*

*(a) the entity's business model;*

*(b) management's strategy for sustaining and developing that business model;*

*(c) the entity's resources and relationships;*

*(d) risks to which the entity is exposed;*

*(e) the entity's external environment; and*

*(f) the entity's financial performance and financial position?*

*Why or why not? If you disagree, what do you suggest instead, and why?*

(40) Please refer to our comments in paragraph 27 – 33.

### Question 7—Key matters

*Paragraphs 4.7–4.14 explain proposed requirements for management commentary to focus on key matters. Those paragraphs also propose guidance on identifying key matters. Chapters 5–10 propose examples of key matters for each area of content and examples of metrics that management might use to monitor key matters and to measure progress in managing those matters.*

*Paragraphs BC77–BC79 explain the Board's reasoning for these proposals.*

*(a) Do you agree that the Practice Statement should require management commentary to focus on key matters? Why or why not? If you disagree, what do you suggest instead, and why?*

*(b) Do you expect that the proposed guidance on identifying key matters, including the examples of key matters, would provide a suitable and sufficient basis for management to identify the key matters on which management commentary should focus? If not, what alternative or additional guidance do you suggest?*

*(c) Do you have any other comments on the proposed guidance?*

(41) Accountancy Europe agrees that matters that are 'key' or material for the primary users to understand how an entity creates value should be included in the Practice Statement.

(42) Whilst we appreciate the proposed guidance, we suggest clarifying how materiality judgement, key matters and the three layers approach to disclosure objectives interact with one-another. As the proposals currently stand, it is not clear how to distinguish a key matter from other material matters. For example, paragraph 4.7 of the ED requires a focus on key matters yet paragraph 3.17 of the ED states that material information is included in MC even if it doesn't relate to a key matter.

(43) Paragraph BC78 in the Basis for Conclusions tries to clarify the interaction between materiality and 'key matters' in the ED by noting that 'material' is an attribute of information and not an attribute of matters. However, 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.

(44) An alternative approach to help simplify the structure of the Practice Statement, would be to remove the concept of 'key matters' and make clear that the information required is dependent on how material a matter is for the enterprise value creation process.

(45) We note that the terminology may create confusion with 'key audit matters' (KAM). Therefore, we suggest the IASB explains the link between key matters and KAMs as they may influence one another, e.g., a KAM may become a key matter and vice versa.

### Question 8—Long-term prospects, intangible resources and relationships and ESG matters

*Requirements and guidance proposed in this Exposure Draft would apply to reporting on matters that could affect the entity's long-term prospects, on intangible resources and relationships, and on environmental and social matters. Appendix B provides an overview of requirements and guidance that management is likely to need to consider in deciding what information it needs to provide about such matters. Appendix B also provides examples showing how management might consider the requirements and guidance in identifying which matters are key and which information is material in the fact patterns described.*

*Paragraphs BC82–BC84 explain the Board's reasoning for this approach.*

*(a) Do you expect that the requirements and guidance proposed in the Exposure Draft would provide a suitable and sufficient basis for management to identify material information that investors and creditors need about:*

*(i) matters that could affect the entity's long-term prospects;*

*(ii) intangible resources and relationships; and*

*(iii) environmental and social matters?*

*Why or why not? If you expect that the proposed requirements and guidance would not provide a suitable or sufficient basis for management to identify that information, what alternative or additional requirements or guidance do you suggest?*

*(b) Do you have any other comments on the proposed requirements and guidance that would apply to such matters?*

(46) We appreciate the guidance in the ED on reporting on long-term prospects, intangible resources and relationships and ESG matters. However, we suggest clarifying that the 'intangible' element in the Practice Statement is broader than the intangible assets recognised in the financial

statements. This would include expanding the provisions in Chapter 7 to include specific disclosures on:

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)

(47) Moreover, in line with our comments in paragraph 17, we suggest better addressing 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.

### Question 9—Interaction with the IFRS Foundation Trustees' project on sustainability reporting

*Paragraphs BC13–BC14 explain that the Trustees of the IFRS Foundation have published proposals to amend the Foundation's constitution to enable the Foundation to establish a new board for setting sustainability reporting standards. In the future, entities might be able to apply standards issued by that new board to help them identify some information about environmental and social matters that is needed to comply with the Practice Statement.*

*Are there any matters relating to the Trustees' plans that you think the Board should consider in finalising the Practice Statement?*

(48) As noted in paragraphs 1 – 3, we see the Practice Statement as providing a basis for the framework for connected reporting, which could be adopted in jurisdictions that apply any financial or sustainability reporting standards, be they IFRS, ISSB standards, or any other local/regional financial or sustainability reporting standards. This framework would provide a MC that sets the context for explaining performance in the period and describing enterprise value creation.

(49) To this end, we suggest the proposals are reconsidered by the IASB and the ISSB as a joint project to ensure connectivity. There are important elements in this ED that would provide useful input for the Practice Statement should it develop to become the 'framework for connected reporting' and other elements that may feed into the ISSB's standards.

## PART C—SELECTION AND PRESENTATION OF INFORMATION

### Question 10—Making materiality judgements

*Chapter 12 proposes guidance to help management identify material information.*

*Paragraphs BC103–BC113 explain the Board's reasoning in developing that proposed guidance.*

*Do you have any comments on the proposed guidance?*

(50) Accountancy Europe appreciates the guidance provided in Chapter 12 of the ED in making materiality judgements. However, we suggest also considering interactions with the *IFRS Practice Statement 2: Making Materiality Judgements*[18] as well as the materiality considerations for ISSB's standards when developing the final version of the Practice Statement.

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[18] IFRS Practice Statement 2: Making Materiality Judgements, see: https://www.ifrs.org/issued-standards/list-of-standards/materiality-practice-statement/

(51) We reiterate our comments on the materiality perspective to be applied in the Practice Statement, as per paragraphs 16 – 17.

(52) Paragraph 12.8 of the ED provides guidance on making materiality judgements for future events, thus already adopting a longer-term perspective to materiality. This indicates that the intention of the Board is to address dependencies as well, i.e., adopt an enterprise value materiality perspective. Therefore, we suggest the Practice Statement adopts the term 'enterprise value' to articulate more clearly that impacts that are relevant to enterprise value are material to the users of management commentary. The Board could bring forward the explanations in the Prototype Climate-related Financial Disclosures Standard which describes a 'nested' and 'dynamic' approach and illustrates how reporting on sustainability matters connects with financial information.

(53) On another note, we would have appreciated applying the aggregation and disaggregation principles as provided in IASB's Exposure Draft and comment letters: General Presentation and Disclosures (Primary Financial Statements),[19] which we supported in our response to this consultation.[20]

### Question 11— Completeness, balance, accuracy and other attributes

*(a) Chapter 13 proposes to require information in management commentary to be complete, balanced and accurate and discusses other attributes that can make that information more useful. Chapter 13 also proposes guidance to help management ensure that information in management commentary possesses the required attributes.*

*Paragraphs BC97–BC102 and BC114–BC116 explain the Board's reasoning for these proposals.*

*Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?*

*(b) Paragraphs 13.19–13.21 discuss inclusion of information in management commentary by cross-reference to information in other reports published by the entity.*

*Paragraphs BC117–BC124 explain the Board's reasoning for these proposals.*

*Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?*

(54) Accountancy Europe agrees with the characteristics of the quality of information to be included in Chapter 13 of the ED. Whilst we understand the IASB's reason for simplifying the language used in the *Conceptual Framework* in describing these items in the ED, we suggest fully aligning the language for items that refer to the same things.

(55) In addition, we welcome the cross-referencing provisions as per paragraphs 13.19 – 13.21 of the ED – this would avoid duplications and enable connectivity. However, we suggest discouraging cross-referencing information from outside the document in which the MC is contained.

[19] Exposure Draft and comment letters: General Presentation and Disclosures (Primary Financial Statements), see: https://www.ifrs.org/projects/work-plan/primary-financial-statements/ed-primary-financial-statements/

[20] Accountancy Europe (2020), *IASB's Exposure Draft – General Presentation and Disclosures (Primary Financial Statements) & EFRAG's draft comment letter*, see: https://www.accountancyeurope.eu/consultation-response/iasbs-exposure-draft-general-presentation-and-disclosures-primary-financial-statements-efrags-draft-comment-letter/

Question 12— Metrics

*Chapter 14 proposes requirements that would apply to metrics included in management commentary.*

*Paragraphs BC125–BC134 explain the Board's reasoning for these proposals.*

*Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?*

(56) Accountancy Europe agrees that the Practice Statement should not list out specific metrics as it is a high-level Practice Statement that may ultimately become the framework for connected reporting. Metrics could be prescribed in sustainability reporting standards instead.

Question 13—Examples of information that might be material

*Material information needed to meet the disclosure objectives set out in Chapters 5–10 will depend on the entity and its circumstances. Chapter 15 proposes examples of information that might be material.*

*Paragraphs BC80–BC81 explain the Board's reasoning for these proposals.*

*Do you expect that the proposed examples would help management to identify material information that management commentary might need to provide to meet disclosure objectives for information about:*

*(a) the entity's business model;*

*(b) management's strategy for sustaining and developing that business model;*

*(c) the entity's resources and relationships;*

*(d) risks to which the entity is exposed;*

*(e) the entity's external environment; and*

*(f) the entity's financial performance and financial position?*

*If not, what alternative or additional examples do you suggest? Do you have any other comments on the proposed examples?*

(57) Accountancy Europe appreciates that the ED provides examples on what information could help meet a particular disclosure objective for each area of disclosure. Such examples will help the entity apply the Practice Statement and identify the information needed to meet each disclosure objective.

(58) We also suggest providing examples on how to address ESG matters. For example, we would have appreciated examples on how climate change is both a risk and opportunity for the entity.

## OTHER COMMENTS

Question 14—Effective date

*Paragraph 1.6 proposes that the Practice Statement would supersede IFRS Practice Statement 1 Management Commentary (issued in 2010) for annual reporting periods beginning on or after the date of its issue. This means that the Practice Statement would be effective for annual reporting periods ending at least one year after the date of its issue.*

*Paragraphs BC135–BC137 explain the Board's reasoning for this proposal.*

*Do you agree with the proposed effective date? Why or why not? If not, what effective* *date do you suggest and why?*

(59) Following our comments in paragraphs 1, 4, 48 – 49, we suggest the IASB does not finalise the proposals as per this ED, but rather uses the feedback gathered in this project to provide useful input for the next phase of work. Given the role of the Practice Statement will likely evolve, it would need revising again, once the ISSB is in operation and publishing standards. Therefore, we suggest safeguarding IASB and ISSB resources and using the feedback to inform ISSB standards and the future Practice Statement as a framework for connected reporting.

### Question 15—Effects analysis

*(a) Paragraphs BC139–BC177 of the Basis for Conclusions accompanying the Exposure Draft analyse the expected effects of the proposals in this Exposure Draft.*

*Do you have any comments on that analysis?*

*(b) Paragraphs BC18–BC22 discuss the status of the Practice Statement. They note that it would be for local lawmakers and regulators to decide whether to require entities within their jurisdiction to comply with the Practice Statement.*

*Are you aware of any local legal or regulatory obstacles that would make it difficult for entities to comply with the Practice Statement?*

(60) Accountancy Europe does not see any local legal or regulatory obstacles that would make it difficult for entities to comply with the Practice Statement as it would be a voluntary framework. In addition, due to the Practice Statement being voluntary, it may duplicate or become redundant due to local requirements in different jurisdictions.

### Question 16—Other comments

*Do you have any other comments on the proposals set out in the Exposure Draft?*

(61) We suggest the IASB and ISSB work together to determine the future role of the Practice Statement as a basis for the framework for connected reporting. However, should the IASB decide to go ahead with the proposals as per this ED, we suggest that the IASB provides clearer guidance on how the many elements and concepts in the ED (e.g., areas of content, objectives, key matters, materiality) interact with each-other.

(62) In addition, we would welcome guidance on the process of preparing a report as per the Practice Statement. These would improve the navigability and facilitate the application of the Practice Statement.

## ANNEX 2: EFRAG DCL – QUESTIONS TO CONSTITUENTS

We are pleased to provide below our detailed responses to the questions.

Question (paragraph 17 of the DCL)

> *17. To what extent is the IFRS Practice Statement 1 Management Commentary used (including by influencing existing local regulations) or referred to by reporting entities in your jurisdiction? Are there specific requirements with the revised Practice Statement that would limit or prevent its use in your jurisdiction?*

(63) No comments provided.

Question (paragraph 71 of the DCL)

> *71. Do you agree or disagree with the guidance on Intangibles being incorporated across the six content elements? Please explain your view.*

(64) Accountancy Europe reiterates our comments on the need to improve the current state of play for intangibles, as noted in our response to the IASB's Request for Information: Third Agenda Consultation.[21] Both the IASB and ISSB should work to better address this topic. This may not necessarily be done in the Practice Statement, where the goal is to enable understanding value creation, but could be included in the standard setting agendas of each board.

Question (paragraph 87-88 of the DCL)

> *87. Do you have evidence of widespread use of the current Practice Statement on a voluntary basis in your jurisdiction? If so, could you indicate which types of entities?*
>
> *88. Have you identified any specific issues with the enforceability and auditability of the proposals in the ED?*

(65) We do not provide any comment on the use of the current Practice Statement.

(66) Regarding the enforceability and auditability of the proposals, please refer to our comments in paragraphs 28 – 33.

[21] Accountancy Europe (2021), *IASB's third agenda consultation, EFRAG's draft comment letter and own proactive research agenda consultation*, see: https://www.accountancyeurope.eu/consultation-response/iasbs-third-agenda-consultation-efrags-draft-comment-letter-and-own-proactive-research-agenda-consultation/