



**EFFAS**<sup>®</sup>

The European Federation  
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**Contact: Phillip Liriano**

**Re:** *Comments on EFRAG's Draft Comment  
Letter on the Management Commentary*

17<sup>th</sup> November 2021

Dear Jean Paul,

EFFAS' Commission on Financial Reporting ("Commission", "we") would like to share with you its views on the EFRAG's draft comment letter on the IASB's IFRS Practice Statement Exposure Draft ED/2021/6 Management Commentary (issued on 27 May 2021)

EFFAS continues to support EFRAG's high quality documents. Albeit we would like to underline the importance of preparing documents avoiding density and complexity while emphasizing clarity and direct terminology.

Following the revision and discussion of the Exposure Draft, the Commission would like to address the following points.

### **1.- Management commentary: objectives and the financial statements**

The Commission agrees with the IASB, paragraph 1.2, that the management commentary should complement the general purpose of the financial statements that are prepared in accordance with IFRS standards, or another basis. Material qualitative information is the complement needed to the quantitative information provided by the financial statements. To meet its objective, the management commentary provides material information about the factors affecting the entity's financial performance and financial position and its ability to create value and generate cash flows.

This information should support users understanding of the financial performance and financial position reported in the financial statements and provide additional information that could impinge in a company's ability to create value and generate future cash-flows.

The management commentary should primarily clarify an entity's financial performance and financial position related to the corresponding year's financial statements. We consider it is necessary that, as noted in paragraph 2.2 of the Exposure Draft, the management commentary identifies the financial statements to which it relates and clearly differentiate it from other information published by the company.



We think that to eliminate the current disparity of reports among entities, guidance should be provided on where to publish the management commentary. The current free-standing format approach makes it difficult for investors to identify the management commentary section.

## **2- Disclosures' objective: areas of content**

The Commission agrees with EFRAG that the six contents elements are important matters that an entity should include in the management commentary. Reporting on these matters should provide a comprehensive understanding of the financial performance and financial position of the company.

Hence, we consider that **the management commentary should be centered on commenting on the financial performance and financial position of an entity and its ability to create value and generate cash flow across all time horizons. This area of content, we think, is the most relevant and prominent area of the management commentary and should stand out over the rest.**

The management commentary should provide enough material information in the rest of the areas to assess how the entity's financial performance and financial position has been impacted and contribute to evaluate the prospect of the entity to create value and future cash flows.

We think that an adequate and consistent implementation of the company's business model, strategy, and considering the external environment -as noted in paragraph 4.1- should be commented to the extent that is relevant for a better understanding of the financial performance and financial position of the entity.

The Commission also shares 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 prospect of an entity to generate value and future cash-flow, as noted in paragraph 22 of EFRAG's DCL.

As paragraph 5 of the IASB document notes, (a) the areas of content are interrelated, and information provided to help meet the disclosures objectives for one area might also contribute to meet the disclosure objectives for other areas.

## **3.- Sustainability reporting and (ESG)**

Regarding sustainability issues (and ESG), the Commission considers that reporting on the different aspects of sustainability affecting an entity should be addressed in the forthcoming sustainable standards report. However, quantifiable aspects of sustainability



directly connected to the year's financial performance should be disclosed and explained in the management report of the year's financial statements.

#### 4.- Materiality, completeness, and accuracy

Materiality, completeness, and accuracy are key aspects of corporate reporting to influence investors decisions, and management judgment is the key for reporting material, accurate and complete information. The Commission agrees with EFRAG that materially application deserves further guidance. Materiality assessments for the management commentary, as EFRAG notes, is not done in isolation and often combined with those prepared for financial statements.

We agree that providing guidance will be helpful for entities in identifying material information, and we consider that information that is not overreaching and granular regarding a company's activities might be needed. For instance, over extended information, as depicted in paragraph 15.3 of the ED might not be necessarily material.

#### 5.- Risk and metrics

Certain metrics and KPIs related to the financial statements complement and provide additional information about the financial performance and financial position of an entity. Metrics must be defined and the relation to the financial statements explained.

The Commission agrees with EFRAG supporting that non-financial information is included in the entity's management commentary to explain the entity's financial performance and financial position. Also, it supports EFRAG's comment noting that non-financial metrics presented are limited to those that are needed to better explain the financial position of the entity.

If you would like to further discuss the views expressed in this letter, please do not hesitate to contact us.

Javier de Frutos, Chairman

On behalf of EFFAS Commission on Financial Reporting

*EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 15-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) Luca D'Onofrio (AIAF, Italy), Dr. Carsten Zielke (DVFA, Germany) and Andreas Schenone (SFAA, Switzerland).*