



Staff paper

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Note to readers:

This is the unaltered staff paper presented to the IASB in March 2024. After the publication of this paper, the ISSB decided in April 2024 not to prioritise a potential project on integration in reporting. As a result, of the alternatives for project direction discussed in paragraphs 31-46, alternative 3 (Undertake a broader project) is not viable in the short-term.

Introduction

1. In April 2022, the International Accounting Standards Board (IASB) finished discussing feedback on the Exposure Draft *Management Commentary*. The IASB noted strong support for the project, in particular from the investor community, and calls for the IASB to collaborate with the International Sustainability Standards Board (ISSB) in advancing the project¹. In the light of that feedback, the project has been on hold pending the issuance of the ISSB inaugural Sustainability Disclosure Standards and the determination of the ISSB's priorities for its next two-year workplan.
2. In May 2023, the ISSB published Request for Information *Consultation on Agenda Priorities* (Request for Information). The Request for Information included a question on the relative priority of a project on integration in reporting, including whether the

¹ See paragraphs 17–20 of the March 2023 IASB [Agenda Paper 15 Feedback summary—Overview](#).

project should be undertaken jointly with the IASB and build on the Exposure Draft *Management Commentary*, among other sources. The Request for Information also highlighted that connectivity with the IASB is a foundational activity which forms part of the ISSB's committed work and is at the core of the ISSB's other activities.² The comment period on the Request for Information closed in September 2023.

3. In December 2023 the IASB received an update on the Management Commentary project, in preparation for the inaugural joint meeting with the ISSB to discuss feedback on the Request for Information in relation to a project on integration in reporting project and in relation to connectivity.
4. In January 2024, the IASB and ISSB met to discuss feedback on an integration in reporting project and on connectivity in preparation for their respective decision-making, specifically:
 - (a) the ISSB deciding on the priorities for its next two-year workplan; and
 - (b) the IASB deciding on the direction of the Management Commentary project.
5. Subsequent to the IASB-ISSB joint meeting, the Integrated Reporting and Connectivity Council (IRCC) met to discuss feedback on an integration in reporting project and to provide advice to the IASB and ISSB in the light of the feedback received.
6. This paper presents an update to the December 2023 IASB [Agenda Paper 15 *Management Commentary—Project Update*](#) in the light of the feedback on the Request for Information and the subsequent advice from the IRCC. It provides an overview of alternative ways forward for the Management Commentary project.
7. The staff do not ask the IASB to make decisions at this meeting but invites IASB members' questions and comments on the discussion in this paper. The staff plan to ask the IASB to determine the direction for the Management Commentary project and

² See paragraphs 16–22 of the ISSB [Request for Information *Consultation on Agenda Priorities*](#).

to make decisions on the scope of the resulting work at a future meeting following the determination of the ISSB's priorities for its next two-year workplan.

Structure of this paper

8. The paper is structured as follows:
 - (a) background (paragraphs 9–30):
 - (i) the reasons for undertaking the project (paragraphs 9–12);
 - (ii) the IASB's proposals and feedback received (paragraphs 13–17);
 - (iii) feedback on the ISSB's Consultation on Agenda Priorities (paragraphs 18–27); and
 - (iv) the interaction between the Exposure Draft *Management Commentary* and the Integrated Reporting Framework (paragraphs 28–30); and
 - (b) alternatives for the direction of the project (paragraphs 31–46).

Background

The reasons for undertaking the project

9. Management commentary is a general purpose financial report that is required in many jurisdictions alongside an entity's financial statements and its sustainability-related information. Management commentary or a similar report often falls under the remit of local regulators. It is known under various names, including management's discussion and analysis, operating and financial review, or strategic report.³
10. IFRS Practice Statement 1 *Management Commentary* was issued in 2010. Since the Practice Statement was issued, many jurisdictions and organisations have published

³ As per paragraph 1.4 of the *Conceptual Framework for Financial Reporting*, the term 'management' refers to management and the governing board of an entity.

requirements and guidelines on narrative reporting. The information needs of primary users of general purpose financial reports have also evolved.

11. The IASB commenced the Management Commentary project following its research into narrative reporting. The research suggested that management commentaries do not always meet the information needs of primary users of general purpose financial reports. Identified shortcomings included:
- (a) lack of focus on matters important to the entity's prospects by failing to provide material information about such matters, or by obscuring such information with immaterial information about less important matters;
 - (b) too much generic information and not enough entity-specific information;
 - (c) focus on short-term matters and insufficient discussion of matters, such as systemic risks or strategic challenges, that could affect the entity's long-term prospects;
 - (d) insufficient information about matters that increasingly affect many entities' ability to create value and generate cash flows, such as intangible resources and relationships and environmental, social and governance matters;
 - (e) fragmented information or information that is difficult to reconcile to the entity's financial statements or to other reports the entity has published;
 - (f) information that is difficult to compare with information the entity provided in previous periods or with information provided by other entities with similar activities; and
 - (g) incomplete or unbalanced information—for example, lack of information that enables the primary users to understand the implications of matters discussed, or undue emphasis on positive aspects of the entity's performance.⁴
12. In developing its proposals, the IASB targeted the shortcomings in reporting practice and built on innovations in narrative reporting, including those introduced by national

⁴ See paragraph IN8 of the [Exposure Draft Management Commentary](#)

standard-setters, the Integrated Reporting Framework and the Recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures.

The IASB’s proposals and feedback received

13. The Exposure Draft *Management Commentary* was published in May 2021 and represented a major overhaul of the Management Commentary Practice Statement. The IASB proposed a comprehensive toolkit designed to promote an interconnected narrative in reporting and to enable entities to meet the information needs of the primary users. Key features of the IASB’s proposals included:
- (a) an objectives-based approach anchored into a two-fold objective of a management commentary—to enhance the primary users’ understanding of the related financial statements and to provide insights into the entity’s ability to create value and generate cash flows across all time horizons;
 - (b) a comprehensive set of disclosure objectives across areas of content in management commentary, supported by guidance and examples;
 - (c) a requirement to focus on key matters, accompanied by guidance on identifying those matters and examples across areas of content;
 - (d) guidance on making materiality judgements in the context of management commentary;
 - (e) requirements and guidance on coherent information both within a management commentary and across a management commentary and the related financial statements as well as other information provided by the entity, including a requirement to explain any apparent inconsistencies in that information;⁵
 - (f) requirements and guidance for metrics in management commentary; and
 - (g) requirements for a management commentary to provide management’s perspective and to be based on information used in managing the business.

⁵ See paragraphs 13.27–13.30 of the Exposure Draft *Management Commentary*

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14. The IASB designed its proposals to enable entities to apply the revised guidance:
 - (a) regardless of whether the related financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP; and
 - (b) alongside applicable international, jurisdictional or subject-matter requirements, such as IFRS Sustainability Disclosure Standards.
 15. The comment period on the Exposure Draft ended on 29 November 2021 and the IASB discussed feedback at its March and April 2022 meetings. Many respondents, including almost all investors commenting, expressed support for the project. In particular, almost all investors stressed the importance of high-quality management commentaries and agreed with the IASB's analysis of the shortcomings in practice.
 16. Most respondents, including almost all investors commenting, expressed broad support for the IASB proposals, with some respondents suggesting refinements and enhancements to various proposals, including a closer alignment with aspects of the Integrated Reporting Framework. Some respondents disagreed with the IASB's focus on the primary users of general purpose financial reports.
 17. Most respondents commented on the interaction between the Management Commentary project and the future work of the ISSB. Most of these respondents asked for connectivity between the boards and suggested that the project should be paused until the ISSB is operational and its remit is clear, there is more clarity on the relationship between the boards and their respective requirements, or until the ISSB progresses its work on its first standards. Many investors commenting suggested that the IASB and ISSB should work together on cross-cutting issues but emphasised that in addition to better information about sustainability-related matters, they seek improvements on other aspects of management commentary.

Feedback on the ISSB's Consultation on Agenda Priorities***Integration in reporting***

18. As noted in paragraph 2, the ISSB's Consultation on Agenda Priorities included a question on a potential project on integration in reporting. Specifically, the ISSB sought feedback on:
- (a) the relative priority of such a project compared to the three proposed sustainability-related projects;
 - (b) whether this project, if prioritised, should be undertaken as a formal joint project with the IASB or as an ISSB project which could still draw on the input from the IASB as needed; and
 - (c) whether the project, if pursued, should build on the concepts from the Exposure Draft *Management Commentary*, the Integrated Reporting Framework and other sources.
19. Respondents to the Request for Information stated various expectations about what a project on integration in reporting should entail, what the intended reporting outcomes should be, and how 'integration in reporting' relates to 'connectivity in reporting'. Their suggestions included:
- (a) integrating information in a single report;
 - (b) developing a 'framework' such as a 'conceptual framework' or a 'corporate reporting framework';
 - (c) supporting connectivity in reporting;
 - (d) promoting integrated reporting on the basis of the Integrated Reporting Framework;
 - (e) finalising the Management Commentary project;
 - (f) pursuing a phased approach to integration in reporting; and

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- (g) supporting integration in reporting as part of the ISSB’s foundational committed work.⁶
20. With respect to the priority of a potential project on integration in reporting relative to the three proposed sustainability-related projects:
- (a) approximately a quarter of the respondents ranked the project as a higher priority;
 - (b) approximately a quarter of the respondents indicated that integration in reporting is important but did not rank the project as a higher or lower priority; and
 - (c) approximately half of the respondents—including approximately two-thirds of investors commenting—ranked the project as a lower priority or did not comment on the project but asked the ISSB to focus on other projects and activities.
21. Almost all respondents commenting supported collaboration between the ISSB and IASB if the project is prioritised, with most of them advocating a formal joint project, and providing the rationale for their view. Almost all respondents commenting—with a few exceptions—suggested building on both the Exposure Draft *Management Commentary* and the Integrated Reporting Framework.
22. In discussing the feedback on integration in reporting, members of the IASB and the ISSB re-iterated their support for the continued use and adoption of the Integrated Reporting Framework regardless of whether a project on integration in reporting is prioritised.

⁶ See paragraphs 18–22 of the January 2024 IASB-ISSB Agenda Paper 2A [Feedback summary—A project on integration in reporting](#)

Connectivity

23. The Request for Information also explained that connectivity with the IASB is a foundational activity which forms part of the ISSB's committed work. Although the Request for Information did not include a question on connectivity, some respondents commented on the topic. They highlighted the importance of connectivity in providing decision-useful information and encouraged the boards to collaborate to achieve that.
24. As noted in paragraph 19, respondents also commented on connectivity in discussing integration in reporting and indicated a range of views on how 'integration in reporting' relates to 'connectivity in reporting'. Nonetheless, all these respondents indicated support for connectivity.

Advice from the Integrated Reporting and Connectivity Council

25. Following the joint IASB-ISSB meeting, the Integrated Reporting and Connectivity Council (IRCC) met in January 2024 to discuss feedback on the Request for Information and to provide advice to the boards in the light of that feedback.
26. IRCC members commented on various topics, including the need for a long-term vision on corporate reporting for the IFRS Foundation, the importance of Integrated Thinking, the need for guidance to support entities in providing connected information in their reports as well as guidance on the interaction between IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and integrated reporting.
27. IRCC members provided limited feedback on the Management Commentary project. Their suggestions included finalising the project, retiring the project, and developing a coordinated approach between the IASB and ISSB that builds on both the Management Commentary project and the Integrated Reporting Framework.⁷

⁷ The [recording](#) of the January 2024 meeting of the Integrated Reporting and Connectivity Council is available on the IFRS Foundation website. At the time of publishing this paper, the official meeting summary is not yet available.

The interaction between the Exposure Draft Management Commentary and the Integrated Reporting Framework

28. As noted in paragraph 12, in developing the Exposure Draft *Management Commentary*, the IASB built on innovations in narrative reporting, including the Integrated Reporting Framework, which became part of the materials of the IFRS Foundation in August 2022 following the merger of the IFRS Foundation with the Value Reporting Foundation.
29. In May 2023, the IASB discussed the joint staff analysis of the similarities and differences between the Exposure Draft *Management Commentary* and the Integrated Reporting Framework. The analysis was based on a paragraph-by-paragraph comparison of these documents and focused on the Integrated Reporting Framework as written, without considering adaptations made by entities in practice.⁸
30. The analysis highlighted—with a few exceptions, such as requirements on governance reporting or the use of terminology⁹—the alignment between and the complementary nature of the Exposure Draft *Management Commentary* and the Integrated Reporting Framework.

Alternatives for the direction of the project

31. Based on the developments to date discussed in the Background section of this paper, the staff identified four broad alternatives that the IASB could consider at a future meeting in determining the direction of the Management Commentary project. Alternatives 1–3 set out below relate to *what* the IASB could do next on the Management Commentary project. In contrast, Alternative 4 does not represent an

⁸ See May 2023 IASB [Agenda Paper 15A Education Session—Comparison between Management Commentary Exposure Draft and the Integrated Reporting Framework](#).

⁹ For example, the Integrated Reporting Framework uses the term ‘those charged with governance’ which may include executive management and the IASB’s Exposure Draft uses the term ‘management’ which according to paragraph 1.4 of the *Conceptual Framework* refers to management and the governing board of an entity. A narrower interpretation of the term ‘management’ could result in a substantive difference in the content of the reports.

- option for *what* the IASB could do. Instead, it relates to *when* the IASB could pursue Alternative 1, Alternative 2 or Alternative 3.
32. The full range of the alternatives that the IASB could consider includes:
- (a) **Alternative 1—Finalise the project.** This alternative represents a range of options whereby the IASB could decide to make targeted or more extended enhancements to its proposals in the light of the feedback on the Exposure Draft and subsequent developments in the reporting landscape (paragraphs 35–39).
 - (b) **Alternative 2—Retire the project.** This alternative would require the IASB to consider whether to rescind existing IFRS Practice Statement 1 *Management Commentary* issued in 2010 (paragraphs 40–41).
 - (c) **Alternative 3—Undertake a broader project.** This alternative would involve wrapping the work performed on the Management Commentary project to date into a new project such as a project on integration in reporting (paragraphs 42–44).
 - (d) **Alternative 4—Keep the project on hold.** This alternative does not represent an additional option for *what* the IASB could do on the Management Commentary project. Instead, it relates to *when* the IASB could pursue Alternative 1, Alternative 2 or Alternative 3 (paragraphs 45–46).
33. Both Alternative 1 and Alternative 2 are compatible with undertaking a broader new project in the future. Such an approach is similar to Alternative 3 except that the decision on the way forward for the existing Management Commentary project *at this time* is decoupled from any *future* decision to initiate a new project. A future project could still build on the resources of the IFRS Foundation, including on the outcome of the Management Commentary project and the Integrated Reporting Framework.
34. All alternatives are compatible with the IASB and ISSB working in a connected manner and advancing connectivity in reporting. As noted at the joint IASB-ISSB meeting, connectivity in an overarching consideration for both boards and will remain

the boards' focus irrespective of their respective future decisions on the Management Commentary project and the priorities for the ISSB's next two-year workplan. Collaboration between the boards could take various forms depending on the boards' priorities and capacity. For example:

- (a) the IASB could decide to finalise the Management Commentary project as an IASB-led project which could still draw on input from the ISSB as needed; or
- (b) the boards could decide to initiate a formal joint project either as part of the ISSB's next two-year workplan or in the future.

Alternative 1—Finalise the project

- 35. The IASB could consider finalising the project in the light of the broad support for its proposals from stakeholders, in particular from investors (see paragraphs 15–16). In making that decision, the IASB would need to assess the extent of any refinements or revisions to its proposals that may be appropriate in response to the feedback on the Exposure Draft and subsequent developments.
- 36. For example, the IASB could explore targeted enhancements to its proposals. These could include:
 - (a) clarifications of the proposals. For example, the IASB could consider reframing the proposed disclosure objectives or clarifying the interaction between the proposed requirements on key matters and material information.
 - (b) drafting enhancements to its proposals. For example, the IASB could consider aligning the terminology used in describing the concept of coherence with the terminology used in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and in the Integrated Reporting Framework.
 - (c) fine-tuning the proposals to reflect the developments since the Exposure Draft was published. For example, the IASB could consider explicitly referring to

both financial statements and sustainability-related financial disclosures instead of referring to ‘other information provided by an entity’.¹⁰

- (d) revising the title or the form of the intended output of the project. For example, the IASB could reconsider the use of the term ‘management’ or review whether a Practice Statement is the most appropriate form for the final document.

37. The IASB could also explore more extended enhancements to its proposals. These could include:

- (a) complementing the proposals with additional guidance building on IFRS S1 and the Integrated Reporting Framework. For example, the IASB could consider strengthening the link already established in the Exposure Draft between an entity’s ability to create value for itself and for its investors and creditors and the value the entity creates for other parties.¹¹
- (b) restructuring the proposals to facilitate understanding of their alignment with IFRS S1 and the Integrated Reporting Framework. For example, the IASB could consider whether to re-position the requirements and guidance on metrics as an area of content rather than a type of information provided in a management commentary.
- (c) developing additional requirements. For example, the IASB could consider explicitly addressing reporting on governance either as a distinct area of content or as a cross-cutting requirement for all areas of content.

38. The extent of refinements and revisions the IASB could consider in finalising the project forms a continuum. The staff plan to provide an analysis and recommendations for the scope of work for finalising the project at a future meeting when asking the IASB to determine the direction of the project.

¹⁰ As noted in paragraph 14, the IASB designed its proposals to enable application regardless of whether an entity’s related financial statements are prepared in accordance with IFRS Accounting Standards or other GAAP. The same principle could be extended to the basis of preparation of an entity’s sustainability-related financial disclosures.

¹¹ See paragraph 3.13 of the [Exposure Draft Management Commentary](#)

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39. Finalising the Management Commentary project could support connectivity in general purpose financial reports and facilitate the provision of better information for investment decisions. In finalising the project, the IASB could draw on input from the ISSB as needed without the project being a formal joint project. Furthermore, given both the alignment between and the complementary nature of the IASB's proposals on management commentary and the Integrated Reporting Framework (see paragraph 30), finalising the Management Commentary project could promote those shared concepts.

Alternative 2—Retire the project

40. The IASB could consider retiring the project if the IASB concludes that completing the project would not produce sufficient benefits for investors and other stakeholders. For example, that could be the case if:
- (a) the IASB determines that the shortcomings in narrative reporting practice that the IASB sought to address in commencing the project (see paragraph 11) have been or are being resolved in other ways, for example through the work of the ISSB; or
 - (b) the IASB anticipates that the revised guidance on management commentary would not sufficiently influence the reporting practice—for example, through incorporation into jurisdictional requirements or direct application by entities.
41. In making the decision to retire the project the IASB would need to consider:
- (a) whether and to what extent retiring the project at this stage of development would hinder the ability of regulators, entities and other stakeholders to build on and to benefit from the work performed on the project to date;
 - (b) whether to rescind IFRS Practice Statement 1 *Management Commentary* given the significant jurisdictional and other developments since it was issued in 2010;

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- (c) whether to take alternative actions to support coherence of information between an entity's management commentary and the related financial statements as well as other information provided by the entity—for example, as part of the Climate-related and Other Uncertainties in the Financial Statements project; and
 - (d) how retiring the project would be perceived by stakeholders and whether it could be seen as the IASB showing a lack of interest in playing a role in advancing narrative reporting.

Alternative 3—Undertake a broader project

- 42. The IASB could consider undertaking a broader project—such as a project on integration in reporting—together with the ISSB and building on the Exposure Draft *Management Commentary* and the Integrated Reporting Framework alongside other relevant sources if the ISSB decides to prioritise that work as part of its next two-year workplan.
- 43. However, this alternative would involve revising the objectives and broadening the scope of the existing Management Commentary project. Given the diverse feedback on the ISSB's Request for Information in relation to integration in reporting (see paragraph 19), the boards would need to establish a clear view on the objectives and scope of such a project. Furthermore, before committing to such a project, the IASB would need to consider seeking input from its stakeholders. As discussed in paragraph A51 of the Request for Information, the indicative size of a project on integration in reporting is large.
- 44. A project on integration in reporting does not necessarily have to be conducted as a joint project by both boards, as this is only one means of collaborating. Furthermore, it could also be approached in stages which was one of the suggestions made in response to the Request for Information (see paragraph 19). Collaboration between the boards on improving connectivity in general purpose financial reports, finalising the Management Commentary project and encouraging the continued use and adoption of

the Integrated Reporting Framework and the Integrated Thinking Principles could all represent practical near-term steps towards integration in reporting. That initial collaboration can lay the foundation for and be followed by a comprehensive integration in reporting project in a longer term.

Alternative 4—Keep the project on hold

45. The IASB could consider keeping the project on hold. That could be appropriate if the IASB concludes that it needs more information to make the decision on the direction of the project. For example, the IASB could decide to undertake further outreach to refresh feedback on the Exposure Draft *Management Commentary* before making the decision or even to defer the decision until the IASB considers feedback on its next Agenda Consultation.
46. In making the decision to keep the project on hold the IASB would need to be mindful that pausing the project for a sustained period could give rise to considerations similar to those discussed under Alternative 2—Retire the project (paragraph 41). For example, the IASB would need to consider how such an approach would be perceived by stakeholders and whether to rescind 2010 IFRS Practice Statement 1 *Management Commentary* while the Management Commentary project remains on hold.

Question for the IASB

Question for the IASB

Do IASB members have any comments or questions on the discussion in this paper?