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## Accounting Standards Advisory Forum meeting

Date	<b>December 2024</b>
Project	<b>Management Commentary</b>
Topic	<b>Targeted refinements</b>
Contacts	<b>Jaco Jordaan</b> ( <a href="mailto:jjordaan@ifrs.org">jjordaan@ifrs.org</a> ) <b>Yulia Feygina</b> ( <a href="mailto:yfeygina@ifrs.org">yfeygina@ifrs.org</a> ) <b>Matt Chapman</b> ( <a href="mailto:mchapman@ifrs.org">mchapman@ifrs.org</a> )

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## Purpose of this session and question for ASAF members

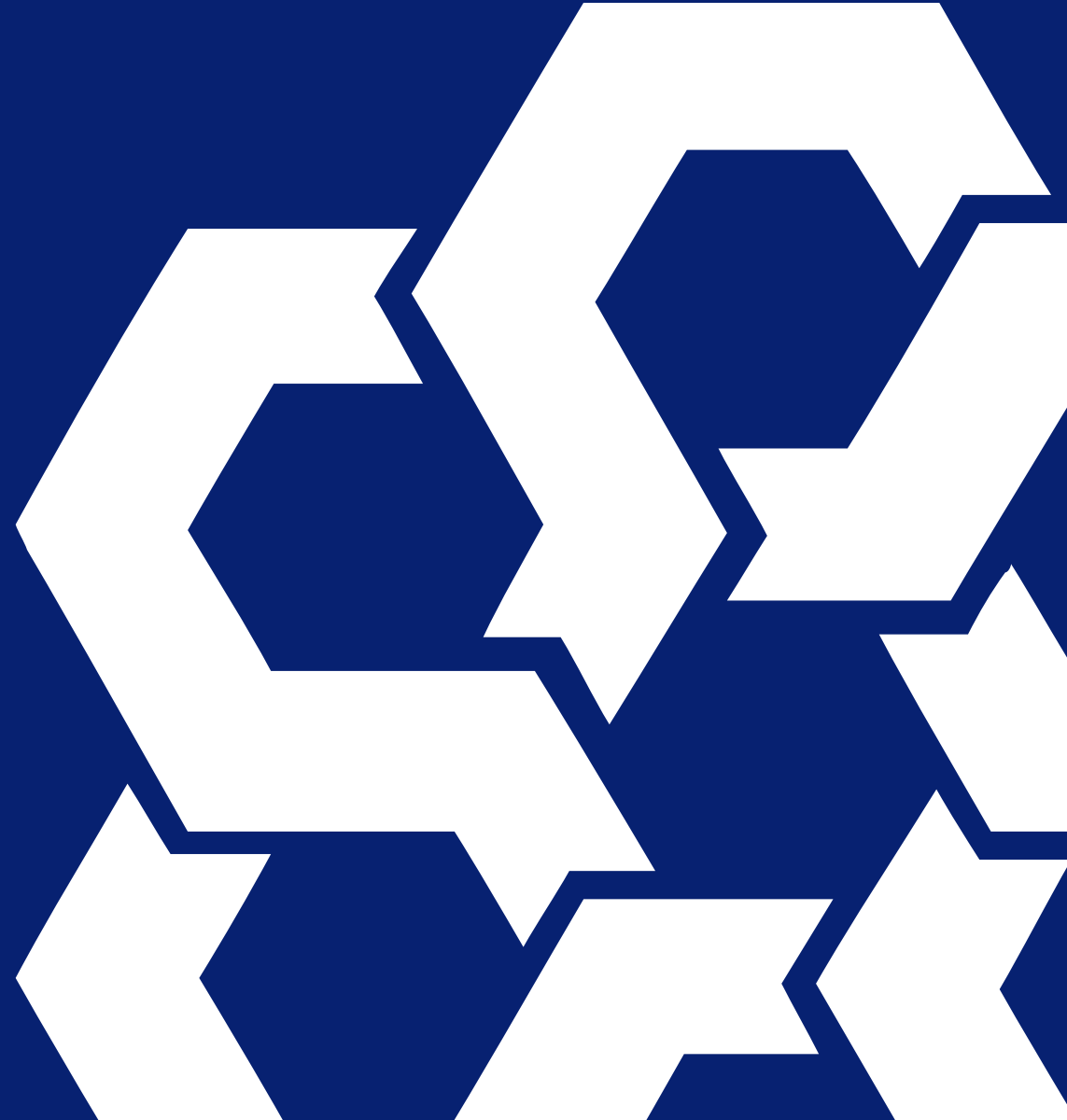
The purpose of this session is to provide an update on the IASB's tentative decisions in finalising the revised Management Commentary Practice Statement.

### Question for ASAF members

Do ASAF members have comments or questions on the IASB's tentative decisions and discussions on targeted refinements to proposals in the *Management Commentary* Exposure Draft (Exposure Draft), as outlined in slides 21-23?

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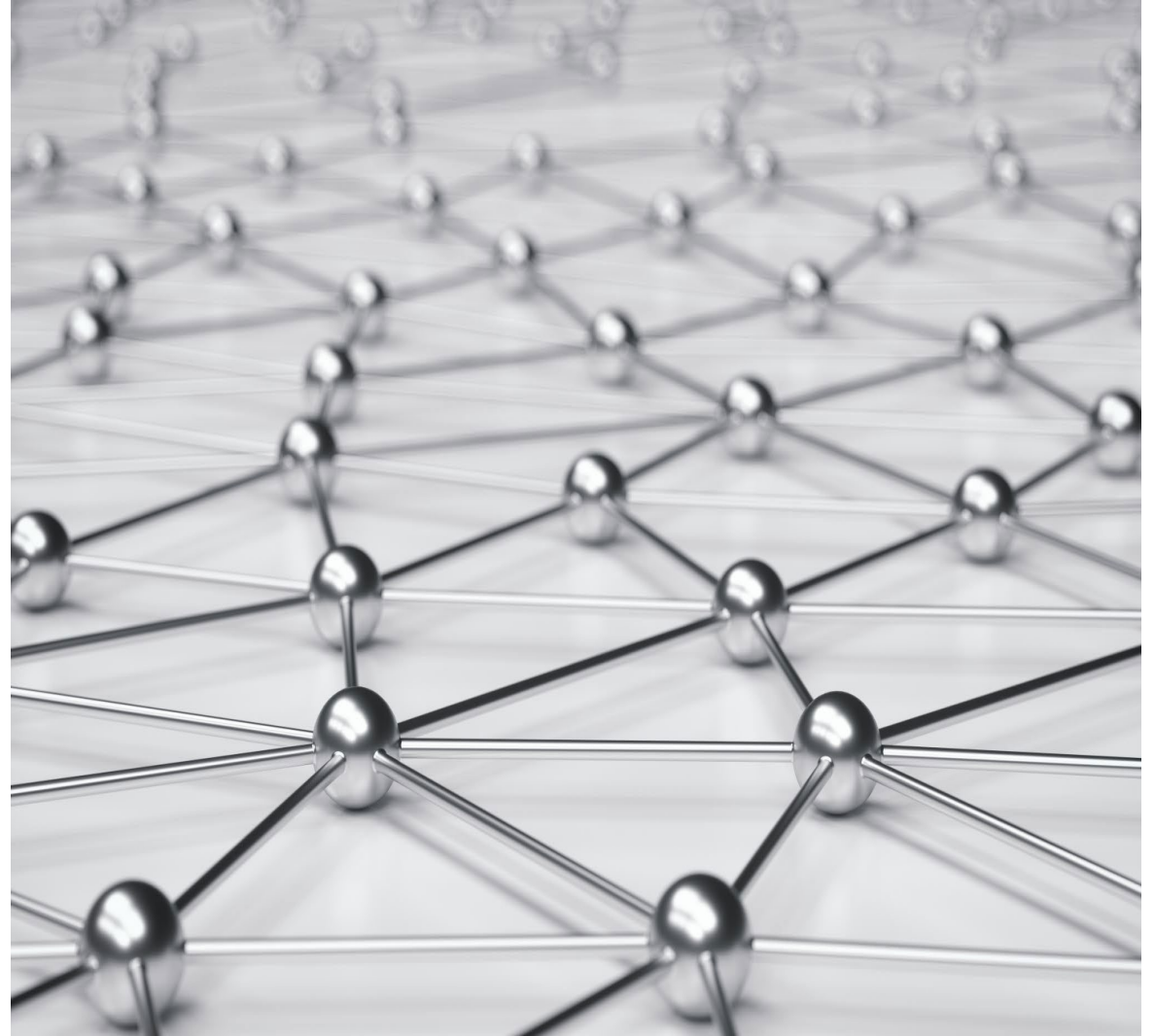
# Background to the Management Commentary project



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## What is management commentary?

- A narrative report required in many jurisdictions
- Part of general purpose financial reports
- Known under various names such as management report, strategic report, operating and financial review, MD&A
- Preparation is subject to local laws and regulations
- IFRS Practice Statement 1 *Management Commentary* dates back to 2011



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## What is the role of management commentary?

- Provides management's perspective
- Brings together information about financial, sustainability-related and other factors that affect the entity
- Explains financial position and performance for the reporting period and provides insights into the future, including over the long term
- Supports connectivity of information across an entity's general purpose financial reports



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## What did the IASB aim to deliver?

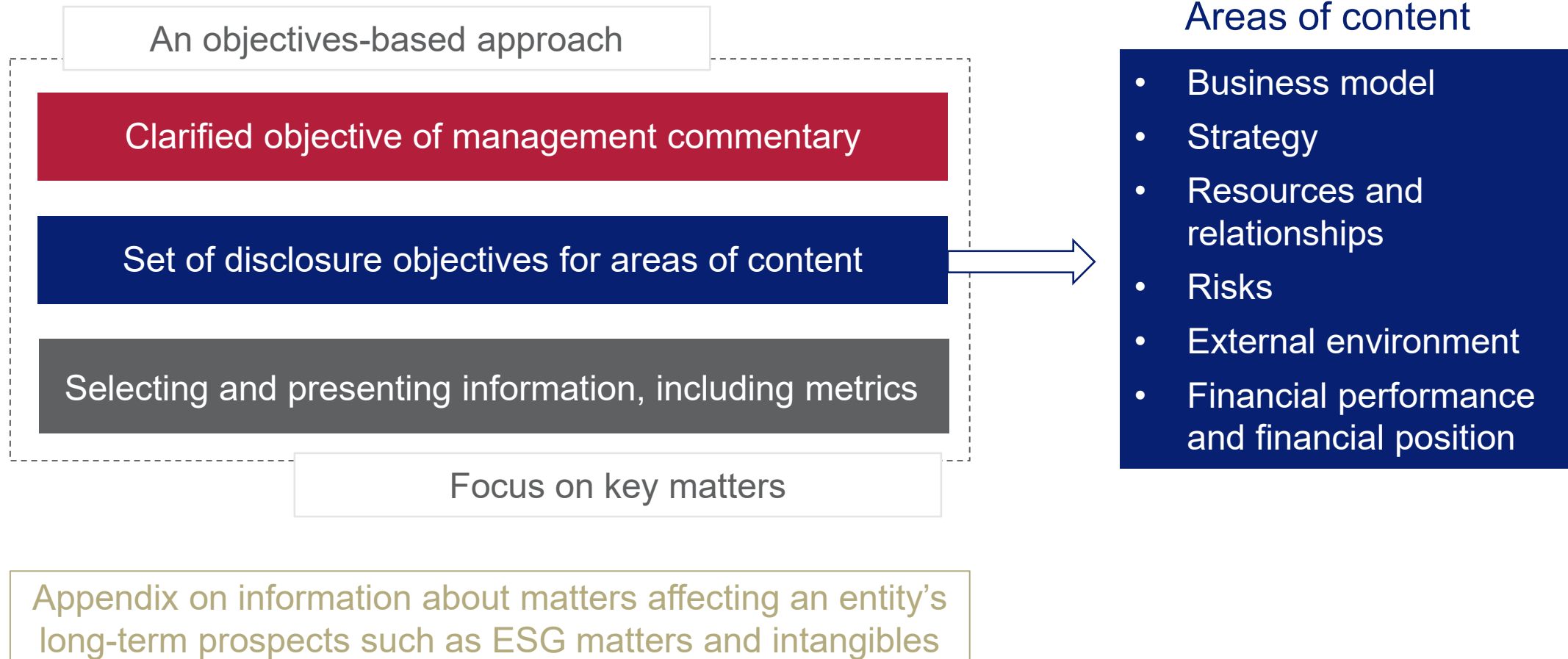
### Investors call out shortcomings in practice

- Lack of focus on what is important
- Generic boilerplate information
- Short-term perspective
- Insufficient information about intangible resources and sustainability matters
- Fragmented and disjointed information
- Difficulty in comparing information period-on-period and between entities
- Incomplete or unbalanced information

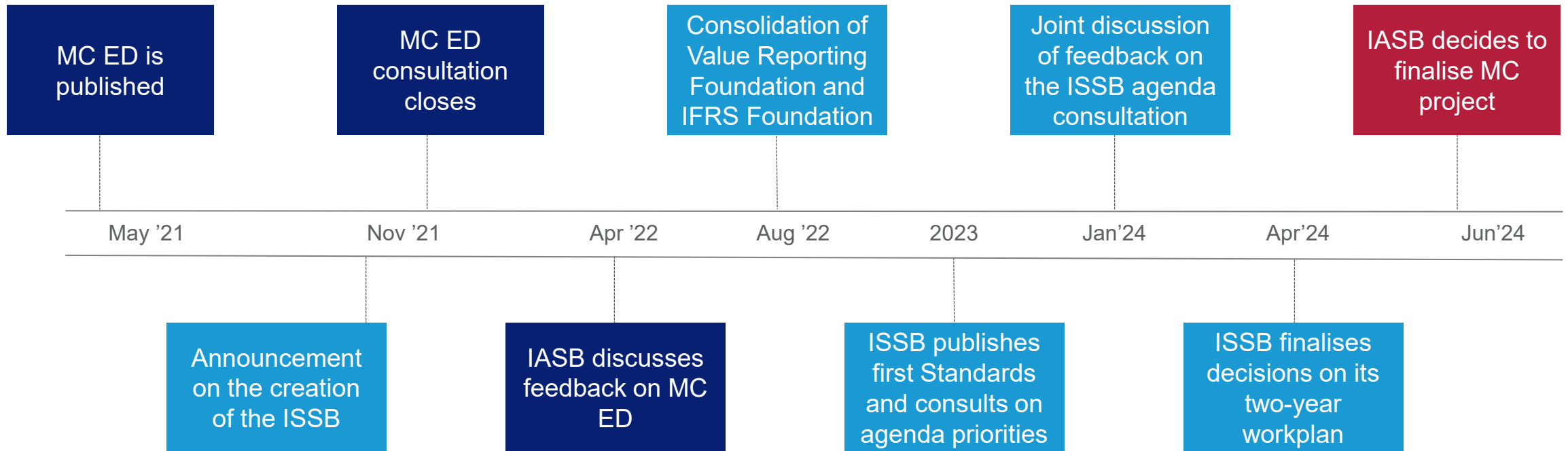
### The IASB's proposals

- Target identified shortcomings in practice
- Build on innovations in narrative reporting and national requirements
- Designed to be compatible with requirements for sustainability reporting
- Focus on promoting coherence in reporting (connectivity)
- Designed with enforcement in mind
- Provide a comprehensive up-to-date toolkit available for regulators to adapt or adopt

## What did the IASB propose?



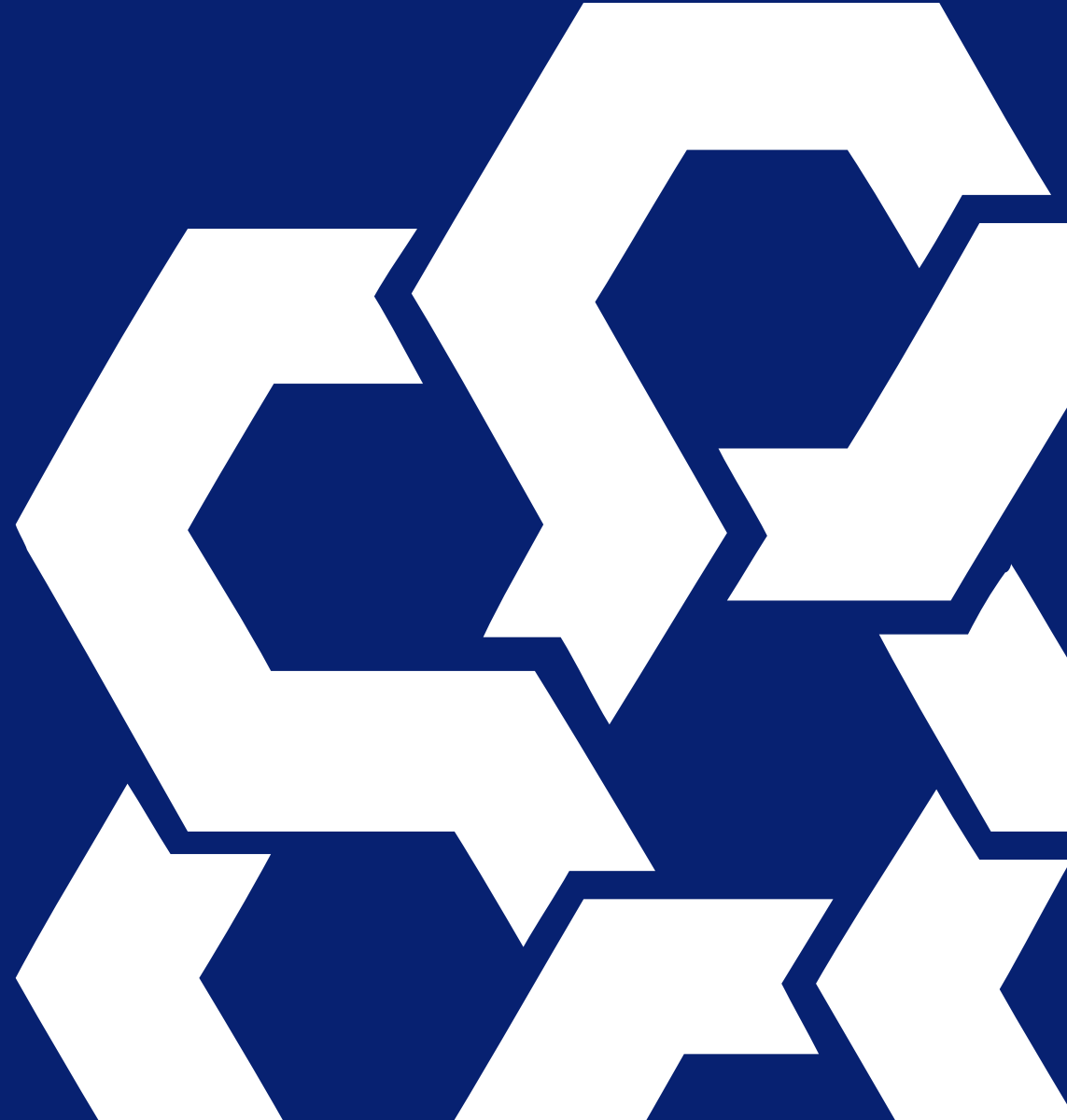
## The evolving reporting landscape





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## Finalising the project— targeted refinements to the Exposure Draft



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## The IASB's aims in finalising the project



**Respond to demand** for better information about the factors that have affected or could affect a company's ability to create value and generate cash flows, including in the long term.



**Provide a comprehensive resource** for regulators and companies to support improvement and greater global alignment in management commentary



**Support connectivity** of information across a company's general purpose financial reports and provide a **stepping stone** towards greater integration in reporting in the future.



**Codify innovations** in reporting, including concepts from the IFRS Foundation's Integrated Reporting Framework

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## Approach to finalising the project

### Targeted refinements

Refinements to proposals to be considered if:

- many respondents questioned a particular aspect of the proposals
- the refinement relates to developments in the reporting landscape



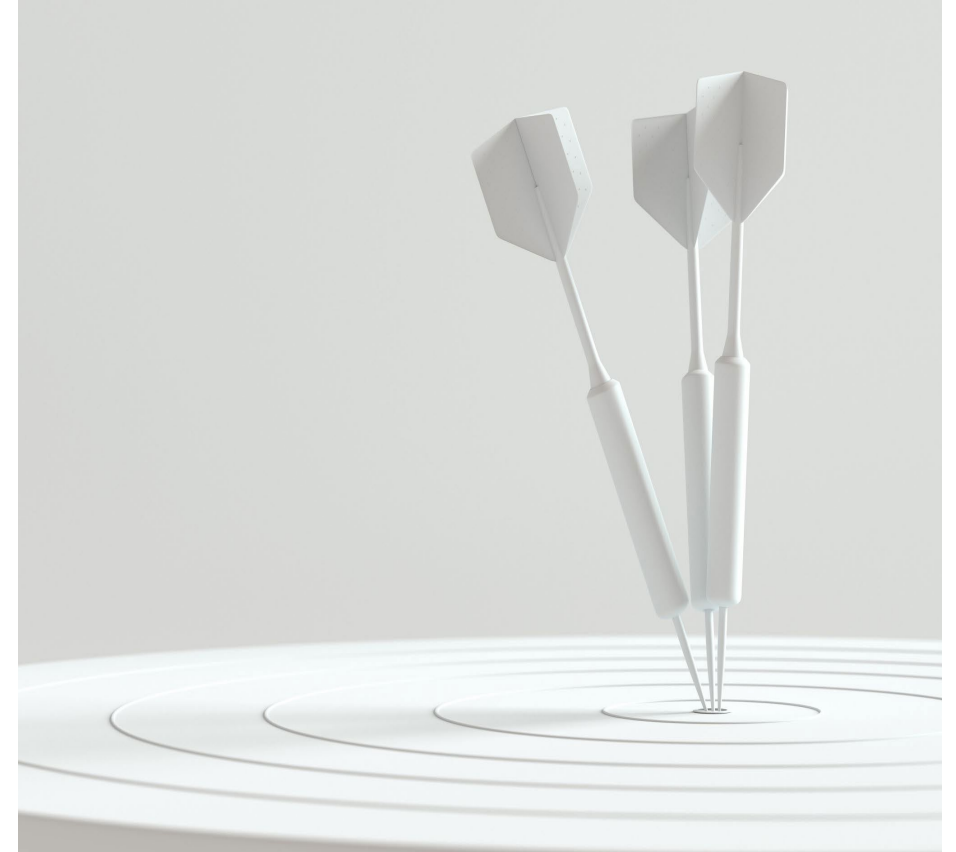
Revised  
Practice  
Statement  
expected  
H1 2025

- Discussions with Integrated Reporting stakeholders
- Members Management Commentary Consultative Group invited to comment on drafting
- Collaboration with ISSB members and staff, as appropriate

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## Scope of possible targeted refinements

- Interaction with sustainability reporting
- Description of the term ‘management’
- Objective of management commentary
- Information about governance-related matters
- Three-tiered structure of disclosure objectives
- The relationship between key matters and materiality
- Terminology (for example, attributes of useful information)



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## Targeted refinements—meaning of ‘management’

<b>Proposals in Exposure Draft</b>	<b>Tentative IASB decisions on targeted refinements</b>
No definition or specific description of the term ‘management’	<ul style="list-style-type: none"><li>• Clarify that the term ‘management’ can include a governing board of an entity;</li><li>• Clarify that the revised Practice Statement does not specify who is required to authorise management commentary for issue.</li></ul>

## Targeted refinements—objective of management commentary

<b>Proposals in Exposure Draft</b>	<b>Tentative IASB decisions on targeted refinements</b>
<p>The objective of an entity’s management commentary is to provide information that:</p> <ul style="list-style-type: none"><li>• enhances investors’ understanding of the entity’s financial performance and financial position reported in its financial statements; and</li><li>• 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.</li></ul>	<p>Acknowledge in the objective of management commentary:</p> <ul style="list-style-type: none"><li>• the role of management’s perspective.</li><li>• information about sustainability-related factors.</li></ul>

## Targeted refinements—role of management commentary (1/2)

<b>Proposals in Exposure Draft</b>	<b>Tentative IASB decisions on targeted refinements</b>
<p>Management commentary complements an entity's financial statements and should identify the financial statements to which it relates.</p>	<ul style="list-style-type: none"><li>• Acknowledge that management commentary complements other information in general purpose financial reports, including information in sustainability-related financial disclosures, if that information is provided outside of management commentary.</li><li>• Extend the requirements for identifying the financial statements related to management commentary to identifying sustainability-related financial disclosures, if these disclosures are not part of the larger report that includes management commentary.</li></ul>

## Targeted refinements—role of management commentary (2/2)

Proposals in Exposure Draft	Tentative IASB decisions on targeted refinements
<p>If the related financial statements are prepared on a basis other than IFRS Accounting Standards, the Exposure Draft proposed that the management commentary should disclose the basis of preparation of the related financial statements.</p>	<p>Require an entity to disclose the basis on which sustainability-related financial disclosures are prepared, if an entity prepares such disclosures.</p>
<p>If an entity is required by local laws and regulations to include particular information in management commentary, it should:</p> <ul style="list-style-type: none"> <li>• present immaterial information in a way that avoids obscuring material information; and</li> <li>• identify management commentary clearly and distinguish it from other information provided.</li> </ul>	<p>Give greater prominence to the requirements that apply to situations in which an entity is required by local law or regulation to include specific information in management commentary.</p>



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## Targeted refinements—defined terms

Proposals in Exposure Draft	Tentative IASB decisions on targeted refinements
<p>Defined terms included:</p> <ul style="list-style-type: none"><li>• General purpose financial statements</li><li>• Management commentary</li></ul>	<ul style="list-style-type: none"><li>• Make the definition of ‘general purpose financial statements’ consistent with the definition set out in IFRS 18 <i>Presentation and Disclosure in Financial Statements</i> and in the <i>Conceptual Framework for Financial Reporting</i>;</li><li>• Include in the defined terms the definition of ‘sustainability-related financial disclosures’ set out in IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i>.</li></ul>

## Targeted refinements—design of disclosure objectives

<b>Proposals in Exposure Draft</b>	<b>Tentative IASB decisions on targeted refinements</b>
<p>Each of the six areas of content include three tiers of disclosure objectives:</p> <ul style="list-style-type: none"><li>• a headline objective—describing the overall information needs of investors for the area of content;</li><li>• assessment objectives—describing the assessments that rely on information provided for the area of content; and</li><li>• specific objectives—describing the detailed information needs of investors for the area of content.</li></ul>	<ul style="list-style-type: none"><li>• Simplify the design of the proposed disclosure objectives by expressing the proposed assessment objectives as explanations, which support the headline and specific objectives, rather than as requirements.</li></ul>

## Targeted refinements—material information

<b>Proposals in Exposure Draft</b>	<b>Tentative IASB decisions on targeted refinements</b>
<p>‘Material’ was defined as follows:</p> <p>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 the management commentary and of the related financial statements.</p>	<ul style="list-style-type: none"><li>• Refer to decisions made on the basis of the entity’s general purpose financial reports, which include the management commentary and the related financial statements.</li><li>• Include the observation that those reports provide information about a specific reporting entity.</li><li>• Replace the defined term ‘material’ with the term ‘material information’.</li></ul>

## Material information—illustrating alignment in IFRS literature

<i>Conceptual Framework for financial reporting</i>	<i>IAS 1 Presentation of Financial Statements / IFRS 18 Presentation and Disclosure in Financial Statements</i>	<i>IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information</i>	Staff recommendation for refinements to the proposal in the Exposure Draft in mark-up
<p>Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of <u>general purpose</u> financial reports make on the basis of those reports, <u>which provide financial information about a specific reporting entity</u>.</p>	<p>Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of <u>general purpose</u> financial statements make on the basis of those financial statements, <u>which provide financial information about a specific reporting entity</u>.</p> <p>Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material <u>in the context of its financial statements</u> taken as a whole.</p>	<p>In the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of <u>general purpose</u> financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and <u>which provide information about a specific reporting entity</u>.</p>	<p>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 <u>general purpose</u> financial reports, which include the management commentary and of the related financial statements and <u>which provide information about a specific reporting entity</u>.</p>

Refer to [Agenda Paper 15B for the November 2024 IASB meeting](#)

## Targeted refinements—key matters

### Proposals in Exposure Draft

Management commentary should focus on key matters, that is matters that are fundamental to an entity's ability to create value and generate cash flows, including in the long term.

It is likely that much of the information that is material will relate to key matters, but material information does not necessarily relate to a key matter.

Key matters are likely to be pervasive and relate to more than one area of content.

### IASB discussions on targeted refinements

The IASB discussed the staff's analysis of possible targeted refinements to:

- clarify the role of the requirement to focus on key matters in relation to the disclosure objectives and the requirement to provide material information;
- update the terminology to refer to 'key factors'; and
- clarify that investors and creditors need to understand both connections between phenomena—such as key matters—and connections between related pieces of information.

The IASB was not asked to make decisions but provided comments.

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## Targeted refinements—to be discussed by the IASB\*

- Areas of content (including information about governance-related matters)
- Requirements and guidance on providing information about long-term prospects, intangible resources and relationships and ESG matters (including the overview and examples included in Appendix B in the Exposure Draft)
- Terminology used to refer to attributes of useful information, users of general purpose financial reports and key matters
- The relationship between the value the entity creates for itself and the value created for others
- Requirements for information in management commentary to be coherent

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\*At the time of posting this paper. The staff will provide a verbal update on these matters at the ASAF meeting

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## Question for ASAF members

Do ASAF members have comments or questions on the IASB's tentative decisions and discussions on targeted refinements to proposals in the Exposure Draft, as outlined in slides 13-21?



**Revised Management  
Commentary Practice  
Statement expected  
in H1 2025**

- **Respond to demand** for better information
- **Comprehensive resource** for regulators and companies
- **Support connectivity** and provide a **stepping stone** to integration in reporting
- **Codify innovations** in reporting

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