
IASB[®] meeting

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Project	Management Commentary
Topic	Targeted refinements—Coherence
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Purpose

1. This paper discusses targeted refinements to the requirements and guidance relating to the attribute of coherence proposed in the Exposure Draft *Management Commentary* (Exposure Draft) and asks the International Accounting Standards Board (IASB) to make decisions.

Structure of the paper

2. The paper is structured as follows:
 - (a) recap of the proposals (paragraphs 3–7);
 - (b) feedback received (paragraphs 8–9);
 - (c) subsequent developments (paragraphs 10–18);
 - (d) staff analysis (paragraphs 19–32); and
 - (e) staff recommendation and question for the IASB (paragraph 33).

Recap of the proposals

3. As discussed in Agenda Paper 15B *Targeted refinements—Terminology and supporting explanations* for this meeting, the IASB proposed attributes of useful information in management commentary derived from the qualitative characteristics of useful financial information in the IASB’s *Conceptual Framework for Financial Reporting (Conceptual Framework)*.
4. In addition, the Exposure Draft proposed to introduce coherence as a *required* attribute of information to promote a more interconnected narrative in management commentary. In developing the proposals on coherence, the IASB sought to address fragmentation of information, which investors identified as one of the main shortcomings in current practice. The Exposure Draft proposed:

The completeness, clarity and comparability of information in management commentary all rely on that information being presented as a well-integrated coherent whole.
5. The requirements and guidance proposed in the Exposure Draft addressed coherence of information:
 - (a) about a particular matter;
 - (b) in management commentary as a whole;
 - (c) between management commentary and the related financial statements;
 - (d) between management commentary and other information provided by the entity—for example, in investor presentations, on the entity’s website or in other publicly available communications; and
 - (e) in relation to metrics, between metrics included in management commentary and metrics presented in another document prepared for investors and creditors.
6. To help entities provide an interconnected narrative, the Exposure Draft included illustrations of the attribute of coherence. For example, the illustration accompanying

paragraph 13.28 of the Exposure Draft explained that if a trend in the external environment affects an entity in various ways, investors and creditors need information that enables them to assess those implications.

7. In developing these proposals, the IASB considered innovations in narrative reporting, including the Integrated Reporting Framework.

Feedback received

8. Respondents generally agreed with the proposal to include coherence among the required attributes of information in management commentary. A few respondents suggested that coherence is so important it should be given more prominence in the Practice Statement, for example, by positioning it as an overarching principle.
9. A few respondents suggested changes to aspects of guidance on, or term used for, coherence. A few respondents suggested aligning the requirements and guidance on coherence more explicitly with the guiding principle of connectivity of information in the Integrated Reporting Framework.

Subsequent developments

IFRS Sustainability Disclosure Standards

10. In June 2023, the International Sustainability Standards Board (ISSB) issued the inaugural IFRS Sustainability Disclosure Standards. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* specifies requirements for connected information as one of its conceptual foundations:

An entity shall provide information in a manner that enables users of general purpose financial reports to understand the following types of connections:

- (a) the connections between the items to which the information relates—such as connections between various sustainability-related risks and

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- opportunities that could reasonably be expected to affect the entity's prospects; and
- (b) the connections between disclosures provided by the entity:
- (i) within its sustainability-related financial disclosures—such as connections between disclosures on governance, strategy, risk management and metrics and targets; and
 - (ii) across its sustainability-related financial disclosures and other general purpose financial reports published by the entity—such as its related financial statements.
11. In addition to the foundational requirements on connected information, IFRS S1 contains specific requirements and guidance to enable entities to provide connected information (for example, IFRS S1 requires data and assumptions used in preparing sustainability-related financial disclosures to be consistent, to the extent possible, with the corresponding data and assumptions used in preparing the related financial statements).
12. The Basis for Conclusions on IFRS S1:
- (a) explains that requirements on connected information are intended to provide a better understanding of the connections between disclosures in an entity's general purpose financial reports, as well insight into the connections between the items to which the information relates; and
 - (b) acknowledges that some sustainability-related risks and opportunities are linked, and notes that entities are required to explain the relationships and trade-offs that arise between various sustainability-related risks and opportunities.

Integrated Reporting Framework

13. In August 2022, the Integrated Reporting Framework became part of the materials of the IFRS Foundation following the merger of the IFRS Foundation with the Value Reporting Foundation.

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14. Connectivity of information is positioned as one of the guiding principles in the Integrated Reporting Framework:

An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.

15. In May 2023, the IASB discussed the joint staff analysis of the similarities and differences between the Exposure Draft and the Integrated Reporting Framework (see Agenda Paper 15A [*Education Session—Comparison between Management Commentary Exposure Draft and the Integrated Reporting Framework*](#)). The analysis indicated broad alignment between the guiding principle of connectivity of information in the Integrated Reporting Framework and the attribute of coherence proposed in the Exposure Draft. In particular, the analysis highlighted that both documents emphasise the need for connection of information:

- (a) between the elements within a report; and
- (b) between the report and other information provided by the entity.

16. The analysis also highlighted that the Integrated Reporting Framework specifically addresses trade-offs between the six forms of capitals in discussing the key forms of connectivity of information.

IASB previous discussions of targeted refinements

17. In September 2024, the IASB discussed the relationship of management commentary to information in other general purpose financial reports. The IASB tentatively decided:
- (a) to 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;

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- (b) to 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; and
 - (c) to require an entity to disclose the basis on which sustainability-related financial disclosures are prepared, if an entity prepares such disclosures.
18. In November 2024, the IASB discussed:
- (a) the proposed definition of ‘material’. The IASB tentatively decided to align the proposed definition more closely with the definitions in the *Conceptual Framework* and IFRS Standards, including by referring to decisions made on the basis of the entity’s general purpose financial reports, which include the management commentary and the related financial statements.
 - (b) the proposed requirement to focus on key matters. The IASB noted that an aspect of the proposals that may need to be refined is a lack of a clear distinction between:
 - (i) connections between key matters; and
 - (ii) connections between information about those key matters.

Staff analysis

19. In the light of the feedback received on the Exposure Draft and subsequent developments, including IASB’s tentative decisions on targeted refinements to date, the staff analysed:
- (a) requirements and guidance on coherence (paragraphs 20–23);
 - (b) the prominence of the attribute of coherence (paragraphs 24–27); and
 - (c) the use of the term ‘coherence’ (paragraphs 28–32).

Requirements and guidance on coherence

20. The staff think that there is broad conceptual alignment between the proposed attribute of coherence in the Exposure Draft, the conceptual requirements for connected information in IFRS S1 and the guiding principle of connectivity of information in the Integrated Reporting Framework. In particular, all these documents highlight the need for connections in information both within a specified report and between that report and other information provided by the entity. Furthermore, all these documents acknowledge—although to various degrees—connections between items to which information relates.
21. However, there are differences in specific requirements and guidance accompanying the concepts described above. For example:
- (a) as noted in paragraph 11, IFRS S1 specifically requires the use of data and assumptions that are consistent with those used in preparing financial statements, to the extent possible. The Exposure Draft does not have an equivalent specific proposed requirement.
 - (b) as noted in paragraph 5(d), the Exposure Draft proposed a requirement for an entity to explain apparent inconsistencies between management commentary and other information provided by the entity in its public communications, including outside general purpose financial reports. IFRS S1 does not have an equivalent specific requirement that extends to information outside general purpose financial reports.
22. A detailed consideration of all differences between the Exposure Draft and IFRS S1 and the Integrated Reporting Framework is outside the scope of the project. However, the staff think that there are two ways in which the requirements and guidance on coherence proposed in the Exposure Draft could be refined in order to facilitate greater alignment with IFRS S1 and the Integrated Reporting Framework, and to improve clarity and internal consistency of the revised Practice Statement:

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- (a) to clarify that the role of coherence includes effectively depicting the interactions between various matters, such as an entity’s business model, its strategic choices, resource and relationships, sustainability-related factors and its financial performance and position reported in the financial statements. As discussed in [Agenda Paper 15C Targeted refinements—Key matters](#) for the November 2024 IASB meeting, the staff think that the Exposure Draft did not distinguish clearly enough connections between matters and connections between information about those matters. The staff think both considerations are important in providing a coherent interconnected narrative.
- (b) to specify, in discussing coherence *between* management commentary and other reports provided by the entity, that the requirements in the revised Practice Statement are not limited to the entity’s financial statements but cover all general purpose financial reports. In the Exposure Draft, a requirement for coherence between management commentary and another document prepared for investors and creditors is proposed specifically for metrics but not for other types of information in management commentary. The staff think that requiring coherence for all types of information between management commentary and other general purpose financial reports would be consistent with the IASB’s previous tentative decisions on the relationship between management commentary and other information in the entity’s general purpose financial reports, and on the definition of material information. Furthermore, to support connectivity with IFRS Sustainability Disclosure Standards and consistent with the previous tentative decisions, the staff think it would be appropriate for the IASB to explicitly acknowledge the need for coherence between information in management commentary and information in sustainability-related financial disclosures, if that information is provided in general purpose financial reports outside management commentary.
23. The staff note that coherence of information *within* management commentary is already clearly addressed by the proposals in the Exposure Draft. The proposed

requirements would apply to information about all types of matters discussed in management commentary, including sustainability-related matters.

The prominence of the attribute of coherence

24. As noted in paragraph 8, respondents to the Exposure Draft generally supported the proposed attribute of coherence. Furthermore, a few respondents suggested that coherence is so important it should be given more prominence in the Practice Statement, for example, by positioning it as an overarching principle.
25. The respective concepts in IFRS S1 and in the Integrated Reporting Framework (as discussed in paragraph 10 and paragraph 14 respectively) play a more prominent role in those documents than the proposed attribute of coherence in the Exposure Draft. In IFRS S1, the requirements for connected information are positioned prominently within Conceptual Foundations of that Standard, and in the Integrated Reporting Framework connectivity of information is positioned as a guiding principle.
26. Considering the evolving reporting landscape, the staff agree with those respondents on the Exposure Draft who argued that coherence is particularly important and should be given greater prominence in the revised Practice Statement.
27. The staff think the attribute of coherence would be given greater prominence if the requirements and guidance related to that attribute are presented as a separate chapter in the revised Practice Statement instead of being part of a larger chapter that also contains the attributes derived from the *Conceptual Framework*. Creating a separate chapter for the attribute of coherence would also signal more clearly that, unlike the other attributes in the revised Practice Statement, this attribute is a newly introduced attribute that is not derived from the *Conceptual Framework*.

The use of the term ‘coherence’

28. As discussed in paragraph 9, a few respondents suggested a change in the term used to refer to the attribute of coherence. The staff also note that both IFRS S1 and the Integrated Reporting Framework use different terms to refer to similar concepts.
29. However, as discussed in paragraphs 20–21, while those concepts are broadly aligned, they are not necessarily identical. In particular, there are differences in the specific requirements and guidance accompanying those concepts in the Exposure Draft, IFRS S1 and the Integrated Reporting Framework.
30. The staff think that it is not appropriate to use identical terms to refer to concepts that are not identical. Instead, as discussed by the IASB at its November 2024 meeting, identical terms should be used for the concepts that are fully aligned, such as the IFRS concept of material information. Accordingly, the staff think that the term coherence should not be replaced with the term connected information.
31. Furthermore, the staff think that using the term coherence in the revised Practice Statement and the term connected information in IFRS S1 to refer to similar, but not identical, concepts would not jeopardise connectivity between those documents and would not create barriers for applying the revised Practice Statement together with IFRS Sustainability Disclosure Standards. Although these concepts are not identical, there are no conflicts between them, so the revised Practice Statement could be applied together with IFRS Sustainability Disclosure Standards.
32. Finally, the staff note that when selecting the terminology for the Exposure Draft, the IASB reviewed alternative terminology and considered input from stakeholders. In response to the Exposure Draft, only a few respondents asked the IASB to reconsider the terminology. Accordingly, the staff think that the term coherence should be retained.

Staff recommendation and question for the IASB

33. The staff recommend that the IASB:
- (a) clarifies that the role of coherence includes effectively depicting the interactions between various matters;
 - (b) specifies that coherence relates to information in management commentary and other general purpose financial reports provided by the entity, including the related financial statements and sustainability-related financial disclosures, if those disclosures are provided in general purpose financial reports outside management commentary; and
 - (c) gives greater prominence to the attribute of coherence by positioning the requirements and guidance on coherence in a separate chapter in the revised Practice Statement.

Question for the IASB

Do you agree with the staff recommendations in paragraph 33 to:

- (a) clarify that the role of coherence includes effectively depicting the interactions between various matters;
- (b) specify that coherence relates to information in management commentary and other general purpose financial reports provided by the entity, including the related financial statements and sustainability-related financial disclosures, if those disclosures are provided in general purpose financial reports outside management commentary; and
- (c) give greater prominence to the attribute of coherence by positioning the requirements and guidance on coherence in a separate chapter in the revised Practice Statement?