
IASB[®] meeting

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Project	Management Commentary
Topic	Targeted refinements—Key matters
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Purpose

1. This paper discusses targeted refinements to clarify the role of the proposed requirement to focus on key matters that could be considered in drafting the revised IFRS Practice Statement 1 *Management Commentary* (Practice Statement). The paper does not ask the International Accounting Standards Board (IASB) to make decisions but invites IASB members' questions and comments on the staff's analysis and suggested approach.
2. The paper also discusses:
 - (a) the term 'key matters'. The staff plan to ask the IASB at a future meeting to make decisions on all terminology-related questions together.
 - (b) the need for a clearer articulation of connections between key *matters* and connections between *information* about those matters. The staff plan to ask the IASB to consider this topic further at a future meeting in discussing the attribute of coherence.

Structure of the paper

3. The paper is structured as follows:
 - (a) recap of the proposals—extract from March 2022 IASB Agenda Paper 15F [*Feedback summary—Key matters and material information*](#) (paragraphs 4–7);
 - (b) feedback on proposals—extract from March 2022 IASB Agenda Paper 15F (paragraphs 8–21);
 - (c) staff analysis (paragraphs 22–44):
 - (i) the role of the requirement to focus on key matters, including its interaction with disclosure objectives and the requirement to provide material information (paragraphs 23–33);
 - (ii) the term ‘key matters’ (paragraphs 34–39); and
 - (iii) coherent information about key matters (paragraphs 40–44).

Recap of the proposals—extract from March 2022 IASB Agenda Paper 15F

4. Chapters 5–10 of the Exposure Draft (setting out the disclosure objectives for each area of content) proposed that 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.
5. Chapters 5–10 also included examples of key matters and Chapter 4 (introducing Chapters 5–10) included a section with general guidance on key matters.
6. To explain the relationship between the notions of material information and key matters, the Exposure Draft noted that:

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- (a) it is likely that much of the information that is material to investors will relate to key matters (paragraphs 3.16 and 4.8); but
 - (b) material information does not necessarily relate to a key matter (paragraph 3.17). For example, some matters might not be key for an entity even though investors would generally expect them to be key for entities operating in the industry or jurisdiction in which the entity operates. In such cases, management considers whether any information about the matter is material. Material information is likely to include an explanation of why the matter is not key for the entity (paragraph 4.13).
7. The requirement to focus on key matters was one of several proposals designed to address a shortcoming in management commentaries—that they sometimes fail to focus on matters most important to an entity’s prospects. Paragraphs BC77–BC79 of the Basis for Conclusions explained that the IASB proposed the requirement to help management make materiality judgements—not to replace materiality as a threshold for determining what information to include in management commentary. The Basis for Conclusions also noted that materiality is not an attribute of a matter, it is an attribute of information about that matter.

Feedback on proposals—extract from March 2022 IASB Agenda Paper 15F

Key messages in feedback

8. Many respondents commented on the proposal to require management commentary to focus on key matters. Most of those respondents—including all the investors commenting—supported the proposal. However, many suggested the IASB needs to clarify the way in which the requirement to focus on key matters interacts with the requirement to provide material information.

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9. Some respondents suggested reviewing the terminology. Their main concern was that that the term ‘key matter’ could be confused with the term ‘key audit matter’, which is now widely used in independent auditors’ reports.

Requirements to focus on key matters and provide material information

10. Many respondents commented on the proposal to require management commentary to focus on key matters. Most of those respondents—including all the investors and many of the accounting firms and standard-setters commenting—supported the proposal:

More information does not necessarily guarantee better communication. We are concerned that material information might be obscured by a flood of less important information.

Therefore, we believe requiring a focus on key matters in management commentary is essential, in order for it to be a truly useful and effective tool for the management to communicate with investors and creditors.
CL81 Corporate Reporting Users’ Forum

We believe that focusing on key features or aspects of the six areas of content (helpfully mapped in Figure 1) provides important structure to entities as they prepare management commentary. *CL5 Value Reporting Foundation*

11. However, many respondents commenting—including almost all the accounting firms, a regulator and some accountancy bodies and standard-setters commenting—suggested the IASB needs to clarify the way in which the requirement to focus on key matters interacts with other requirements in the Exposure Draft, especially the requirement to provide material information.
12. Comments suggested a few respondents interpreted the requirement to focus on key matters as:
- (a) a second disclosure threshold that would apply in addition to, or above, the materiality threshold, and could lead to the omission of material information;
or

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- (b) a requirement to provide information beyond that required by the disclosure objectives.
13. Suggestions for clarifying the interaction included:
- (a) clarifying the requirements by:
- (i) locating the requirement to focus on key matters in the same section of the Practice Statement as the requirement to provide material information (instead of splitting them between Chapters 3 and 4);
 - (ii) explaining more explicitly the link and distinction between the matters that are important to the entity's future success (key matters) and the information needed to understand those matters (material information);
 - (iii) including in the Practice Statement (not only the Basis for Conclusions) the clarification that materiality is not an attribute of a matter, it is an attribute of information about that matter;
- (b) clarifying the supporting guidance by:
- (i) locating all the guidance on identifying key matters and material information together (instead of dispersing it widely throughout the Practice Statement);
 - (ii) being clearer that material information might not always relate to a key matter and that not all information about key matters is material, perhaps using diagrams or flow charts; and
 - (iii) omitting guidance relating to possible but unlikely situations—a respondent suggested that material information about a non-key matter is an unlikely combination.
14. Few respondents raised any concerns about the ability of an entity's management to identify matters that are key for the entity. However, an accounting firm, while

agreeing with the requirement to focus on key matters, suggested that identifying key matters could be challenging:

... Key matters may not be anticipated in all instances. For example, we would suggest, after having the experience of the Covid-19 pandemic, that the impact of a pandemic is a potential key risk impacting all entities, but prior to the Covid-19 pandemic, not many, if any, would have identified it as a key matter. There is a chance that the requirement to identify key matters may put reporting entities in a difficult position, after such risks have materialised. As a result, there is a risk that this approach could result in entities providing numerous “key matters” disclosures, regardless of likelihood, to cover all possible eventualities to ensure they address the requirements of the proposals in the ED. If this were to occur, the key matters would become a laundry list of items which would then obscure those which are most relevant. *CL9 EY*

15. Some respondents—including some accounting firms, accountancy bodies and preparers of financial statements—suggested removing the requirement to focus on key matters completely, on the grounds that:
- (a) that requirement is unnecessary and overcomplicates the Practice Statement requirements. In support of this view, respondents argued that:
 - (i) information should be included in management commentary if it is material, irrespective of whether it relates to a key matter;
 - (ii) the requirement to focus on key matters serves the same purpose as the disclosure objectives; or
 - (iii) the list of examples in the Exposure Draft of information that might be material would be not different in the absence of the concept of key matters.
 - (b) the requirement adds operational complexity so would increase the burden on preparers of management commentary:

One solution would be to eliminate the concept of ‘key matters’ from the Practice Statement and simply state that the extent of information required is dependent on how material a matter is for the enterprise

value creation process. This would be consistent with the concept of materiality and would simplify the structure of the Practice Statement...

CL68 Deloitte

Key matter terminology

16. Some respondents, of various types, expressed concern about the use of the word ‘key’ as a label for key matters and the word ‘fundamental’ in the definition of a key matter.
17. Most were concerned about the similarity of the term ‘key matter’ to the term ‘key audit matter’, which is now widely used in independent auditors’ reports to describe the matters that the auditors have judged to be most significant in their audit. Respondents were concerned that the similarity could lead to confusion of the two terms, or questions about whether the key matters on which management commentary focuses need to be aligned with key audit matters discussed with auditors.
18. Suggested remedies included:
 - (a) changing the label used to describe key matters. Suggestions for alternative labels included:
 - (i) notifiable, reportable, key commentary or critical matters;
 - (ii) key areas of focus; or
 - (iii) high impact factors;
 - (b) combining the discussion of key matters with the discussion of materiality (so the meaning of key matters is clearer); or
 - (c) explaining the relationship between key matters and key audit matters.
19. A few respondents also expressed concern that the terms ‘key’ and ‘fundamental’ are not used or defined in IFRS Standards with the meaning proposed in the Exposure

Draft, and it is unclear how they should be viewed relative to the defined term ‘material’.

Guidance on identifying key matters

20. Some respondents provided feedback on the proposed guidance on identifying key matters. Most of those commenting expressed broad support for the guidance, agreeing that it would provide a suitable and sufficient basis for management to identify key matters. Some reasons given for supporting the guidance were that:
- (a) practical examples are always helpful; and
 - (b) the guidance is comprehensive enough—making it more detailed could risk the guidance becoming a checklist, and the requirements appearing to be more rules-based than intended.
21. A few respondents suggested ways of enhancing the guidance:
- (a) the Capitals Coalition¹ suggested that guidance on *how* to identify key matters is more useful than examples of key matters. The coalition suggested its own guidance—the *Natural Capital Protocol* and the *Social and Human Capital Protocols*—could be useful.
 - (b) an accountancy body noted that the examples of key matters were organised in the Exposure Draft by area of content. It said it agreed with this presentation. But it suggested that in integrated reporting practices, all areas of content are assessed together to identify key matters, and these key matters are then incorporated into strategies and measured and monitored. These processes are all logically connected and the Practice Statement should explain the process flow.

¹ [Original footnote] The Capitals Coalition is a global collaboration that develops, advocates for, and advances understanding of natural, social, human and produced capitals. The Coalition works with organisations and individuals to understand the value that flows from these capitals and to ensure that that value is included in decision-making.

Staff analysis

22. As discussed in paragraph 10, most of the respondents commenting on the proposal to require management commentary to focus on key matters—including all the investors commenting—supported the proposal. However, based on the feedback received, the staff think that the IASB should consider targeted refinements:
- (a) to clarify the role of the requirement to focus on key matters, including how it interacts with disclosure objectives and with the requirement to provide material information;
 - (b) to refine the terminology used to refer to key matters; and
 - (c) to distinguish between the requirement to focus on key *matters* relating to each area of content and the requirement to provide a coherent *information* about various matters affecting the entity.

The role of the requirement to focus on key matters

23. February 2021 IASB Agenda Paper 15C: [*Sweep issues—Requirements and guidance on key matters*](#) explained why the concept of key matters was introduced:

In developing the proposals for the Exposure Draft, the Board noted that the scope of information that may need to be included in management commentary for it to meet its objective is very broad. Accordingly, making materiality judgements in the context of management commentary may be particularly difficult. To help management identify material information that must be reported in management commentary, the Board has developed the notion of key matters. Identifying key matters would not replace making materiality judgements. Instead, it is a tool to assist management in making those judgements in the context of the entity's management commentary.

24. The staff think that the following aspects of the proposals in the Exposure Draft may have contributed to questions from respondents about the interaction between key matters, disclosure objectives and material information:

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- (a) requirements and explanations relating to these concepts were included in various places in the Exposure Draft:
- (i) Chapter 3 included an overarching requirement to provide material information and introduced the concept of key matters;
 - (ii) Chapter 4 introduced areas of content and disclosure objectives and provided explanations of the concept of key matters;
 - (iii) Chapters 5–10 included requirements to focus on key matters in meeting the disclosure objectives for each area of content and each chapter provided examples of key matters for that area of content; and
 - (iv) Chapter 12 provided guidance on making materiality judgements about information required to meet the disclosure objectives in Chapters 5–10; and
 - (v) Chapter 15 provided examples of information that might be material for each specific disclosure objective for each area of content.
- (b) the Exposure Draft did not make it sufficiently clear how the proposed requirement to focus on key matters fits within the architecture of the revised Practice Statement, what is meant by ‘focus’ and how the focus on key matters interacts with disclosure objectives and with making materiality judgements. Paragraphs 3.16–3.17 of the Exposure Draft stated it is likely that much, but not all, of material information would relate to key matters, but provided little additional guidance.
- (c) the Basis for Conclusions on the Exposure Draft explained why the IASB proposed to introduce the notion of key matters—to help management make materiality judgements—and highlighted the relationship between the proposed focus on key matters and investors’ and creditors’ understanding of the entity’s ability to create value and generate cash flows. It also explained that the terms ‘key’ and ‘fundamental’ are not meant to replace materiality as a

threshold for determining what information should be included in management commentary. However, it didn't fully explain the interaction of the proposed focus on key matters with disclosure objectives and with making materiality judgements in the context of management commentary.

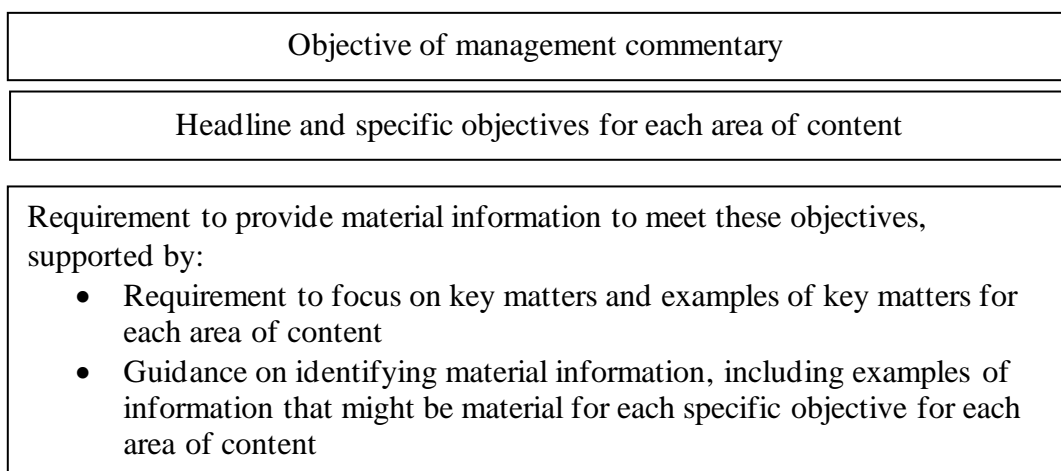
25. To clarify these relationships, it is important to first consider the interaction between disclosure objectives and material information. As discussed in Agenda Paper 15A *Targeted refinements—Design of disclosure objectives*, disclosure objectives are set out as requirements and identify investors' and creditors' information needs for an area of content. In other words, disclosure objectives are designed to identify *relevant* information—that is, information capable of making a difference to the decisions made by investors and creditors. However, as discussed in Agenda Paper 15B *Targeted refinements—Material information*, entities are only required to provide *material*—entity-specific—information. Entities are *not* required to provide information if it is not material and *are* required to provide additional information that is not required by the disclosure objectives in Chapters 5-10 but which is necessary to meet the objective of management commentary in paragraph 3.1. This logic is consistent with the logic in IFRS Standards which set out recognition, measurement, presentation and disclosure requirements and require entities to provide material information to meet these requirements.
26. As discussed in paragraph 23, the IASB proposed to introduce the concept of key matters to help entities make materiality judgements in the context of management commentary. The focus on key matters is set out as a requirement to respond to the shortcoming in practice identified in paragraph IN8(a) of the Exposure Draft that management commentaries sometimes fail to focus on matters important to the entity's prospects. The requirement is designed to support, rather than to override, the requirement to provide material information.
27. To better understand the relationship between the concepts of key matters and material information, the staff think it is helpful to consider that the concept of materiality refers to a binary judgement about whether information:

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- (a) is material in the context of management commentary and should be provided to meet the objective of management commentary; or
- (b) is immaterial and need not be provided (and, if such information is provided, it is provided in a manner that does not obscure material information).
28. In contrast, identifying a matter as key helps inform the *extent* of information about that matter that is likely to be material. This is because investors and creditors are likely to need more information about matters that are fundamental to the entity's ability to create value and generate cash flows than about matters that are not fundamental to this ability. The more fundamental the matter is for the entity, the more information about that matter is likely to be material, and vice versa. However, this doesn't mean that all information about a key matter is likely to be material (information about the matter is only material if it could reasonably be expected to affect economic decisions of investors and creditors).
29. By way of example, consider information required to meet the headline objective of the business model area of content:
- Management commentary shall provide information that enables investors and creditors to understand how the entity's business model creates value and generates cash flows.
30. Information providing an overview of the entity's business model might be material—even though it does not relate to a key matter—because it would contribute to investors' and creditors' overall understanding of the entity's processes for creating value and generating cash flows. Similarly, information about the entity's operating structure might be material. Chapter 15 provides other examples of information about an entity's business model that might be material for each specific disclosure objective in that area of content—even if the information does not relate to a key matter.
31. However, investors and creditors would not need a detailed account of each and every feature of the entity's business model. They are likely to need more information about

those features of the entity’s business model that are fundamental to the entity’s ability to create value and generate cash flows (for example, features that underpin the entity’s value proposition to its customers) to enable them to assess the entity’s prospects for future cash flows and management’s stewardship of the entity’s economic resources.

32. The analysis above illustrates the interaction between the disclosure objectives for the areas of content, the requirement to provide material information and the requirement to focus on key matters. The disclosure objectives indicate the types of information that are likely to be relevant to investors and creditors. In meeting the disclosure objectives, the entity is required to provide material information. The requirement to focus on key matters is designed to help management make those materiality judgements in the context of management commentary. Not all information that can be provided for an area of content would be equally useful to investors and creditors. Information is more likely to be material if it relates to a matter that is fundamental to the entity’s ability to create value and generate cash flows. Figure 1 illustrates the role of the requirement to focus on key matters within the architecture of the revised Practice Statement.

Figure 1—Interaction between the requirements in the revised Practice Statement



33. Based on the analysis above and the feedback on the Exposure Draft, the staff think there is an opportunity to clarify the role of the requirement to focus on key matters

and its interaction with disclosure objectives for areas of content and the requirement to provide material information. In particular, the staff will consider the following suggestions in drafting the revised Practice Statement:

- (a) explaining more clearly the link between the *matters* that are fundamental to the entity's ability to create value and generate cash flows and the *extent of information* about those matters that investors and creditors need in making their decisions.
- (b) explaining more clearly the role of the examples of information that might be material in identifying information that does not relate directly to a key matter, but might nonetheless be material.
- (c) reorganising the material included in the Exposure Draft so that related requirements and guidance are located together and the relationship between them is clearer. For example:
 - (i) the guidance on making materiality judgements and the guidance on key matters could be included in a single chapter.
 - (ii) all requirements and guidance related to an area of content, including examples of information that might be material, could be included in a single chapter.
- (d) providing a diagram illustrating the relationship between disclosure objectives, the requirement to provide material information and the requirement to focus on key matters.
- (e) enhancing explanations in the Basis for Conclusions on the revised Practice Statement.

Question 1 for the IASB

Do IASB members have questions or comments on the staff's analysis of the role of the requirement to focus on key matters, including the clarifications that the staff plan to consider in drafting set out in paragraph 33?

The term ‘key matters’

34. The Exposure Draft used the term ‘key matters’ as a collective term to refer to all matters that management commentary is required to focus on across areas of content: key features of the entity’s business model, key aspects of management’s strategy, key resources and relationships, key risks, key factors and trends in the external environment and key aspects of the entity’s financial performance and financial position. The staff note the concerns about this term raised by respondents, especially the concern about potential confusion between this term and the term ‘key audit matters’.
35. April 2020 IASB Agenda Paper 15B [Business model](#) explained that the existing Practice Statement uses the terms ‘main’, ‘critical’, ‘significant’, ‘most important’ and ‘principal’ to refer to items that need to be described in management commentary in various areas of content and proposed using the term ‘key’ to consistently refer to all such items.
36. The staff note that the term ‘key’ is generally understood and used elsewhere in IFRS Accounting Standards. For example, IAS 24 *Related Party Disclosures* uses the term ‘key management personnel’. Furthermore, the Exposure Draft provided a definition of the term of ‘key matters’ as matters that are fundamental to the entity’s ability to create value and generate cash flows. The clarifications discussed in paragraph 33 would help to further explain the relationship between the term ‘key’ which relates to matters and the term ‘material’ which relates to information.
37. However, the staff think that the use of term ‘matter’ could have contributed to the confusion about whether it refers to the *phenomena* that management commentary is required to focus on—for example, key resources and relationships—or to *information* about those phenomena. In addition, the staff note that the Exposure Draft did not always use the terms ‘matters’ and ‘factors’ consistently. For example, the objective of management commentary refers to ‘factors that could affect the entity’s ability to create value and generate cash flows’.

38. The staff think that the term ‘factor’ signals more clearly that it refers to the underlying phenomena rather than to information about those phenomena. Replacing the term ‘matters’ with term ‘factors’ was also suggested by some respondents to the Exposure Draft (see paragraph 18). Doing so would also avoid possible confusion with ‘key audit matters’. Furthermore, it would help strengthen the link between the requirement to focus on what is key to the business, the disclosure objectives for each area of content and the overall objective of management commentary. Focusing on the key factors in each area of content would enable management commentary to provide material information that meets the disclosure objectives and the overall objective of management commentary.
39. As noted in paragraph 2, the staff plan to ask the IASB to make decisions on all terminology-related questions at a future meeting.

Question 2 for the IASB

Do IASB members have questions or comments on the staff’s analysis of the term ‘key matters’ and next steps?

Coherent information about key matters

40. A further aspect of the proposals in the Exposure Draft that the staff think may need to be refined is the lack of a distinction between:
- (a) connections between *key matters*—for example, paragraph 4.11 of the Exposure Draft and the accompanying illustration explained that ‘key matters are likely to be pervasive’; and
 - (b) connections between *information* about those key matters—for example, paragraph 4.11 of the Exposure Draft also stated that key matters are likely to relate to ‘more than one area of content’.
41. The staff think that both considerations are important. Firstly, understanding connections between key matters would help management identify material

information. Secondly, material information needs to be provided in a way that enables investors and creditors to understand those connections.

42. The latter consideration relates to the attribute of coherence discussed in paragraphs 13.27–13.30 of the Exposure Draft. According to paragraph 13.28 of the Exposure Draft, if a matter discussed for one area of content in management commentary has implications for other areas of content, management commentary shall include the information necessary for investors and creditors to assess those implications. The illustration accompanying that paragraph states:

A trend in the external environment could have implications for an entity's business model, for management's strategy for sustaining and developing that model, for the entity's resources and relationships, for risks to which the entity is exposed, or for the entity's financial performance or financial position. Management commentary includes the information necessary for investors and creditors to assess those implications.

43. Paragraph 13.29 of the Exposure Draft requires information to be presented in a way that explains the relationships between related pieces of information. However, as noted in paragraph 37, the Exposure Draft did not always make a clear enough distinction between *information* about phenomena and the *phenomena* themselves.
44. The staff will present to the IASB at a future meeting an analysis of possible targeted refinements to the proposed notion of coherence, including how to clarify that investors and creditors need to understand both connections between phenomena—such as key matters—and connections between related pieces of information.

Question 3 for the IASB

Do IASB members have questions or comments on the staff analysis of coherent information about key matters and next steps?