

Response to Exposure Draft on Management Commentaries:

Question	Question	Views
1	<p>The financial statements to which management commentary relates:</p> <p>a) Do you agree that entities should be permitted to state compliance with the revised Practice Statement even if their financial statements are not prepared in accordance with IFRS Standards? Why or why not?</p> <p>(b) Do you agree that no restrictions should be set on the basis of preparation of such financial statements? Why or why not? If you disagree, what restrictions do you suggest, and why?</p>	<p>a) Agree. If the financial statements are prepared under IFRS, the management commentary should also be prepared, to the extent practical, on the same principles; only then this would facilitate understanding the information cohesively.</p> <p>If the financial statements are prepared on any other basis other than those underpinning IFRS, then yes the entity may not apply the Practice Statement, but it may; subject to local regulations may be required to do so. In which case, there is obvious disconnect between the financial statements and Practice Statement. In these cases, the entity has to give a disclosure of basis of providing the information in Practice Statement and how different it is from those principles based on which the financial statements are prepared.</p> <p>b) An entity may choose to apply certain principles of accounting which may be outside the purview of IFRS say cash system of accounting for a specific purpose. In which case, the question is whether it is a general-purpose financial statement at all? If it is a general-purpose financial statement, in my view, it should be in compliance with Accounting Standards. There has to be a disclosure on the principles based on which financial statements are prepared and principles based on which management commentary is made.</p>
2	<p>(a) Paragraph 2.5 proposes that management commentary that complies with all of the requirements of the Practice Statement include an explicit and unqualified statement of compliance. Paragraphs BC30–BC32 explain the Board’s reasoning for this proposal. Do you agree? Why or why not?</p> <p>(b) Paragraph 2.6 proposes that management commentary that complies with some, but not all, of the requirements of the Practice Statement may include a statement of compliance. However, that statement would be qualified, identifying the</p>	<p>Agree. Since it has to indicate that the information provided is in line with certain standards.</p>

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	<p>departures from the requirements of the Practice Statement and giving the reasons for those departures. Paragraph BC33 explains the Board’s reasoning for this proposal. Do you agree? Why or why not?</p>	
3	<p>Paragraph 3.1 proposes that an entity’s management commentary provide information that:</p> <p>(a) enhances investors and creditors’ understanding of the entity’s financial performance and financial position reported in its financial statements; and</p> <p>(b) 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. Paragraph 3.2 proposes that the information required by paragraph 3.1 be provided if it is material.</p> <p>Paragraph 3.2 states that, 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 that management commentary and of the related financial statements. Paragraphs 3.5–3.19 explain aspects of the objective, including the meaning of ‘ability to create value’. Paragraphs BC42–BC61 explain the Board’s reasoning for these proposals. Do you agree with the proposed objective of management commentary? Why or why not? If you disagree, what do you suggest instead, and why?</p>	<p>Partially Agree. The subject of ‘ability to create value and generate cash flows’ is a very subjective topic. Any corporate restructuring or corporate action may lead to value creation, but should it necessary generate cash flow is a question. Secondly, why should it be of interest to only investors and creditors (agree they are the predominant users), but there are other stakeholders also like Government, general public, analysts, etc,</p> <p>It is also important to align the overall reporting with the framework adopted by the entity on business responsibility and sustainability reporting whether it is United Nations SDG or GRI or any other recognised framework.</p> <p>It is important how such framework provided the information to the stakeholders (and not restricted to investors and creditors) and the inter-play with the financial statements.</p> <p>Further, the very objective of moving towards Integrated Reporting (‘IR’) or using other framework on disclosure was only to ensure that how the entity has contributed not only to itself (Profit), but to People and Planet (Triple Line Reporting).</p> <p>With the proposed amendment, at best, Para 3.1 only aims to give a subset of information which otherwise an entity would require to give as a comprehensive information under any other guideline.</p>
4	<p>The Exposure Draft proposes an objectives-based approach that:</p>	<p>Yes, it could be operationalised. Would also suggest giving sort of broad format or contents in which the information needs to be provided. However, it is also important to see how this is aligned to the</p>

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	<p>(a) specifies an objective for management commentary (see Chapter 3);</p> <p>(b) specifies six areas of content for management commentary and, for each area of content, disclosure objectives that information provided in management commentary is required to meet (see Chapters 5–10);</p> <p>(c) gives examples of information that management commentary might need to provide to meet the disclosure objectives (see Chapter 15); but</p> <p>(d) does not provide a detailed and prescriptive list of information that management commentary must provide. Paragraphs BC69–BC71 explain the Board’s reasoning for proposing this approach.</p> <p>Do you expect that the Board's proposed approach would be:</p> <p>(a) capable of being operationalised—providing a suitable and sufficient basis for management to identify information that investors and creditors need; and</p> <p>(b) enforceable—providing a suitable and sufficient basis for auditors and regulators to determine whether an entity has complied with the requirements of the Practice Statement? If not, what approach do you suggest and why?</p>	<p>requirements of the regulators (considering local preferences and circumstances).</p> <p>Further, what are the expectations from the auditors also needs to be clearly defined. Some of the questions are :</p> <ol style="list-style-type: none"> <li>a. Whether this would be part of the audit report of the financial statements, which I presume not, since the information in management commentary has more information which may or may not be in financial statements?</li> <li>b. What would the auditors report on? Should they report on Practice Statement or any other framework adopted by the entity?</li> <li>c. Is there any potential conflict between ISA 720 requirements on reporting on ‘other information’ and management commentaries?</li> </ol>
5	<p>The proposed disclosure objectives for the areas of content comprise three components—a headline objective, assessment objectives and specific objectives. Paragraph 4.3 explains the role of each component. Paragraphs 4.4–4.5 set out a process for identifying the information needed to meet the disclosure objectives for the areas of content and to meet the objective of</p>	<p>Would go with what is ‘fundamental’ rather than ‘material’, since I feel where both qualitative and quantitative information is provided, the ‘fundamental’ topics would be important, which may or may not be ‘material’. Having said that, optically when the word ‘material’ is used, it goes without saying that readers would link it back to the financial statements or audit report (Key Audit Matter) or the auditor’s judgement on materiality.</p>

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	<p>management commentary. Paragraphs BC72–BC76 explain the Board’s reasoning for these proposals.</p> <p>(a) Do you agree with the proposed design of the disclosure objectives? Why or why not? If you disagree, what do you suggest instead, and why?</p> <p>(b) Do you have general comments on the proposed disclosure objectives that are not covered in your answers to Question 6?</p>	
6	<p>Chapters 5–10 propose disclosure objectives for six areas of content. Do you agree with the proposed disclosure objectives for information about:</p> <p>(a) the entity’s business model;  (b) management’s strategy for sustaining and developing that business model;  (c) the entity’s resources and relationships;  (d) risks to which the entity is exposed;  (e) the entity’s external environment; and  (f) the entity’s financial performance and financial position?  Why or why not? If you disagree, what do you suggest instead, and why?</p>	<p>Agreed. Care should be taken to ensure that the inter-play between financial statements and other parts. For example, the entity’s financial performance and financial position should align with financial statements, risk exposure should in alignment with risk management disclosures.</p>
7	<p>Paragraphs 4.7–4.14 explain proposed requirements for management commentary to focus on key matters. Those paragraphs also propose guidance on identifying key matters. Chapters 5–10 propose examples of key matters for each area of content and examples of metrics that management might use to monitor key matters and to measure progress in managing those matters. Paragraphs BC77–BC79 explain the Board’s reasoning for these proposals.</p> <p>(a) Do you agree that the Practice Statement should require management commentary to focus on key matters? Why or why not? If you disagree, what do you suggest instead, and why?</p>	<p>In Para BC 81, it is mentioned that ‘The Board does not propose to specify in Chapter 15 items of information that should always be required. As discussed in Para BC60 to BC 71, the Board proposes an objectives-based rather than a prescriptive approach to disclosure’.</p> <p>There could be local requirement to give the information in a prescriptive format, then there could be issues in the presentation aspects. Secondly, if it is not prescribed, there are always judgments into what is ‘key’, ‘material’ etc., which are surely important, but then there is a risk that an entity may miss disclosing a crucial information. Giving in a prescriptive manner would also help analyst to collate information on a common basis and use it for benchmarking or other comparative analysis.</p>

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	<p>(b) Do you expect that the proposed guidance on identifying key matters, including the examples of key matters, would provide a suitable and sufficient basis for management to identify the key matters on which management commentary should focus? If not, what alternative or additional guidance do you suggest?</p> <p>(c) Do you have any other comments on the proposed guidance?</p>	
8	<p>Requirements and guidance proposed in this Exposure Draft would apply to reporting on matters that could affect the entity's long-term prospects, on intangible resources and relationships, and on environmental and social matters. Appendix B provides an overview of requirements and guidance that management is likely to need to consider in deciding what information it needs to provide about such matters. Appendix B also provides examples showing how management might consider the requirements and guidance in identifying which matters are key and which information is material in the fact patterns described. Paragraphs BC82–BC84 explain the Board's reasoning for this approach.</p> <p>(a) Do you expect that the requirements and guidance proposed in the Exposure Draft would provide a suitable and sufficient basis for management to identify material information that investors and creditors need about:</p> <ul style="list-style-type: none"> <li>(i) matters that could affect the entity's long-term prospects;</li> <li>(ii) intangible resources and relationships; and</li> <li>(iii) environmental and social matters? Why or why not? If you expect that the proposed requirements and guidance would not provide a suitable or</li> </ul>	<p>It is important to know from the perspective of an entity what is 'long term' considering the fact that the business of each entity could be different. An entity in the business of real estate or ship building will look at the long-term perspective differently from that of a company in trading or retail business. Further, this should not be related to 'going concern' unless the long-term prospects are so negative, and this could impact the existence of the entity itself.</p> <p>There has to be a clear distinction between sending out a message on long-term prospects or challenges thereto and uncertainty of the entity to continue as a going concern (which is also part of the audit report).</p>

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	<p>sufficient basis for management to identify that information, what alternative or additional requirements or guidance do you suggest?</p> <p>(b) Do you have any other comments on the proposed requirements and guidance that would apply to such matters?</p>	
9	<p>Paragraphs BC13–BC14 explain that the Trustees of the IFRS Foundation have published proposals to amend the Foundation’s constitution to enable the Foundation to establish a new board for setting sustainability reporting standards. In the future, entities might be able to apply standards issued by that new board to help them identify some information about environmental and social matters that is needed to comply with the Practice Statement.</p> <p>Are there any matters relating to the Trustees’ plans that you think the Board should consider in finalising the Practice Statement?</p>	<p>Agree. It is a welcome move to have standards on sustainability reporting, especially if it is a global standard and is integrated with IFRS.</p>
10	<p>Chapter 12 proposes guidance to help management identify material information. Paragraphs BC103–BC113 explain the Board’s reasoning in developing that proposed guidance.</p> <p>Do you have any comments on the proposed guidance?</p>	<p>Agree.</p>
11	<p>a) Chapter 13 proposes to require information in management commentary to be complete, balanced and accurate and discusses other attributes that can make that information more useful. Chapter 13 also proposes guidance to help management ensure that information in management commentary possesses the required attributes.</p> <p>Paragraphs BC97–BC102 and BC114–BC116 explain the Board’s reasoning for these proposals. Do you agree</p>	<p>Agreed, since this would give a framework of reporting by the Management.</p>

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	<p>with these proposals? Why or why not? If not, what do you suggest instead and why?</p> <p>(b) Paragraphs 13.19–13.21 discuss inclusion of information in management commentary by cross-reference to information in other reports published by the entity. Paragraphs BC117–BC124 explain the Board’s reasoning for these proposals. Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?</p>	
12	<p>Chapter 14 proposes requirements that would apply to metrics included in management commentary. Paragraphs BC125–BC134 explain the Board’s reasoning for these proposals. Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?</p>	<p>Agree since metrics is the only way to measure the developments.</p>
13	<p>Material information needed to meet the disclosure objectives set out in Chapters 5–10 will depend on the entity and its circumstances. Chapter 15 proposes examples of information that might be material.</p> <p>Paragraphs BC80–BC81 explain the Board’s reasoning for these proposals.</p> <p>Do you expect that the proposed examples would help management to identify material information that management commentary might need to provide to meet disclosure objectives for information about:</p> <p>(a) the entity’s business model;  (b) management’s strategy for sustaining and developing that business model;  (c) the entity’s resources and relationships;  (d) risks to which the entity is exposed;  (e) the entity’s external environment; and (f) the entity’s financial performance and financial position? If not, what</p>	<p>Agree. Illustrations always helps the management to take guidance and report.</p>

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	alternative or additional examples do you suggest? Do you have any other comments on the proposed examples?	

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Above views are of personal in Nature.

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