Exposure Draft

Management Commentary

1. Financial statements to which management commentary relates

Question 1—The financial statements to which management commentary relates Paragraph 2.2 proposes that management commentary identify the financial statements to which it relates. That paragraph further proposes that, if the related financial statements are not prepared in accordance with IFRS Standards, the management commentary would disclose the basis on which the financial statements are prepared.

The Exposure Draft does not propose any restrictions on the basis of preparation of the related financial statements (for example, it does not propose a requirement that financial statements be prepared applying concepts similar to those underpinning IFRS Standards).

Paragraphs BC34–BC38 explain the Board's reasoning for these proposals.

(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?

(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?

Comments;

SIRC of ICAI agrees with the following:

1.1 The ED is not imposing restrictions or conditions on the basis of preparation of the related financial statements.

1.2 The proposal to require an entity to disclose in its management commentary the basis on which its financial statements are prepared if they do not comply with IFRS Standards.

1.3 Initiatives such as the Practice Statement can also contribute to the cross-fertilisation of best practices to improve information in management commentary across jurisdictions.

1.4 The ED does not propose any restrictions on the basis of preparation of the related financial statements which is a major change compared to the current Practice Statement which only addressed management commentaries accompanying IFRS financial statements.

1.5 The ED is not imposing restrictions or conditions on GAAPs used by, as this would be very complex to implement and create an unnecessary barrier to the adoption of the revised Practice Statement.

1.6 he proposal of ED that require an entity to disclose in its management commentary the basis on which its financial statements are prepared if they do not comply with IFRS Standards.

Observations:

1.7 Specifying that the guidance in the revised Practice Statement is meant to apply to general purpose financial statements and not to specific purpose financial statements.

1.8 Specifying that the guidance in the revised Practice Statement is meant to apply to general purpose financial statements not specific purpose financial statements.

1.9 If financial statements are prepared in accordance with concepts that are different from those underpinning IFRS Standards, an entity is unlikely to be able to apply the revised Practice Statement.

1.10 It is not clear whether a statement of compliance with the revised Practice Statement is still possible when entities have a similar but not identical definition of materiality. Further, it is unclear whether this fact alone would prevent entities from stating their compliance with the revised Practice Statement.

2. Statement of compliance

Question 2 - Statement of compliance

(a) Paragraph 2.5 of the ED 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 to the ED explain the Board's reasoning for this proposal. Do you agree? Why or why not?

(b) Paragraph 2.6 of the ED 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 departures from the requirements of the Practice Statement and giving the reasons for those departures. Paragraph BC33 to the ED explains the Board's reasoning for this proposal. Do you agree? Why or why not?

Comments:

2.1 SIRC of ICAI supports the requirement that an entity can make an unqualified statement of compliance only if its management commentary complies with all requirements in the revised Practice Statement.

2.2 SIRC of ICAI also supports the proposal to allow a qualified statement of compliance if the management commentary identifies the departures from the requirements of the revised Practice Statement and gives reasons for those departures.

2.3 SIRC of ICAI agrees with the following:

2.3.1 Requirement that an entity can make an unqualified statement of compliance only if its management commentary complies with all requirements in the revised Practice Statement. SIRC of ICAI observe that this requirement is carried forward from the existing Practice Statement.

2.3.2 The proposals to allow a qualified statement of compliance to the extent that management commentary identifies the departures from the requirements of the revised Practice Statement and gives reasons for those departures. The proposal has the potential to lift barriers against the diffusion of the approach and concepts underpinning the management commentary further encourage the voluntary application of all or some of the guidance.

2.3.4 Permitting only an unqualified statement of compliance could set a high hurdle for reporting and a barrier to applying the revised Practice Statement. Some entities may want to comply with the revised Practice Statement to improve the quality and credibility of information in their management commentary but may not be able to do so because they need time to work towards full compliance.

3. Objective of management commentary

Question 3 - Objective of management commentary

Paragraph 3.1 proposes that an entity's management commentary provide information that:

(a) enhances investors and creditors' understanding of the entity's financial performance and financial position reported in its financial statements; and

(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. 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?

Comments:

3.1 SIRC of ICAI supports the proposed objective for the management commentary. It emphasises the need to provide a long-term view; and the link between value creation and income, expenses and cash flows resulting from the value created through the entity's operating, investing, and financing activities as reported in the entity's financial statements. However, further clarification is needed on the relationship between the notion of 'ability to create value' and 'cash flow generation'. We consider that the proposed revised objective helps to distinguish the role of the management commentary from the role of the financial statements. The objective in the current Practice Statement focuses too much on the description of the resources and claims of the management commentary rather than on the usefulness of the information for the assessment of an entity's prospects for future cash flows and of management's stewardship of the entity's resources and hence SIRC of ICAI welcomes the proposed shifted objective for the management commentary.

Observations:

3.2 Some of the concerns with the proposed objective are detailed below:

(i) explaining how the proposed objectives also serve the assessment of stewardship;

(ii) inconsistency with the objective of financial reports stated in the Conceptual Framework that includes providing information on cash flows; and

(iii) definition of materiality. The revised Practice Statement should require entities to specify what they mean by short or long-term for their business models as this can inform the evaluation of entities' long-term prospects.

3.3 The guidance should make it clear that both 'not destroying value' and 'creation of value' are encompassed. In other words, the potential erosion of cash flows should also be considered.

3.4 There is no explicit reference made to the stewardship objective in the proposed objective for the revised Practice Statement, which seems to focus primarily on the decision-usefulness of the information for investors and creditors.

3.5 SIRC of ICAI observes that the proposed objective in the revised Practice Statement refers to the 'understanding of the information in the financial statements about 'financial performance and position'. In contrast, the objective of general-purpose financial statements, is to provide information about 'the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions'.

3.6 The objective of the revised Practice Statement should include a reference to providing information about cash flows.

3.7 The IFRS Conceptual Framework already includes a definition of materiality that should apply to all general-purpose financial reports which encompass management commentary.

3.8 The revised Practice Statement does not require information that informs entities abilities to generate future cash flows to be split by time horizon nor does it prescribe timescales.

3.9 The revised Practice Statement should require entities to specify what they mean by short or long-term for their business model as this can inform the evaluation of entities' long-term prospects.

3.10 When referring to time horizon there should be clearer language than 'time horizon including long term' and reference should instead be made to 'multiple time horizons' or to 'across short, medium, and long term'.

3.11 The guidance should clarify that long-term goes beyond management's forecast period. It is not necessarily clear whether long-term is intended to encompass what would be captured in the terminal value of the entity and whether there could be material impacts in the long-term that may not be reflected in the terminal value.

4. Overall approach

Question 4 - Overall Approach

The Exposure Draft proposes an objectives-based approach that:

(a) specifies an objective for management commentary (see Chapter 3);

(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);

(c) gives examples of information that management commentary might need to provide to meet the disclosure objectives (see Chapter 15); but

(d) does not provide a detailed and prescriptive list of information that commentary must provide. Paragraphs BC69–BC71 explain the Board's reasoning for proposing this approach.

Do you expect that the Board's proposed approach would be:

(a) capable of being operationalised - providing a suitable and sufficient basis for management to identify information that investors and creditors need; and

(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?

Comments:

4.1 SIRC of ICAI supports an objectives-based approach combining overall and specific disclosure objectives complemented with non-binding examples. An objectives-based approach for disclosures is particularly appropriate for information in the management commentary because:

(a) Matters that might need to be discussed are highly entity-specific and would depend on an entity's own circumstances, activities and the industry in which an entity operates. Furthermore, key matters faced by an entity can change over time. Hence, a prescriptive approach aiming at identifying all matters about which information to disclose would not be feasible.

b) Developing specific rule-based requirements for the management commentary is primarily the responsibility of legislators, securities regulators or national standard setters.

c) It is essential to clarify the interaction between:

(a) the proposed specific principles which are supposed to reflect the 'information 'needs'' of users; and

(b) the concept of materiality which refers to information which omission, misstatement or obscuring 'could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements'.

Observations:

4.2 The IASB may further consider and explain the relationship between individual disclosure objectives in IFRS Standards and the concept of materiality as this is essential to an understanding of the proposals.

4.3 Further, by nature, objective-based requirements are more prone to create applicability, enforceability and auditability which ought to be field-tested by the IASB.

We agree that the proposed change on resources and relationships play a major role in entities' ability to create value and generate cash flows. The factors and trends in the external environment may affect not only an entity's business model, but also its strategy, resources and relationships, or the risks the entity faces. Users increasingly request information about environmental and social factors affecting the entity's ability to create value and generate cash flows.

4.4 SIRC of ICAI supports the fact that progress in managing key matters is discussed within the content elements rather than as a separate topic as is the case in the current Practice Statement. It reflects the dynamic nature of the information about each of the content elements.

4.5 Governance is not addressed as a content element in the ED. Although some aspects of governance may be addressed in the ED on a piecemeal basis the ED does not require comprehensive or detailed reporting on an entity's governance.

4.6 The ED explains that the ED does not propose to require comprehensive or detailed reporting on an entity's governance because governance is typically regulated by local laws. A guidance on governance should be included. Users need such information to assess management's stewardship of the entity's resources. A high level, principle based guidance could be provided so as to not create conflict with local regulations.

4.7 The proposed presentation, where the guidance is scattered across the different content elements, does not emphasise enough the specific and unique role of intangibles in the value creation.

4.8 Risks are described and several examples of 'risks' are provided in the ED but the term itself is not defined. It is therefore unclear whether, besides financial risks, it also encompasses operational, legal risks, reputation risks technology risks. Similarly, opportunities are not defined;

4.9 The terms 'resource and relationships' are not clearly defined either. The resources and relationships an entity 'depend on' for value creation are not necessarily the ones the entity can control, and it is unclear where the boundaries should be set.

4.10 Strategy is not defined.

4.11 The assessment objective introduced in the revised Practice Statement might introduce complexity and cost for preparers. It will be particularly challenging for smaller entities to have to monitor different and changing user information needs.

Suggestions:

4.12 The ED includes in the definition of a business model an explicit reference to value creation and time horizon.

4.13 Guidance is needed on the notion of the 'long term' in relation to the business model and strategy.

4.14 Guidance is also needed to describe what is meant by 'resilient' and 'durable' in respect of the business model

4.15 The current disclosure objective relating to business models has limited reference to outputs and impacts. The reference to outputs and impacts should be more prominent.

4.16 Intangibles have a synergic nature and most intangible assets do not create income on their own but only in conjunction with other assets. Further, Intangibles can have a positive or negative effect on value creation; they can create both risks and opportunities. Unlike tangible assets, Intangibles are 'scalable' which means that can be used repeatedly and in multiple places at the same time. Therefore, these areas need further elaboration.

4.17 The guidance relating to the risks should not only require information about the 'extent' of the entity's exposure but also require information about the cause and context of the risk exposure to help identify the mitigation of the risk.

4.18 The information about risks shall enable investors and creditors to understand the nature of opportunities that have been identified in associated with, or arising from the entity's risks and their management; how management will mitigate disruption if it occurs and how the mitigation is aided by the implementation of identified opportunities; and progress in managing risks and developing opportunities. Equal emphasis should be placed on opportunities and risks as the same events, transactions or factors may create both risks and opportunities. Also, disclosure of any trade-offs between risks and opportunities in decisions made that created value could also be material information.

4.19 Materiality is a dynamic concept and what is considered material that may evolve based on factors like emerging technologies, societal preferences, new knowledge and public policy and regulations.

Question 5 - Design of disclosure objectives

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 management commentary.

Paragraphs BC72 - BC76 explain the Board's reasoning for these proposals.

(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?

(b) Do you have general comments on the proposed disclosure objectives that are not covered in your answers to Question 6?

Comments:

5.1 SIRC of ICAI finds major difference between the proposals in the ED and those in the Disclosure Initiative Pilot project as the ED introduces a third type of objectives referred to as 'assessment objectives' that would require, preparers to assess whether the information they provide meets the information needs of users for their assessments. In the Disclosure Initiative Pilot project, the assessment that users make with the information are provided for information only and have been used in designing the overall and specific objectives. But preparers are not required to second guess whether by meeting the overall and specific objectives they are providing enough information for users to make their assessments.

5.2 The assessment objective introduced in the revised Practice Statement might introduce complexity and cost for preparers.

5.3 Separating specific objectives from assessment objectives is deemed to provide a sufficient basis for assessing compliance.

5.4 We note that in the Disclosure Initiative Pilot project, the IASB has concluded that the combination of overall and specific objectives was enough to ensure the applicability and enforcement of the proposals. A Pilot Project entities are required to: (a) First, assess how to meet the different specific disclosure objectives. (b) Then consider whether, after having addressed all the specific disclosure objectives, the information as a whole for the content element meets the headline objective. (c) Then consider the objective of the Management

Commentary as a whole and assess whether the information provided across all content elements meets the overall objective of the Management Commentary as set out in the ED. It is necessary that at each step, management considers providing additional information if the objectives are not deemed to be met.

5.5 We also observe that the revised Practice Statement is using different terminology than in the ED Disclosure Requirements in IFRS Standards for similar concepts, namely: (a) Headline objective versus Overall objectives (b) 'Could include' versus 'While not mandatory, the following information may enable an entity to meet'; and (c) Assessment objectives versus 'Explanation of what the information is intended to help users do. It is unhelpful to use different terminologies across two consultations for concepts that are essentially the same. This may create confusion especially as the two consultations are conducted over the same period.

5.6 The revised Practice Statement proposes to provide information about the entity's business model that operated during the reporting period and explains whether, how and why that model has changed since the previous reporting period.

5.7 The ED expects the revised Practice Statement shall provide information that enables investors and creditors to understand the resources and relationships on which the entity's business model and management's strategy for sustaining and developing that model depend.

5.8 Managing the entity's resources and relationships includes obtaining and maintaining those resources and relationships as well as developing, enhancing and replacing them as the entity's needs evolve.

5.9 The ED expects in the revised Practice Statement that entities focus on the key risks to which the entity is exposed. Key risks are risks of events or circumstances that could fundamentally disrupt the entity's ability to create value and generate cash flows, including in the long term.

5.10 The ED explains that an entity can be affected by factors in its external environment and by trends in these factors. The ED expects the entity to disclose information about factors and trends in an entity's external environment which provides insights into their effects on the entity's business model, on management's strategy for sustaining and developing that model, on the entity's resources and relationships, and on the risks to which the entity is exposed.

5.11 The ED expects the entity to disclose information about the entity's financial performance and financial position shall enable investors and creditors to understand: (a) what factors have affected the entity's financial performance and financial position in the reporting period or could affect them in the future, including in the long term; (b) how management has allocated financial resources in the reporting period; and (c) how the entity's financial performance and financial position compare with forecasts or targets previously published by the entity, if any.

Question 6 - Disclosure objectives for the areas of content

Chapters 5 - 10 propose disclosure objectives for six areas of content.

Do you agree with the proposed disclosure objectives for information about:?

(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?

Comments:

6.1 The specific objectives as proposed are an improvement over the current guidance in the Practice Statement which only contains broad descriptions of what management needs to discuss for each area of content that is not specific enough to help management identify information needed by users to meet these implied objectives.

6.2 The ED does not clearly explain how the proposed specific and headline objectives also address the stewardship objective of financial reports. We observe that no explicit mention is made of the stewardship objective in the proposed objective which seems to focus only on the decision-usefulness of the information for investors and creditors. Therefore, the ED to explain how it has determined that the application of the proposed overall and specific objectives will also provide a basis for the assessment of the stewardship of management.

6.3 The ED explain proposed requirements for management commentary to focus on key matters. Matters would be identified as 'key' if they are 'fundamental to the entity's ability to create value and generate cash flows'. Understanding that ability helps investors and creditors to assess the entity's prospects for future cash flows and management's stewardship and ultimately to make investment decisions. To help an entity's management identify the key matters that are specific to that entity, the ED proposes to include in the revised Practice Statement guidance supporting the definition of key matters and examples of possible key matters.

Question 7 - Key matters

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.

(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?

(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? (c) Do you have any other comments on the proposed guidance?

Comments:

7.1 SIRC of ICAI agrees that information provided in the management commentary should focus on matters that are 'important' to an entity's ability to create value and generate cash flows. Understanding that ability helps users assess the entity's prospects for future cash flows and management's stewardship and ultimately to make investment decisions.

7.2 Introduction of the notion of key matters is meant to help in the identification of material information taking into consideration that the scope of information that needs to be included in management commentary may be too broad.

7.3 The IASB explains in the Basis for Conclusions to the ED (BC78) that it proposes to introduce the notion of 'key' matters and avoid using the term 'material' to convey how important those matters are for the entity's ability to create value and generate cash flows because materiality as defined in the IFRS Conceptual Framework and IAS 1 'is an attribute of information, not an attribute of matters'. For the same reason, the IASB proposes the term 'fundamental' rather than 'material' in the definition of key matters. However, we note that the above assertion is not consistent with the recently issued amendments to IAS1 Disclosure of Accounting Policies in which the IASB explicitly refers in several places to 'material transactions, other events or conditions. Although BC78 states 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'; we believe that there is a risk that the introduced concepts create confusion. Therefore, the ED may reconsider the effects of the proposals in ED introducing the concepts of 'key' and 'fundamental' in the revised Practice Statement with the existing guidance in IFRS Standards.

7.4 The guidance on the interaction between key matters versus material information is fragmented within the ED. This may make it difficult for stakeholders to understand the intended two-step approach for identifying material information for management commentary. Therefore, we propose a consolidated analysis of the notion of key matters and material information in a single section within the guidance.

7.5 One of the reasons for starting the project was to help management identify what information to provide on interrelated matters of particular interest to investors and creditors—on matters that could affect an entity's long-term prospects, on intangible resources and relationships and on ESG matters The ED state that Investors and creditors are particularly interested in information about matters that could affect an entity's long-term prospects. Such matters could include matters relating to the entity's intangible resources and relationships and environmental, social and governance (ESG) matters. Management commentary provides material, entity-specific information about such matters to meet its overall objective and the specific disclosure objectives set out in Chapters 5–10.

7.6 Many of the matters that pose the biggest threats to a business cannot be directly linked with enterprise value or cash flows. The guidance on risks that should be disclosed is a good starting point but unlikely to be adhered to, nor other key matters disclosed, where the overarching criteria is cash flows and enterprise value. There is a mismatch between the conceptual approach you propose and what you seek to see reported.

Question 8 - Long-term prospects, intangible resources and relationships and ESG matters

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.

(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: (i) matters that could affect the entity's long-term prospects; (ii) intangible resources and relationships; and (iii) environmental and social matters? Why or why not? If you expect that the proposed requirements and guidance would not provide a suitable or sufficient basis for management to identify that information, what alternative or additional requirements or guidance do you suggest?

(b) Do you have any other comments on the proposed requirements and guidance that would apply to such matters?

Comments:

8.1 SIRC of ICAI supports the provision of additional guidance to help entities provide information on matters that affects their long-term perspective and in particular on intangibles and ESG matters. These matters are often under-reported, although they increasingly affect an entity's ability to create value and generate cash flows and are matters of increasing interest to users.

8.2 The proposed guidance on intangible is useful. However, the guidance is not given enough emphasis by being scattered across the different content elements. We suggest that intangibles are addressed more comprehensively in paragraphs 4.16 and 4.17. We also suggest cross-referencing proposed guidance to examples in Appendix B within the main guidance on ESG matters.

8.3 The ED to provide information about factors and trends in an entity's external environment that fundamentally affect the entity, including social and environmental factors.

8.4 The ED to explain how those factors and trends have affected or could affect the entity's business model, management's strategy for sustaining and developing that model, the entity's resources and relationships and the risks to which the entity is exposed.

8.5 The revised Practice Statement should also address Governance. Disclosures on governance are essential to understand the other content elements. If Governance is left out of the requirements in the revised Practice Statement, this may defeat the objective to have coherent and comparable information for users.

8.6 High-level objectives and principles can be defined, and examples provided to illustrate them as for the other content elements. This could be done by cross-referencing proposed guidance to examples in Appendix B within the main guidance. This will also give prominence to the extent to which the guidance addressed long-term prospects, intangible resources and ESG matters.

8.7 The Basis for Conclusion (BC84,) explains that the IASB envisages that an entity could apply the revised Practice Statement in conjunction with narrative reporting requirements or guidelines issued by other bodies or organisations and addressing specific topics such as environmental, social, or other sustainability matters. Management commentary could be an appropriate location for information about environmental and social matters that an entity's management has identified by applying other requirements or guidelines, and that is material to investors and creditors in the context of management commentary.

8.8 It is also noted in BC14 that the Trustees of the IFRS Foundation are considering the Foundation's role in the development of sustainability reporting standards.

8.9 Businesses increasingly think in terms of multiple capitals and seek to be accountable across them. This has been driven by the increase in the proportion of intangible assets relevant to business value and recognition that businesses rely on a range of inputs other than cash, some of which are limited. As organisations develop approaches to their impact on the United Nations Sustainable Development Goals some are linking it to the process of enhancing or depleting capitals.

Question 9 – Interaction with the IFRS Foundation Trustees' project on sustainability reporting

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.

Are there any matters relating to the Trustees' plans that you think the Board should consider in finalising the Practice Statement?

Comments:

9.1 We observe that there are significant ongoing initiatives in developing requirements for sustainability reporting that could have implications for the management commentary. The revised Practice Statement can potentially be a useful reference document and a source of inspiration even for jurisdictions that have robust mandatory requirements for the management report.

9.2 The ED proposes guidance to help management identify material information on identifying key matters and material information of key matters for each area of content; examples of metrics that management might use to monitor key matters and to measure progress in managing those matters for each area of content examples of material information linked to specific disclosure objectives that are useful.

9.3 The ED provides a description of indications that information might be material that are derived from information management uses for managing the business, or it has been included in the entity's capital market communications.

Question 10 - Making materiality judgements

Chapter 12 proposes guidance to help management identify material information.

Paragraphs BC103–BC113 explain the Board's reasoning in developing that proposed guidance. Do you have any comments on the proposed guidance?

Comments:

10.1 SIRC of ICAI welcomes the provisions of application guidance to help an entity apply materiality judgement and identify information that is material in the context of the management commentary.

10.2 It is accepted that placing the compliance requirement on disclosure objectives and not on items of information would require an entity to apply materiality judgements to a universe of possible disclosures to meet a set objective. That might be challenging and burdensome for preparers. The proposed approach would require preparers to determine the information that would meet the needs of users of financial statements, whose perspectives may differ from their own. Preparers would need to determine and also justify that they have met the stated objectives. Interactions with the Materiality Practice statement.

10.3 The ED may state how its proposed application guidance on Materiality in the ED interact with the guidance provided in the Materiality Practice Statement. This is because materiality assessments for management commentary are not done in isolation and are often combined with those made for financial statements.

10.4 The Materiality practice statement suggests a four-step approach for information in financial statements in which an entity:

(a) First, identify information that has the potential to be material.

(b) Then, assess whether the information identified in Step 1 is, in fact, material.

(c) Organise the information within the draft financial statements in a way that communicates the information clearly and concisely to primary users.

(d) Review the draft financial statements to determine whether all material information has been identified

10.5 The Management Commentary requires an extra step to first identify 'key matters' on which to report on, as unlike for financial statements, key matters to report on are not defined by standards. However, once key matters have been identified, the assessment of material information about these matters could follow the multiple-step approach suggested in the Materiality Practice Statement.

10.6 The IASB proposes to provide guidance on the three components of faithful representation completeness, balance and accuracy. But the ED does not directly refer to the overarching characteristic of faithful representation. The IASB decided to not list timeliness as an attribute of useful information in management commentary because: the timing of publication of management commentary is a local jurisdictional and regulatory matter and management commentary can still have confirmatory value, and therefore be useful, even if it is published after the financial statements.

Question 11 - Completeness, balance, accuracy and other attributes 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.

Paragraphs BC97–BC102 and BC114–BC116 explain the Board's reasoning for these proposals.

(a) Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

(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?

Comments:

11.1 SIRC of ICAI agrees that the identification of qualitative characteristics or attributes for the information in the management commentary is useful. At the same time, the IFRS Conceptual Framework defines qualitative characteristics of useful financial information contained in 'financial reports' considered in general which encompass the management commentary as well.

11.2 The ED proposes alternative terminology to the concept of faithful representation as the IASB has considered, based on its research that 'preparers of management commentary may not widely use or understand the term 'faithful representation'.

11.3 We observe that:

(a) the three components of faithful representation described in the conceptual framework (i.e., complete, neutral and free from error) have been 'translated' into 'complete', 'balance' and 'accurate', respectively.

(b) Similarly, the four enhancing characteristics (understandability, comparability, verifiability and timeliness) have become three only (clarity and conciseness, comparability and verifiability, whereas timeliness is not considered in the ED) 155 can understand the IASB's aim to use simpler language as an entity's management commentary is often prepared by a larger group of individuals than those involved in preparing its financial statements, and that some of these individuals may be unfamiliar with the terminology in IFRS Standards and the Conceptual Framework. Introducing alternative terminology in the ED that is not in use in the IFRS Literature can be confusing for preparers of financial statements that are also involved in the preparation of the Management Commentary insofar as the latter's objective is to supplement and provide context for the information contained in the financial statements.

11.4 It is opined that instead of using alternative terms, the IASB could explain in the ED how the existing qualitative and enhancing characteristics apply in the context of the management commentary.

11.5 We further note that no mention is made to the concept of relevance. If the IASB decided to proceed with its proposals we suggest that, as a minimum, the IASB better explains how the 'attributes' proposed in the ED relate to the definitions of the qualitative characteristics in the conceptual framework and explain the differences.

11.6 We support the proposal contained in Chapter 13 of the draft revised Practice Statement to require information in management commentary to be presented as a well-integrated, coherent whole. We observe that the ED rightly clarifies coherence principle applies both across the different sections of the management commentary but also with the information presented in the financial statements. Because management commentary is intended to enhance users' understanding of an entity's financial statements, it is essential that management commentary provides information in a way that allows users to relate that information to information in the entity's financial statements.

11.7 SIRC suggest that in addition to the proposed guidance and examples, the IASB could consider the suggestions within the PTF-NFRS report on coherence between financial statements and other reports such as the Management Commentary.

11.8 The PTF-NFRS report suggests that coherence can be achieved through the identification of 'anchor points. An 'anchor point' is defined as data and/ or information that offers a connection opportunity between financial reporting and nonfinancial /sustainability reporting.

11.9 SIRC is concerned about the following provisions: (a) the provision in paragraph 13.23 stating that 'information in management commentary shall be provided in a way that enhances comparability without omitting material information'; and (b) the provision in paragraph 12.5 It is unclear what 'in a way that enhances comparability' means and what it implies from preparers. The requirement should be clarified that it is not expected that preparers actively monitor the disclosures made by their peer companies. If that were the case, it would place an unnecessary burden on preparers to have to monitor peers in pursuit of comparability. Achieving comparability across entities ought to be solely attained through preparers adhering to sufficiently specified guidance by the standard setter.

11.10 The ED does not propose to specify a list of metrics because information about metrics that are specific to an entity and reflect the industry in which it operates. Instead, the revised Practice Statement provides guidance for management to identify entity-specific material information, including metrics, related to matters discussed in management commentary.

11.11 The ED states that material information is likely to include metrics an entity's management uses to monitor key matters and to measure progress in managing key matters. For each area of content, the Board proposes to provide examples of metrics sometimes used to monitor key matters and progress in managing them. The proposals also permit management to use detailed topic-specific or industry specific requirements or guidelines issued by other bodies to identify metrics that might be material to investors and creditors.

Question 12 - Metrics

Chapter 14 proposes requirements that would apply to metrics included in management commentary. Paragraphs BC125–BC134 to the ED 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?

Comments

12.1 SIRC of ICAI agrees that the Management Commentary should not specify a list of metrics that an entity would be required to provide because information about metrics is specific to an entity and reflect the industry in which it operates, and its other circumstances.

12.2 It is observed that the ED defines the notion of 'metrics' very broadly as 'any measure that management uses to monitor a quantitative or qualitative aspect of a company's financial or non-financial performance or position'. This definition is broader than the notion of Management Performance Measures or the notion of Alternative Performance Measure as it includes: (a) Both financial and non-financial measures; and (b) Both performance and financial position measures. Metrics of financial performance of position'

12.3 SIRC of ICAI supports the proposed further requirements, in paragraph 14.6 of the ED for metrics of financial performance or financial position that are 'derived by adjusting measures presented or disclosed in the financial statements'.

12.4 SIRC of ICAI notes that the requirement to explain, reconcile, label consistently and not present such metrics more prominently are generally consistent with the proposals on Management Performance Measures in the General Presentation and Disclosures Metrics other than financial performance or position.

12.5 It is opined that there may be limitations in the effective practical application of such principles to non-financial information (e.g., customer satisfaction scores, operational metrics) in the absence of explicit standards or regulations governing such information. For instance, the notions of 'accuracy', consistency or 'comparability' are not absolute concepts, and implies that there is a common framework to depict and 'measure' the related metrics against.

12.6 The ED should further clarify that the scope of nonfinancial information and non-financial metrics presented in management commentary is limited to those that are needed to explain the entity's financial performance and financial position.

12.7 The ED proposes to include in the revised Practice Statement examples of information that might be material to help management identify entity-specific information that needs to be included in management commentary to meet the disclosure objectives for each area of content. The examples are each linked to a specific disclosure objective.

Question 13 - Examples of information that might be 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. Paragraphs BC80–BC81 explain the Board's reasoning for these proposals. Do you expect that the proposed examples would help management to identify material information that management commentary might need to provide to meet disclosures objectives for information about:

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

Comments:

13.1 SIRC of ICAI observes that the illustrative examples in Appendix B will help entities to exercise judgement to disclose management commentary information that meets the disclosure objectives. However, it is felt that introducing a 'presumption of materiality' may create confusion.

13.2 The provided examples to be helpful in implementing the proposed guidance but additional examples on Governance, Intangibles, ESG matters, business model, and risks and opportunities could be further developed.

13.3 The ED does not explain the relationship between individual disclosure objectives in IFRS Standards and the concept of materiality. Although materiality is an overarching principle and need not be repeated in each IFRS Standard, we consider that it is essential to clarify the interaction between: (a) the proposed specific principles which are supposed to reflect the 'information 'needs'' of users; and (b) the concept of materiality which refers to information which omission, misstatement or obscuring 'could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements'.

13.4 The ED to consider and explain the relationship between individual disclosure objectives in IFRS Standards and the concept of materiality as this is essential to an understanding of the proposals.

13.5 On Disclosure about Governance the ED, could consider providing examples of information that could be material in relation to the following:

(a) The remuneration policy

(b) The governance on environment and social matters.

(c) Examples illustrating the synergic nature of intangibles

(d) Example of 'negative intangible that are not resources but may create liabilities, such as environmental spills, poor corporate reputation can negatively impact the market value of a company. Disclosure about ESG matters

(e) Disclosure about due diligence processes implemented to assess Environment or Social matters.

(f) Example illustrating how an entity defines its time horizons (short, medium, long term) for ESG matters.

(g) An example of scenario analysis disclosure to evaluate climate-related risks and opportunities that can affect the entities value creation and future cash flows. Scenario analysis disclosure shows the resilience of entities' business models and the effectiveness of their strategy and risk management.

(h) An example of material impacts on the environment and society (i.e., inside-out) that may be also financially material.

(i) An example that addresses both environment and social factors. (j) Current environmental examples are mainly focused on compliance with regulatory requirements. There is a need for examples focused on opportunities and durability around sustainability themes with a focus of disclosures on the following:

(i) Economic benefits of investing in the circular economy; (ii) Benefits of climate change adaptation; (iii) Human capital and human rights; and (iv) Other environmental factors (e.g., biodiversity). Business Model

(k) Example of an entity with several business models.

(l) Example of interactions between the business model, resource allocation (inputs), and outputs. Risks and Opportunities

(m) Example of disclosure of factors that create both risks and opportunities to illustrate the interrelationships and the 'management's perspective' on such factors.

Question 14 - Effective date

Paragraph 1.6 of the ED proposes that the Practice Statement would supersede IFRS Practice Statement 1 Management Commentary (issued in 2010) for annual reporting periods beginning on or after the date of its issue. This means that the Practice Statement would be effective for annual reporting periods ending at least one year after the date of its issue.

Paragraphs BC135–BC137 to the ED explain the Board's reasoning for this proposal. Do you agree with the proposed effective date? Why or why not? If not, what effective date do you suggest and why?

Comments

14.1 Considering the non-mandatory nature of the guidance, SIRC of ICAI has no objections to the proposal that the revised Practice Statement should apply for annual periods on or after its date of issue

14.2 The ED does not propose any specific transitional provisions, based on the assumption that 'information in management commentary is expected to be derived from information already used by management in managing the business, so an entity would not need to produce information specifically for management commentary (BC 138)'.

SIRC of ICAI observes that the provision in paragraph 14.8 of the ED stating that the management commentary shall (a) provide comparative amounts, if obtainable without undue cost or effort for the previous reporting period; and for earlier reporting periods if necessary to show the emergence of trends or if the financial statements include information for those earlier periods. The transitional provisions would be helpful to clarify the need to provide comparative information upon the period of transition.

Question 15 - Effects analysis

(a) Paragraphs BC139–BC177 of the Basis for Conclusions accompanying the Exposure Draft analyse the expected effects of the proposals in this Exposure Draft. Do you have any comments on that analysis?

(b) Paragraphs BC18–BC22 discuss the status of the Practice Statement. They note that it would be for local lawmakers and regulators to decide whether to require entities within their jurisdiction to comply with the Practice Statement. Are you aware of any local legal or regulatory obstacles that would make it difficult for entities to comply with the Practice Statement?

Comments:

15.1 SIRC of ICAI observes that since the IASB proposes to retain the status of the Practice Statement as voluntary guidance, it would be up to local lawmakers and regulators to determine whether entities within their jurisdiction should comply with the requirements) and whether the information would be subject to any form of external assurance. Therefore, the possible effects of the proposals in the ED are difficult to assess on an 'ex-ante' basis as such effects would depend on the extent to which local lawmakers, regulators and standard setters incorporate the revised Practice Statements into their local requirements.

15.2 There are benefits in the proposed requirements that better reflect users' needs, even in jurisdictions where the current Practice Statement is not mandated as this can encourage jurisdictions to incorporate some of the concepts in the revised Practice Statement in local requirements. However, without assessing the effects of the current Practice Statement it is difficult to assess the impact of the revised Practice Statement. Therefore, the IASB my go for further research the extent to which the current Practice Statement is used or referred to across the different jurisdictions.

15.3 The impact of the proposals may vary based on local regulations and laws. It is therefore essential that the field test activities: (a) involve representatives of enforcers (lawmakers, regulators, standard-setters) and auditors; (b) consider the diversity of the nature of reporting entities and does not focus only on the advanced or best-resourced entities; and (c) includes an assessment by users of management commentary on the benefits of the approach and the usefulness of the information resulting from the application of the revised Practice Statement.

15.4 The effects of the proposals may vary based on the size and sophistication of entities. Less resourced or less-sophisticated entities when confronted with the need for judgement, may be tempted to use the examples in the revised Practice Statement as a checklist.

15.5 SIRC of ICAI observes the IASB discusses the effect of technology in -Basis for Conclusions (BC159 – 161) but not in the ED itself. The current IFRS Taxonomy allows block tagging of information in management commentary using limited and broad IFRS Taxonomy elements, such as 'nature of business' or 'management's objectives and its strategies for meeting those objectives'. The more detailed requirements in the revised Practice Statement offers an opportunity for the IASB to provide more specific IFRS Taxonomy elements for management commentary across the six content elements and their respective objectives. The incorporation of text block tagging may facilitate textual analysis of management commentary information and make it easier for users to identify and analyse similarities and differences between entities and across different periods. We, therefore suggest to integrate electronic reporting into the ED's proposals for reporting management commentary information and further consider how the current IFRS taxonomy could be enhanced to address the changes introduced by the proposals in the ED as highlighted in the Basis for Conclusions.

Question 16 – Other comments Do you have any other comments on the proposals set out in the Exposure Draft?

Comments

16.1 The Exposure Draft contains some good examples and guidance. The proposed management commentary framework would provide the basis for identifying what matters to report on and how to present the information.

16.2 The proposals anticipate that companies may use topic-specific frameworks – e.g. covering sustainability matters – to help identify the information to be provided.

16.3 Reporting organisations intend their management commentary for a wider audience than investors and creditors. A Management Commentary Practice Statement should take into account such intentions. It would then also assist public, private and third sector organisations that do not apply IFRS Standards and are not funded by institutional investors.

16.4 Businesses recognise that value creation for the enterprise is dependent on creating value for a range of stakeholders. However, research demonstrates that without *explicit* encouragement there is little disclosure of matters that are not quantifiable in monetary terms and unlikely to affect enterprise value in the short term. Ascertaining the likelihood of such risks and the nature and magnitude of their impact on 'enterprise value' or cash flow is fraught with difficulty. It is a resource intensive exercise that cannot provide a complete picture. Corporate leaders need to be able to manage complexity and information in different forms. Investors need information to assess their ability to do so.

16.5 A Management Commentary Practice Statement needs to be cognisant of the audience for narrative reporting at the front end of annual reports; trends articulating value creation in corporate reporting; and, the urgent need to encourage wider thinking and accountability in connection with climate change and sustainable development.