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23 November 2021

Andreas Barckow
Chair
International Accounting Standards Board
Columbus Building
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London
United Kingdom

Dear Dr Barckow

ED/2021/6 *Management Commentary*

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the Board') Exposure Draft *Management Commentary*. We welcome the Board's project to revise the Practice Statement on Management Commentary. The revision of the Practice Statement is timely in light of the move to sustainability reporting standards under the International Sustainability Standards Board (ISSB).

The Exposure Draft provides a welcome improvement on the 2010 Practice Statement as it includes important and helpful content which can enhance reporting on enterprise value creation and connectivity between financial and non-financial information. These are areas that have been consistently identified by investors as important to their information needs. The Practice Statement also builds on other important developments in corporate reporting, such as the Value Reporting Foundation's International Integrated Reporting Framework (<IR> Framework) and the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

However, we suggest that further improvements are necessary on the following significant issues (which are expanded upon in the Appendix to this letter):

- The Practice Statement would benefit from clearer concepts to help preparers and users understand its underlying thinking and to set a context for the type and range of disclosures envisaged. For example, the Practice Statement could draw on the <IR> Framework which includes important concepts about the relationship between value created for the entity (i.e. enterprise value) and value created for its stakeholders and explains why capitals are important to an understanding of enterprise value.
- We do not think that it is sufficient to measure financial outcomes alone as appears to be proposed in the Exposure Draft. Outcomes of an entity's activities are much broader than what is reported in the financial statements. We suggest expanding the sixth content area to capture non-financial outcomes that are relevant to the entity's ability to create enterprise value over time.
- We suggest restructuring the Practice Statement to make it easier to navigate and apply, for example, by reducing the number of elements. In our view, these elements overlap in many

aspects and their interaction and purpose is not always immediately understandable. We suggest a closer alignment to the <IR> Framework, whose structure includes fundamental concepts, guiding principles for the preparation and presentation of an integrated report, content elements that are fundamentally linked to each other, and high-level and specific objectives for each content element. In our view, such a structure would be more practical for preparers to apply and easier to understand.

- We suggest that the approach to materiality set out in the Practice Statement should articulate more clearly that it necessitates the application of a filter to identify a subset of impacts that are relevant to enterprise value and are therefore material to the information needs of users of management commentary. It should be consistent with paragraph 12 of the General Requirements for Disclosure of Sustainability-related Financial Information Prototype published by the IFRS Foundation (IFRSF) in November 2021. Specifically, the Prototype specifies that material information includes impacts on society and environment if those impacts that could reasonably be expected to affect the entity's future cash flows and events considered to have a low likelihood but a high potential impact on the entity's future cash flows.

Furthermore, since this project commenced, the IFRSF has made a significant move towards establishing global sustainability standards. We think the Board should therefore consider the future direction of the project in the light of this development. This will include how the Practice Statement will sit in relation to sustainability standards and future ownership within the IFRSF. In our view, the Practice Statement could be reconfigured over time. Part of it could serve as an overarching framework for connected reporting that relates to corporate reporting principles, positioned above the IASB and ISSB. It follows that the boards would have to cooperate and coordinate their work on the Practice Statement, as suggested by the Technical Readiness Working Group. Other parts could be included in the presentation standard for sustainability reporting, owned by the ISSB.

Following from this, some might make the case to pause the project, until the ISSB is fully operational and further consideration can be given to the positioning of the Practice Statement within the new IFRSF structure. However, we do not believe pausing the project would be appropriate. The proposal contains useful thinking and content that can be used to enhance corporate reporting, in particular in relation to connecting commentary on enterprise value creation to financial statements. Therefore, the IASB staff should continue to progress their thinking on the project. Rather than finalising the Exposure Draft, we suggest that the project becomes a joint project of both the Board and the incoming ISSB with close cooperation of both staffs to determine next steps given that with the move to sustainability reporting standards under the ISSB, the role of management commentary and this Practice Statement could further evolve.

Our detailed responses to the consultation questions are set out in the Appendix to this letter.

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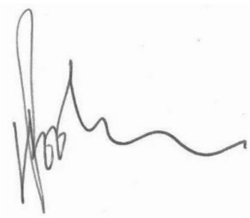
If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS and Corporate Reporting Leader

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Appendix

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?

We agree that entities should be permitted to state compliance with the Practice Statement even if their financial statements are not prepared in accordance with IFRS Standards. We see this as essential as jurisdictions that do not apply IFRS Standards might otherwise be discouraged from applying the Practice Statement.

We also see this position is relevant in the context of the IFRS Foundation's move to sustainability reporting standards under the International Sustainability Standards Board (ISSB). It would be important that policy makers, regulators or other bodies charged with endorsing standards, or entities who may adopt those standards on a voluntary basis, do not perceive that those standards could only be used with IFRS Foundation financial reporting standards.

In addition, such an approach would be consistent with that adopted in integrated reporting, which can be applied with all accounting frameworks.

However, we suggest that Board should clarify that management commentary is only intended to accompany general purpose financial statements.

Question 2—Statement of compliance
(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? (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 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?

We do not think that it should be mandatory to make a statement of compliance, given the voluntary status of the Practice Statement.

Management commentary is often adopted within the context of local mandated reporting requirements, for example a strategic report, management report or MD&A. As such, it should be for the local regulators to decide if and when a statement of compliance might be required. In addition, a mandatory statement, partial or otherwise, may limit take up of the Practice Statement if it is seen as a barrier.

Instead, the Practice Statement should *encourage* a compliance statement where an entity is holding itself out as complying with all requirements of the Practice Statement. Insofar, we do not agree that entities should be able to state partial compliance if they comply with some, but not all, requirements in the Practice Statement.

Furthermore, with the move to sustainability reporting standards under the ISSB, the role of management commentary and this Practice Statement could further evolve. As a result, a mandatory compliance statement is premature at this time.

We note that preparers may find it challenging to assess whether they have complied with all requirements of the Practice Statement (for entities that wish to express compliance). We believe the language in the Practice Statement should be adapted to articulate a clear set of requirements underpinned by distinct principles and objectives. Preparers must be able to understand which requirements they need to meet so they can state compliance with the Practice Statement. This would also support consistent application, interpretation and enforcement. It would also be more operational from an assurance perspective. The topic of assurance is discussed further in our response to Question 4.

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?

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While we do not fundamentally disagree with the intended broad objective of management commentary, we have some concerns about the manner in which it is expressed.

We propose the order of paragraphs 3.1(a) and (b) is reversed. In our view, the primary objective of management commentary is to provide information on enterprise value creation, which is the focus of (b) as currently drafted. It follows that this should be the first element. Information on financial value creation, which is the focus of (a), is integral to achieving the primary objective. Consequently, it is a subset of information on enterprise value creation and should therefore be included as the second element.

Furthermore, paragraph 3.1(a) and (b), as written, could be read as meaning that enterprise value created, other than financial value for the period covered by the financial statements, is missed from the objective if 3.1(b) is designed to have a forward-looking perspective only.

We furthermore think that the meaning of 'create value' and 'generate cash flows' could be clearer and more consistently expressed throughout the Practice Statement. Particularly, we think that the term 'create value' should be changed to 'create enterprise value', as this is a defined economic term that is understood widely and acknowledged in paragraph 3.11 of the draft Practice Statement.

Aside from this, the objective would benefit from a closer alignment with the revised Integrated Reporting Framework (<IR> Framework), which focuses on ways in which entities create, preserve and/or erode value. Flowing from this, the objective for management commentary should reflect the need for users to understand ways in which value is being created, preserved or eroded by the entity and how and when those could lead to impacts on its ability to create enterprise value for itself and to generate cash flows over time.

We propose that paragraph 3.13 be redrafted in a more positive way, to emphasise the circular nature of the impacts the entity has and its dependencies, for example:

"In this [draft] Practice Statement, 'value' refers to the <u>enterprise</u> value an entity creates for itself and hence for its investors and creditors. ~~The term does not refer to~~ <u>This includes</u> the value an entity's activities might create or erode for other parties – for example, customers, suppliers, employees or society in general <u>to the extent that</u> ~~However, management commentary includes material information about~~ the impacts of the entity's activities on other parties ~~if those impacts~~ could affect the entity's ability to create <u>enterprise</u> value for itself."

We also think that paragraphs 3.16 and 3.17 would benefit from an example to explain when an item might be material even if not related to a key matter.

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 management commentary must provide.

<table><tr><td>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?</td></tr></table>

The objectives-based approach chosen by the Board is appropriate and we broadly agree with the matters covered in the content areas selected for the proposed Practice Statement. However, as in our comment to Question 2, the Practice Statement as currently drafted may be difficult for preparers to apply consistently and it could also be challenging for external assurance providers to determine suitable criteria for the purposes of assurance.

Operability

Governance

We welcome that the core pillars of strategy, risk management, and metrics and targets of the Task Force on Climate-Related Financial Disclosures (TCFD) have been reflected in the Practice Statement. However, we strongly believe the pillar of governance should be added as a separate content area to enable users to understand how the board oversees all aspects of enterprise value and how they consider risks and opportunities that inform strategy and performance over time. The separate content area should be interlinked with the other six areas of content to demonstrate that governance is central to all areas of content.

The TCFD recommendations demonstrate that all four pillars are vital to integration of ESG matters into the core of the business and facilitating authentic disclosures. This is also important in the context of future sustainability standards. For example, all four TCFD pillars were incorporated in the Climate-related Disclosures Prototype (Climate Prototype) and the General Requirements for Disclosure of Sustainability-related Financial Information Prototype (General Requirements Prototype) that were published by the IFRSF in November 2021.

It is important that the Practice Statement sets expectations regarding disclosures on governance. Consequently, we encourage the IASB to consider expanding its guidance on this matter. TCFD, for example, includes disclosures that could be incorporated into guidance. We therefore suggest that these disclosures should be consistent with the disclosure requirements on governance in the General Requirements Prototype.

Outcomes

We find Figure 1 in paragraph 4.2 of the Exposure Draft helpful in understanding the relationships between the six areas of content. However, we do not think that it is sufficient to measure financial outcomes alone, as indicated by the box on the right-hand side ("Entity's financial performance and financial position"). Outcomes of an entity's activities are much broader than what is reported in the financial statements. For example, intangible assets not recognised in the financial statements are relevant to enterprise value creation and the entity's performance and financial position now and in the future. Therefore, we propose that the box (and also the sixth area of content) should be expanded to include outcomes in relation to enterprise value creation. In our view, the most practical approach would be to rename the box and content area as "Outcomes, including financial performance and financial

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position”. This would capture non-financial outcomes that are relevant to the entity’s ability to create enterprise value over time and clarify that the content area does not only refer to the period that is covered by the entity’s financial statements.

Concepts

The Practice Statement would benefit from clearer concepts to make it easier for preparers and users to understand the underlying thinking and to set a context for the type and range of disclosures envisaged.

For example, the <IR> Framework includes important concepts about the relationship between value created for the entity (i.e., enterprise value) and value created for its stakeholders. It explains why capitals are important to an understanding of enterprise value. The <IR> Framework’s concept of capitals (which in our view would be similar to “resources” in the draft Practice Statement) explicitly references the full scope of resources that an entity may rely on and/or affect (irrespective of whether the entity controls them), such as water, land and ecosystems, and explains the importance of outcomes in the assessment of value created. Impacts on those resources can lead to dependencies, and those impacts and dependencies should therefore be disclosed when they can affect enterprise value. Such information is essential to investors in assessing the ability of the entity to sustain value creation over time. At the same time, the inclusion of concepts would be helpful to preparers as they set out the expectation of what should be included in management commentary. Without those concepts, management commentary is at risk of falling short to deliver the appropriate context on outcomes that are relevant to enterprise value. These outcomes will lead over time into financial performance. This ties in with our comments above on Figure 1 in paragraph 4.2 of the Exposure Draft.

Structure of the Practice Statement

The Practice Statement includes multiple elements: six content areas, three levels of objectives, key matters, key features, key aspects, a chapter with examples of information that might be material and an appendix that provides an overview of what an entity needs to consider in deciding which information it needs to provide about long-term prospects, intangible resources and relationships and ESG matters.

In our view, these elements overlap in many aspects and their interaction and purpose is not readily understandable. This profusion of elements adds unnecessary complexity and will make it difficult for preparers to apply the Practice Statement. For example, in paragraph 4.1 the Board lists both the areas of content and their headline objectives under the sub-heading ‘Areas of content’. This is potentially confusing as it mixes the areas of content and the headline objectives as if they were interchangeable. Another example is paragraph 4.7 where the Board sets out to list the key matters, but instead lists a mixture of areas of content and key matters. In our view, these mixtures add ambiguity as to the role of each element and could be clarified and simplified by the Board.

A solution would be to align the structure of the Practice Statement more closely to the <IR> Framework, whose structure includes fundamental concepts, guiding principles for the preparation and presentation of an integrated report, content elements that are fundamentally linked to each other, and high-level and specific objectives for each content element. In our view, such a structure would be more practical for preparers to apply and easier to understand.

Enforceability

Consideration should be given to enhancing the ‘assurance readiness’ of the Practice Statement, for example, to ensure that suitable criteria can be determined for the purposes of assurance. As proposed above in our response to Question 2, the language in the Practice Statement should be refined to be capable of consistent application, interpretation and enforcement. Only a clear Practice Statement with high-quality requirements and guidance will result in management commentary that provides

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comparable, consistent and reliable information to its users. This also helps those preparers who seek assurance on their management commentary as a Practice Statement whose requirements are specific and clear, enables the preparer to assert compliance with it. Assurance can then be provided in a consistent way across engagements. Furthermore, in jurisdictions that adopt the Practice Statement, regulators would be able to apply their enforcement criteria more consistently across entities.

While some of the information included in management commentary (such as metrics not covered by statutory audit) is already often a part of stand-alone assurance engagements, we note an increasing demand from users and preparers for broadening the scope of these engagements. While much of this information can be assured, we acknowledge that some challenges may arise in the context of obtaining evidence for some of the qualitative information included in management commentary, for example information that relates to management's intentions.

The growing trend towards mandatory assurance in corporate reporting is evidenced by its inclusion in the European Commission's Corporate Sustainability Reporting Directive (CSRD) consultation and its reflection in the IAASB's project on extended external reporting. We recognise the Board has an important role to play in advancing the foundations for robust assurance in this area by providing requirements that are clear, and therefore enforceable.

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?

We find the three-tier structure for objectives overly complicated. In our view, it is difficult to understand why assessment objectives are needed, notwithstanding the explanation in BC76. One solution for simplification could be the inclusion of the assessment objectives in the headline objectives which would result in a two-tier structure. Doing this and renaming the resulting headline objective as 'overall objective' would be consistent with the approach chosen in ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach* which focuses on two types of disclosure objectives (overall objectives and specific objectives) and is also open for comment at the moment. It would also be consistent with our proposal to align the structure of the Practice Statement with that of the <IR> Framework (see our response to Question 4), whose objectives are structured as high-level and specific objectives.

As a note, paragraph 4.3(b) would benefit from clarifying that it is the *investors and creditors'* assessments that rely on information provided for the area of content.

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?

Overall, we find the disclosure objectives very helpful in giving more specific guidance as to the types of disclosures that are useful to investors. However, while preparers will benefit from the increased specificity of the objectives when drafting management commentary, the Board should be cautious not to be more prescriptive than what is currently proposed in the draft Practice Statement, as this could lead to template-driven thinking. The specificity should serve as helpful additional granular guidance and should be positioned as such.

Aside from these overall comments, we have the following detailed comments on the six areas of content:

<u>The entity's business model</u>

Paragraph 5.4 focuses on the reporting period with a box stating that Chapter 6 sets out the requirements that apply to information about management's aims and plans for sustaining and developing the entity's business model in the future. We suggest the Board adds a requirement in paragraph 5.4 to disclose how the business model may change and how it may be impacted by risks or change in the external environment and then make the link to Chapter 6.

Paragraph 5.8 sets out the key features of the entity's business model. In line with our comments under Question 5 above, it is not clear how these differ from key matters and examples of information that might be material in Chapter 15. We refer to our recommendations under Question 5.

<u>Management's strategy for sustaining and developing that business model</u>

Paragraph 6.6(a) should not only include the opportunities that management has chosen to pursue, but also how managing and mitigating risks might impact the likely success of the strategy. We recommend including a link to paragraph 8.1 (risks) as this paragraph has a link back to paragraph 6.6.

Similar to paragraph 5.8, paragraph 6.7 sets out key aspects of the management's strategies. Again, the interaction between key matters and the specific objectives in paragraph 6.6 is not clear. Most notably, the box under paragraph 6.6(a) already covers many of the key aspects in paragraph 6.7.

<u>The entity's resources and relationships</u>

This chapter should clarify the scope of resources that should be included in the disclosures. In our view, the disclosures should report on <u>all</u> resources the entity depends on or impacts, including those that the entity does not control (see our response to Question 4, section 'Concepts and definitions'). While there are some references to this throughout the chapter, many of the requirements could be read much more narrowly.

For example, paragraph 7.3 recognises that not all resources are recognised, but then gives internally generated intangible assets as an example of a resource that is not recognised. While this is accurate, this is a missed opportunity to demonstrate that not all unrecognised resources are actually controlled by the entity. We also note that all examples in paragraph 7.2 appear to be items that could be controlled by the entity and therefore the scope and nature of resources that are relevant and should be considered and disclosed (where appropriate) is not entirely clear.

Similarly, paragraph 7.4 discusses wider relationships, for example with local communities. While paragraph 7.4(a) potentially includes access to water via a water supplier, this could be more explicit to clarify the scope of the chapter. We do acknowledge that this is somewhat clearer in paragraph 7.9(c) where the Board discusses resources whose availability is constrained by environmental changes.

<u>Risks to which the entity is exposed</u>

Paragraph 8.1 includes a link to paragraph 6.6 which discusses opportunities pursued. While we agree with this link, it would be helpful to include links to all chapters where risk is discussed, for example business model, resources and relationships, etc.

<u>The entity's external environment</u>

The chapter would benefit from more emphasis on the circular nature of the entity's impacts and its dependencies (see our response to Question 3).

<u>The entity's financial performance and financial position</u>

Overall, we think that this chapter is too focused on historic performance, i.e. the financial statements that are presented alongside the management commentary. To address this, we suggest rephrasing the headline objective in paragraph 10.4 as follows:

"Management commentary shall provide information that enables investors and creditors to understand:

(a) the entity's financial performance and financial position reported in the entity's financial statements <u>over time; and</u>
(b) <u>how non-financial outcomes translate to financial impact over time</u>."

Paragraph 10.3 would benefit from stating that management commentary should also inform about the entity's ability to create enterprise value and generate cash flows.

<u>Appendix A</u>

We find the appendix helpful as it facilitates consistent application of the terms used in the draft Practice Statement. The Practice Statement would benefit from defining the term 'resources and relationships'. This would help to understand the boundary of the term, in particular whether resources that are not owned by the entity, but to which the entity needs access to, are included in its scope (see our comments under Question 8). We believe 'enterprise value creation' should also be defined.

<u>Appendix B</u>

While we find Appendix B helpful guidance, we refer to our comments under Question 5 addressing the profusion of elements in the draft Practice Statement and the ambiguity of their status and interaction with one another. The benefit of the appendix could be increased by introducing links to it in the guidance in Part B where an example in the appendix is a practical application of a specific requirement.

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?

We refer to our comments under Question 4 on the significant overlap of the various elements in the Practice Statement and how their interaction and rationale is not always immediately understandable. In particular, it is unclear how key matters interact with the concept of materiality. Key matters could be interpreted as an elevation from material matters, meaning matters significant to enterprise value creation for which users require more information than for other matters. Alternatively, it could be a list of matters, that are expected to be material, to help preparers identify what is material for them. However, the Practice Statement does not provide sufficient information as to how to distinguish a key matter from other material matters. Whilst the flowchart included in Figure 2 (paragraph 4.12 of the ED) is helpful in giving examples for preparers on how to produce useful information in management commentary, we believe that additional guidance is needed on how key matters are distinguished from other material matters and how the needs and expectations of stakeholders should be considered in that process.

We also note that the term 'key matters' can potentially be confused with the term 'key audit matters', which have a different focus.

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 (consistent with our proposal under Question 4 to streamline the structure of the Practice Statement).

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?

We believe that further guidance is required on what constitutes 'intangible resources and relationships' in the context of management commentary. The Board should also clarify that the term 'intangible resources and relationships' includes existing commitments and obligations, as they are critical to maintaining enterprise value.

Further, it is not clear whether there is an expectation that an entity should disclose information about resources that it does not control, (see our response to Question 4). There should be a clear requirement to explain the extent to which the entity relies on resources such as water, land or ecosystems (which are included in the definition of natural capital provided in the <IR> Framework).

This ties in with our responses to Questions 3 and 6 where we highlight that the Practice Statement should better capture the concept of circularity. Sustainability factors and issues that have traditionally been considered as external impacts are increasingly understood to be likely to affect the entity's ability to create value and generate cash flows. These impacts can lead to dependencies. Therefore, we propose that the Practice Statement should require that an entity describes how those impacts affect the entity's ability to create value and generate cash flows over time, i.e. enterprise value.

We further suggest the Board considers including elements that help describe an entity's longer-term viability such as lookout period (including an explanation of the time horizons and how they are established), principal risks factored into forecasting and any qualifications and assumptions. The Practice Statement would benefit from specifying information that provides shareholders with a clearer understanding of the way those charged with governance are managing the principal risks to their invested capital. This information should focus on the processes by which the business is managed and protected on a longer-term basis.

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?

The Practice Statement includes content which we believe could form useful framework for connected reporting on which both boards (IASB and ISSB) should cooperate and coordinate their work. However, given the ISSB is not yet fully operational, the IASB will have to consider how to continue the work on the Practice Statement once the comment period expires. While there is a case for pausing the work at this stage, we are not convinced that this would be appropriate. We suggest that the IASB staff should continue to progress their thinking. Rather than finalising the Exposure Draft, we suggest that the project becomes a joint project of both the Board and the incoming ISSB with close cooperation of both staffs to finalise the Practice Statement.

If the Practice Statement becomes a joint project of both boards, we think that management commentary will need to be reconfigured:

(1) Parts of the management commentary could form an overarching framework for connected reporting that helps preparers provide a narrative that sets the right context for explaining performance in the period and describing enterprise value creation. It would be positioned above the IASB and ISSB standards and cover corporate reporting principles such as enterprise value, connectivity and capitals/resources (also drawing on the <IR> Framework)
(2) Other parts may be more appropriate content for the presentation standard for sustainability-related disclosures, structured around the four pillars of governance, strategy, risk management, and metrics and targets, together with requirements for describing the financial impact of sustainability-related matters.

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?

We suggest that the approach to materiality set out in the Practice Statement should articulate more clearly that it necessitates the application of a filter to identify a subset of impacts that are relevant to enterprise value and are therefore material to the information needs of users of management commentary. It should be consistent with paragraph 12 of the General Requirements Prototype. Specifically, the Prototype specifies that material information includes impacts on society and environment if those impacts that could reasonably be expected to affect the entity's future cash flows and events considered to have a low likelihood but a high potential impact on the entity's future cash flows.

Material issues for reporting to investors are interconnected with wider sustainability impacts. Due to the increasingly complex risks faced by entities, insights into other aspects of the entity's wider value chain and impacts have become essential in order to understand long-term resilience.

We therefore welcome the Board's proposal that materiality judgements need to be reassessed each reporting period (paragraph 12.9), as we agree that immaterial information may become material over time and vice versa (reflecting its dynamic nature).

Question 11—Completeness, balance, accuracy and other attributes

(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.

Paragraphs BC97–BC102 and BC114–BC116 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?

(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?

We agree with the inclusion of the attributes of useful information based on the corresponding description in the *Conceptual Framework*. However, given that preparers of financial statements are often involved in the preparation of management commentary, we do not think that changing the terms of some attributes provides any benefit. In fact, preparers (who apply IFRS Standards) could be confused by thinking that an attribute of useful information in management commentary is different from a qualitative characteristic in the *Conceptual Framework* as a result of it being named differently. The terms should stay the same and all qualitative characteristics should be added to the Practice Statement, including faithful representation.

With regard to cross-referencing within management commentary, we agree that it should be encouraged to avoid duplication and demonstrate connectivity. However, we do not agree with encouraging cross-referencing to information that is included outside the general purpose reporting (i.e. outside the financial statements, management commentary and sustainability-related financial disclosures), where that information is needed to meet the requirements of management commentary.

While we agree that unnecessary duplication of information should be avoided, we do not think that applies to every instance of duplication. Duplication of information can be helpful and necessary if it provides context to the information provided. If additional information that is required to understand an item is only included by way of cross-reference, it might contribute to fragmentation of management commentary that is undesirable. Users of management commentary should not be required to jump between different sections of the document to understand the information provided.

Question 12—Metrics

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?

We generally agree with the proposed guidance as the inclusion of metrics is essential for users to obtain a quantifiable insight into the various components of the management commentary. Metrics are immensely helpful in illustrating governance, risk management and strategy, which is consistent with the TCFD recommendation to disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. Figure C12 on page 28 of the TCFD Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans illustrates this well. We also previously recommended to the TCFD in our response to their consultation on its proposed guidance that the Board's Exposure Draft on Management Commentary could provide a further useful source of reference for disclosures covering those elements.

We furthermore agree with the Board's decision set out in BC127 of not proposing a list of required metrics in the Practice Statement. We agree with the Board that it is not the purpose of a high-level Practice Statement to prescribe specific metrics—they would be prescribed in other standards, such as sustainability standards.

Question 13—Examples of information that might be material

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 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?

If not, what alternative or additional examples do you suggest? Do you have any other comments on the proposed examples?

We agree with the examples provided in the proposed Practice Statement. However, the Board should consider including additional examples on matters relating to the entity's social licence to operate including reputational matters that can affect enterprise value and its ability to generate cash flows, discussion of the full scope of resources that an entity may rely on and/or affect (irrespective of whether the entity controls them), and how the entity's impact on resources outside its control affects value creation prospects over time (see our response to Question 8). While not precluded by the Practice Statement, such disclosures should be encouraged by including additional examples of this type.

Question 14—Effective date

Paragraph 1.6 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 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?

If the Practice Statement is finalised as proposed, we agree with the proposed effective date as its application is not mandatory. However, we refer to our comment under Question 9 about the direction of the project.

We recommend that early application should be permitted given the Practice Statement contains guidance on applying several corporate reporting concepts that are helpful for entities when preparing management commentary.

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?

We think the cost of implementing the Practice Statement depends on the extent of the requirements already in existence in a jurisdiction.

Investors have high expectations regarding reporting on factors affecting enterprise value creation and such disclosures are increasingly becoming mandatory. Yet many entities are not currently measuring all the information that may be necessary in order to provide sufficient metrics to explain enterprise value. Given such measurement may help management understand their own performance and prospects, and their ability to be resilient, preparers should already be considering providing for time and resources to prepare those disclosures. Introducing measurement and reporting to the appropriate standard (systems, controls and governance) will likely have a cost impact.

Regarding the status of the Practice Statement, this will depend on the jurisdiction. For some jurisdictions, the Practice Statement will likely serve as a source of good practice that can be drawn on when establishing local corporate reporting requirements. For others, for example those that do not have local requirements or guidance for a management commentary, the Practice Statement could be adopted as a whole, alongside other standards or frameworks that jurisdictions might select (e.g. the <IR> Framework). See our comments in Question 2 regarding the statement of compliance proposed in the draft Practice Statement and its interaction with local laws.

Question 16—Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

We do not have anything further to raise.