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Management Commentary Practice Statement

Cover Note

Objective

- 1 The objective of the session is to discuss and agree to recommend to the EFRAG Board a draft comment letter on the IFRS Practice Statement Exposure Draft ED/2021/6 Management Commentary, issued by the IASB on 27 May 2021 (the 'ED').

Project Background

- 2 In November 2017, the Board added to its agenda a project to update the Management Commentary Practice Statement. On 27 May 2021, the IASB published the [IFRS Practice Statement Exposure Draft ED/2021/6 Management Commentary \('the revised Practice Statement'\)](#).
- 3 The IASB's research indicated that the existing Practice Statement (not revised since 2010) did not always provide investors and creditors with the information they need and that it:
 - (a) lacked focus on matters that are important for the entity's prospects;
 - (b) contained too much generic information and not enough entity-specific information; and
 - (c) provided an insufficient discussion of matters that could affect the entity in the long term.
- 4 The revised Practice Statement proposes an objectives-based approach that involves providing a structured set of requirements supported by application guidance including:
 - (a) an objective for management commentary as a whole, supported by a set of disclosure objectives for six identified areas of content.
 - (b) requirements for the attributes that information in management commentary should possess; including descriptions of those attributes and application guidance to help entities identify and provide information that possesses those attributes; for example, that management commentary should provide information that is material to investors and creditors, and be complete and balanced.
 - (c) application guidance providing examples of possible key matters and of material information that management commentary might need to provide to satisfy the disclosure objectives.

- 5 The six areas of content in management commentary discussed in the revised Practice Statement are:
- (a) *the entity's business model* that is the way the entity creates and preserves value for itself, and hence for its investors and creditors, including in the long term;
 - (b) *management's strategy* for sustaining and developing that business model-including the opportunities management has chosen to pursue;
 - (c) *the resources and relationships* on which the business model and strategy depend-including intangible resources not recognised as assets in the entity's financial statements;
 - (d) *the risks* that could disrupt the business model, strategy, resources or relationships;
 - (e) *the factors and trends in the external environment* that could affect the business model, strategy, resources, relationships or risks; and
 - (f) *the entity's financial performance and financial position*-including how they have been affected, or could be affected in the future, by the matters discussed for the other areas of content.

EFRAG's high-level position in the DCL

- 6 Although the Practice Statement is not mandated in the EU, EFRAG welcomes the IASB's consultation and sees benefit in developing guidance for jurisdictions where guidance either does not exist or could be enhanced. Initiatives such as the revised Practice Statement can also contribute to a cross-fertilisation of ideas to improve information in management commentary across jurisdictions.
- 7 EFRAG welcomes the revised Practice Statement as a well-structured and content enhanced document and supports the proposed objectives-based approach including the six content elements. EFRAG also considers that developing specific, rule-based requirements for the management commentary is primarily the responsibility of legislators, securities regulators or national standard setters.
- 8 EFRAG notes that the proposed approach, which bears similarities but is not identical to the one retained in the Disclosure Initiative project, will need to be appropriately field-tested by the IASB as it involves a high level of judgement.
- 9 EFRAG expressed several recommendations and some concerns in its letter:
- (a) Further explain how the proposed objectives also serve the objective of stewardship of management;
 - (b) Better define some of the concepts and terms used that are not part of the existing glossary of IFRS (e.g., strategy, risks, resources and relationships).
 - (c) Address governance as a content element.
 - (d) Give more emphasis and prominence to opportunities and better outline the interactions with risks.
 - (e) Expand the guidance on examples on intangibles- and ESG matters.
 - (f) Further clarify that the scope of non-financial 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.
 - (g) Expand the discussion on Impacts in relation to resources and relationships. By outlining the 'feedback loop' between resources and relationships and their impacts. In other words, how resources and relationships affect the business

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model impacts and how in turn the business model impacts affect the entity's resources and relationships.

- (h) 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; and
- (i) Consider how the proposed application guidance on Materiality in the ED interacts with the guidance provided in the Materiality Practice Statement.

Points for the attention of EFRAG TEG

- 10 The ED contains in total 16 questions. Based on the initial feedback received during outreach events (from PTF-RNFRO and API), the EFRAG Secretariat recommend that EFRAG TEG pays particular attention to responses to the following :
- (a) Question 4 – Overall approach;
 - (b) Question 5 – Design of disclosure objectives;
 - (c) Question 7 – Key matters;
 - (d) Question 8 – Long-term prospects, intangible resources and relationships, and ESG matters;
 - (e) Question 10 – Making materiality judgments; and
 - (f) Question 13 – Examples of information that may be material.

Questions for EFRAG TEG

- 11 Does EFRAG TEG agree with the EFRAG responses in the DCL to questions 1 to 16 in the ED?
- 12 Does EFRAG TEG agree with the proposed questions to constituents included for question 4 – Overall approach; and question 15 – Effects analysis.
- 13 Does EFRAG TEG agree with the main concerns as summarised in the Cover Letter of the DCL and introduced in paragraph 9 of this Cover Note?
- 14 Does EFRAG TEG agree to recommend the Draft Comment Letter to EFRAG Board?

Agenda Papers

- 15 In addition to this cover note, agenda paper *07-02 - Draft Comment Letter - Management Commentary Practice Statement - EFRAG TEG 21-07-14* has been provided for the session.