

EFRAG TEG- CFSS meeting  
15 September 2021  
Paper 07-01

# EFRAG TEG-CFSS MEETING MANAGEMENT COMMENTARY

Update on progress and early input

15 September 2021



**EFRAG**

European Financial Reporting Advisory Group

# Disclaimer

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This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG-CFSS. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG-CFSS. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## Objective of the session

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- The objective of the session is to provide EFRAG CFSS and EFRAG TEG with an update on the project progress and collect early views and input.
- The topic will be addressed at the ASAF meeting on 1 October 2021. Questions to ASAF members (also to be addressed by EFRAG CFSS members) are included in slides 11-12.

In addition to this cover note, agenda paper 07-02 – ASAF paper *AP2 Management Commentary* is provided.

# EFRAG Project Overview

## The timeline



**Comments on the Draft Comment Letter (accessible [here](#)) are requested by COB-15 November 2021.**

Limited outreach activities include:

- Consultation of various EFRAG advisory panels and working groups (IAWG, FIWG, User Panel ...).
- Ad-hoc one-on-one interviews with some stakeholders as needed.
- No extensive field-testing of the proposals considering the non-mandatory status of the MCPS in the EU.

### Question to EFRAG CFSS members

Do EFRAG CFSS members envisage to conduct specific outreach activities on the ED over Q3/Q4 and how could EFRAG help in the process?

## Context of EFRAG's draft response to the IASB consultation






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Although the Management Commentary 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; and
- initiatives such as the revised Practice Statement can also contribute to a cross-fertilisation of ideas to improve information in management commentary across jurisdictions

EFRAG's draft comment letter has been prepared on the basis of the present mission and governance of EFRAG. It doesn't represent views of EFRAG in its possible future capacity as advisor of the EC in advising on European sustainability reporting standards nor can be read as anticipating any view from EFRAG in this possible future capacity. EFRAG observes that the ED proposes well-structured guidance for the revised Practice Statement that includes a rich set of illustrative examples.







## EFRAG's initial views on the proposals

Topic	EFRAG position	Preliminary assessment
<b>Compliance</b>	<ul style="list-style-type: none"> <li>• Support allowing qualified and unqualified statements of compliance with MCPS. In case of partial compliance, need to identify and explain departures.</li> <li>• Support allowing to state compliance with MCPS even if financial statements are not prepared in accordance with IFRS Standards.</li> </ul>	
<b>Objective-based approach</b>	<ul style="list-style-type: none"> <li>• Support for an objectives-based approach combining mandated objectives with non-binding examples of items of information.</li> <li>• However, the introduction of 3 layers of objectives (Overall, Specific and Assessment Objectives) creates complexity.</li> <li>• Consider the outcome of the consultation of the DI- Pilot and whether a similar 2-tier objective approach could be applied.</li> </ul>	 
<b>Role of the Management Commentary</b>	<ul style="list-style-type: none"> <li>• Support for the proposed objective/role of the management commentary as it:             <ul style="list-style-type: none"> <li>• emphasises long-term view; and the link between value creation and information reported in the entity's financial statements.</li> <li>• distinguishes the role of the management commentary from the role of the financial statements.</li> </ul> </li> <li>• Generally, agree with the proposed objectives assigned to different content elements but recommend that the IASB further explain how the objective of stewardship is being served.</li> </ul>	 

## EFRAG's initial views on the objectives-based approach




Topic	EFRAG position	Preliminary assessment
Content elements	<ul style="list-style-type: none"> <li>• Overall, agree that the six identified content elements identified are all important and generally appropriately addressed.</li> <li>• However, suggest that the MCPS should:               <ul style="list-style-type: none"> <li>✓ address two additional content elements: <i>Governance</i> – to be addressed across the other content element and <i>Off-balance sheet commitments</i>;</li> <li>✓ Give more emphasis to <i>Opportunities</i>; and</li> <li>✓ Expand the guidance on <i>Intangibles and ESG matters (including more IE)</i> in the main text and include cross-references to the <i>Examples in Appendix B</i>.</li> </ul> </li> </ul>	    
Examples of material information	<p>EFRAG generally considers the provided examples in Appendix B to be helpful in implementing the guidance, but suggests a number of areas where additional examples could be further developed:</p> <ul style="list-style-type: none"> <li>• Governance</li> <li>• Intangibles and ESG matters</li> <li>• Business model</li> <li>• Risks and opportunities</li> </ul>	

## EFRAG's initial views on selecting and presenting information

Topic	EFRAG position	Preliminary assessment
Focus on 'key' matters	<ul style="list-style-type: none"> <li>• Agrees that the focus should be on matters that are 'important' to value creation and cash flow generation.</li> <li>• Concerns about introducing the undefined terms 'key', 'fundamental'. Suggest using the term 'material' instead when referring to matters instead of 'key' and 'fundamental' to avoid any confusion.</li> <li>• Clarify the statement that material information to be provided 'may not always relate to key matters'.</li> </ul>	  
Qualitative attributes	<ul style="list-style-type: none"> <li>• No issue with the proposed attributes but better explain how these relate to qualitative characteristics in the Conceptual Framework.</li> </ul>	
Materiality	<ul style="list-style-type: none"> <li>• Considers that it is not the role of a practice statement to provide a definition of materiality with different terminology.</li> <li>• Welcomes the provision of practical guidance to help entities make materiality judgements in the context of the management commentary.</li> <li>• Recommends that the IASB further considers how proposals interact with the Materiality Practice Statement.</li> </ul>	 



## EFRAG's initial views on selecting and presenting information

Topic	EFRAG position	Preliminary assessment
<b>Metrics</b>	<ul style="list-style-type: none"> <li>• Overall support for the usefulness of the guidance provided.</li> <li>• Focus the scope of non-financial information and non-financial metrics presented in the management commentary to those that are needed to explain the entity's financial performance and financial position.</li> </ul>	  
<b>Technology</b>	<ul style="list-style-type: none"> <li>• Observes that 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.</li> </ul>	

## Question to constituents contained in EFRAG's DCL

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EFrag CFSS members were asked to provide their early views on the below questions to constituents. Responses received will be shared at the meeting.

- **Paragraph 17 of DCL:** “To what extent is the IFRS Practice Statement 1 Management Commentary used (including by influencing existing local regulations) or referred to by reporting entities in your jurisdiction? Are there specific requirements with the revised Practice Statement that would limit or prevent its use in your jurisdiction?”
- **Paragraph 87 of DCL :** “Do you have evidence of widespread use of the current Practice Statement on a voluntary basis in your jurisdiction? If so, could you indicate which types of entities?”
- **Paragraph 88 of DCL :** “Have you identified any specific issues with the enforceability and auditability of the proposals in the ED?”

## Questions addressed by the IASB Staff to ASAF members

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1. **Do you think an objectives-based approach would:**
  - a) be capable of being operationalised by preparers of management commentary?
  - b) enable assessments of compliance?
  
2. **Do you have any comments on the design of the disclosure objectives—which include headline, assessment and specific objectives?**
  
3. **Do you think the proposed objectives reflect the needs of investors and creditors?**
  
4. **Do you think the Exposure Draft provides sufficient and appropriate guidance to help companies identify material information about their long-term prospects, their intangible resources and relationships, and ESG matters?**

## Questions addressed by the IASB Staff to ASAF members

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### **5. Thinking about current reporting requirements and practice in your jurisdiction:**

- a) are any important reporting requirements missing from the IASB proposals?
- b) are there shortcomings in current reporting practice that the IASB proposals:
  - i. would be particularly useful in addressing?
  - ii. do not address?

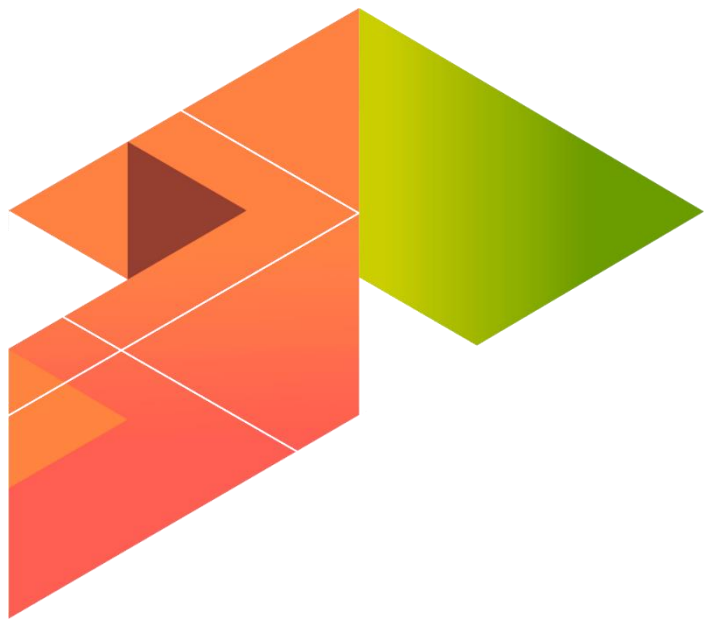
### **6. Do you have any feedback on the proposals for qualified and unqualified statements of compliance?**

### **Additional questions to EFRAG CFSS and TEG**

### **7. Do EFRAG CFSS or EFRAG TEG have any other comments on the proposals in the ED or the tentative views expressed by EFRAG in its DCL?**



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