OICU-IOSCO

International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores
المنظمة الدولية لهيئات الأوراق المالية

November 19, 2021

IFRS Foundation
Columbus Building
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United Kingdom

Our Ref: 2021/O/C1/IASB/MS/140

RE: ED/2021/6 – Management Commentary

Dear International Accounting Standards Board (IASB) Members,

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Auditing and Disclosure (Committee 1) thanks you for the opportunity to provide our comments on the Exposure Draft *Management Commentary*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high-quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. Unless otherwise noted, the comments provided herein reflect the consensus among members of Committee 1 and are not intended to include all the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

As stated in our letter sent by the chair of Committee 1 to the IASB in March 2010, IOSCO recognizes the significance of management commentary as a crucial component of management's communications with investors. As such, IOSCO has a set of international disclosure standards, principles and guidance that includes disclosure standards on management commentary. Members of IOSCO generally have robust disclosure requirements for management commentary – both for qualitative narrative and quantitative information, which will likely continue to prevail. Therefore, we point out that our following comments are not intended with a view to developing comprehensive guidance by securities regulators.

Nevertheless, we believe that non-mandatory guidance on management commentary can provide a useful complement and encourage jurisdictions to improve, if needed, existing disclosure requirements and guidance for non-financial statement disclosure. It may also increase international comparability and improve the linkage between financial statements and management commentary, which would help support better information for current and potential investors, lenders and other creditors.

Our detailed feedback on specific questions is provided below.

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Responses to the Board's Questions

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?

Response:

Members believe the requirement described in question 2 (a) to include an explicit and unqualified statement of compliance should be optional.

With respect to the requirement described in question 2 (b), members believe that qualified statements of compliance should only be permissible to the extent there is a conflict with the disclosure requirements under securities laws with which the entity must comply.

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?

Response:

Members generally agree with the objective of the management commentary.

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We point out that the Conceptual Framework states that for financial information to be useful, it must be relevant and faithfully represent the affairs of the entity. If the meaning was meant to be the same, we suggest using the same language. We recommend that the Exposure Draft be compared with the Conceptual Framework to ensure consistency with the objective of financial reporting set out in the Conceptual Framework.

Below are some specific suggestions:

- Include "cash flows" in paragraph 3.1. (a) to be consistent with the objective of financial reporting set out in the Conceptual Framework (for example paragraph 1.20 of the Conceptual Framework explains the importance of the cash flow statement).
- Indicate in paragraph 3.6 (and also in paragraph 10.3) that an entity should avoid duplication of information. The management commentary should only include information that complements the information required by the accounting standards (in most cases, the IFRS) which should be included in the audited financial statements.

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.

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?

Response:

Members agree that the approach is capable of being generally operationalized and we did not identify material inconsistencies with IOSCO's international disclosure standards, principles and guidance.

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Members are of the view that Practice Statement guidance is not mandatory and as such is not enforceable as disclosure requirements under securities law are, but a jurisdiction may decide to require that entities comply with the Practice Statement. We therefore consider that the Practice Statement should be drafted is such way that it may be possible to enforce it. However, we note that certain new concepts (in particular the concept of "key matters") may give rise to difficulties in application, as explained below under Question 7.

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?

<u>Response:</u>

Members agree that the management commentary should focus on "material information" as set out in Chapter 12. Our responses for Question 7 and Question 10 highlight the need for consistency with the IFRS materiality concept and to ensure that disclosure is useful – as opposed to boilerplate. Members noted that the "key matters" concept might be confusing with the "material information" concept under IFRS or the "key audit matters" as defined by ISA 701. These concepts would benefit from better linkage in 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?

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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?

Response:

Various jurisdictions and the International Sustainability Standards Board (ISSB) are working on numerous projects to add disclosure requirements related to ESG matters which speaks to the importance of these topics. This is a rapidly evolving area, particularly with respect to linking such disclosures appropriately to the financial accounts.

As such, there is presently no consensus among members on these provisions of the Practice Statement. Nevertheless, we strongly urge the IASB to proceed cautiously on these issues and ensure that the Practice Statement is fully aligned with the outcome of the work developed by the ISSB.

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?

Response:

As stated for question 8, members agree that there is a need to avoid inconsistencies with future sustainability standards from the ISSB or other jurisdictions.

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?

Response:

See response to Question 7. We also suggest referencing the ISSB in paragraph 12.6.

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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?

Response:

Members noted a general improvement from the current Practice Statement.

In paragraph 14.6, we suggest linking the requirements with the IASB project on primary financial statements (especially the proposed guidance on management performance measures).

Members noted that although paragraph 14.8(b) requires to describe differences between the method or assumptions used to calculate a metric and those used to calculate the comparative metric, it should also expressly:

- set out the case in which the entity should provide restated comparative figures when it would not require undue cost or effort to do so;
- require the entity to explain the reason it ceased disclosing a metric previously published and the reason the metric does no longer provide material information.

With respect to paragraph 14.14, members noted that further guidance explaining the required consistency of the metric with the accounting policy applied by the entity in its financial statements[1], as well as further guidance on forward-looking metrics or metrics that are not easily quantifiable, should be considered.

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?

Response:

Members note that although the Practice Statement should aim at being enforceable for jurisdictions that choose to make it mandatory, enforcement is in the securities regulators' domain, under national securities laws. See full response on Question 4.

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[1] https://www.iosco.org/news/pdf/IOSCONEWS430.pdf

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Suzanne Poulin, Chair of the Disclosure Subcommittee of Committee 1 at +1 877-525-0337, ext. 4411, or myself. In case of any written communication, please mark a copy to me.

Yours sincerely,

Makoto Sonoda

Chair
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