10 December 2021

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Via email: commentletters@ifrs.org

Dear Sir/Madam,

Re: Exposure Draft; Management Commentary (ED/2021/6)

The Corporate Reporting Users' Forum (hereinafter referred to as CRUF) are delighted to respond to the International Accounting Standards Board (IASB or the Board)'s Exposure Draft on Management Commentary.

The CRUF was established in 2005 and we have been holding regular meetings since. CRUF Japan have prepared this comment letter based on discussions in CRUF meetings and reflecting input from other CRUFs globally. As always, we do not seek to reach a consensus within the CRUF but to reflect a broad spectrum of users' views. We have highlighted any contrasting views in our response. Our comments are based on our professional experience as users of corporate reporting.

Responses to the questions raised in the consultation that relate to the issues that concern investors are set out below.

Overall comments

First of all, we commend the Board's efforts to update Practice Statement 1 *Management Commentary* in order to reflect the trend towards better narrative reporting in recent years. High quality narrative information is becoming increasingly important in corporate reporting.

Management commentary is designed to supplement the financial statements but now works as more than that. It is essential for users to understand not only financial statements but also the value creating ability of a company in order to make convincing future cash-flow forecasts with more confidence. We believe the requirements and guidance proposed by the ED would help companies to prepare management commentary that is useful to the target audience, i.e. investors and creditors.

That said, as we discuss below, we are a bit concerned that it is too early for the Board to finalize the revised Practice Statement on the Management Commentary. When this project started, the establishment of the International Sustainability Standards Board (ISSB), the sister board to the IASB, by the IFRS Foundation was not anticipated. In fact, it was beyond the scope of this project to include sustainability information in management commentary.

We believe the IASB should wait to finalize the revised Practice Statement so that it can discuss the possible interaction between management commentary and sustainability reporting with the ISSB, in order to avoid any unintended consequences.

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CRUF's responses to the consultation questions

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?

(a) We agree.

In some jurisdictions, financial statements are not required to be prepared in accordance with IFRS standards. That said, we believe that it is the common objective of financial statements for general financial reporting to provide users with useful information to make their financial decisions, whichever accounting standards are used to prepare the financial statements.

We believe management commentary can help users of financial statements to better understand the past and present cash flows, and to evaluate the company's ability to generate cash flows in the future, along with the information provided by financial statements regardless of the accounting standards they are prepared in accordance with.

As such, we can expect management commentary prepared in accordance with the IFRS Practice Statement on Management Commentary (PSMC) to play similar and equivalent functions regardless of the accounting standards that the corresponding financial statements are prepared in accordance with.

Therefore, "management commentary" in accordance with PSMC, in a broad sense, can improve the comparability of financial information as a whole. We believe the proposed approach in the ED meets the IFRS Foundation's mission to develop and promote a single set of high-quality global accounting and financial reporting standards.

(b) We basically agree.

Given that different accounting standards actually coexist, if (a) is permitted, we think there shouldn't be any restriction on the basis of preparation of such financial statements in principle.

That said, the Board may need to consider if the accounting standards in question should be regarded as equivalent to the IFRS standards. If the accounting standard is judged to be equivalent to IFRS, there should be no restrictions. If not, the Board may have to consider whether restrictions should be placed on the basis of preparation of 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 agree with both (a) and (b).

We expect a statement of compliance, if included in the management commentary, will make the management of the company aware of the degree of their compliance with the Practice Statement, which will lead to improvement in the quality of disclosure.

In addition, we believe that it will contribute to better management of the gap between the users' expectation and the information disclosed in management commentary.

Furthermore, we believe such a compliance statement can be the basis for the audit of narrative information by independent auditors, which is likely to be required in the future.

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?

We agree.

We expect management commentary to provide users of financial statements with context and management's insights into the business, along with their self-assessment, allowing users to better understand the financial statements as a whole.

At a basic level, financial statements provide users with a historic snapshot of financial position as well as of financial performance, although they do include accounting estimates based upon the future cash flows. While this information is an essential input for projecting the future cash flows of the company, users cannot make convincing estimates without the context or the story to support these estimates.

We expect the management commentary to provide us with that background information, so that we can construct a convincing story to support our future cash-flow projections for the company with confidence.

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?

(a) Yes, we expect that the proposed three-layered, objective-based approach will provide a sufficient basis for management to identify information that investors and creditors need, even if it is not perfect.

Above, we shared our expectation on the objective of the management commentary as a whole.

We also support the six areas of content for management commentary and the disclosure objectives of that information for each area of content. All six areas of content are essential for financial statement users to understand the company's ability to generate cash flows in the future and to construct their own story, or underlying assumptions, to support their forecasts of future cash flows.

Examples of the information needed would help management to identify the relevant information to be disclosed in the management commentary.

(b) Not sure. We think it would be relatively easy for a company to prepare management commentary that is compliant with the requirements of the Practice Statement. If auditors and regulators are satisfied just with formal compliance with the Practice Statement, the proposed approach may suffice. As discussed above, we believe that the Practice Statement would help management to identify the information needed by the users. That said, it does not guarantee that companies will always provide the relevant information in the management commentary. We are concerned that audit and oversight of the content of the management commentary will be far more difficult than for the financial statements.

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?

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

(a) We agree with the proposal. We think the proposed design of the disclosure objectives is well structured with the proposed three components. They appear to cover successfully and sufficiently the common information needs of investors and creditors in general. By following the three disclosure objectives: headline, assessment, specific, in that order, management are likely to identify the information they should disclose in the management commentary.

(b) The entity's external environment will include sustainability or ESG matters. Provision of sustainability related information will be subject to the IFRS Sustainability Disclosure Standards developed by the ISSB. We believe the Board should consider them to be separately presented in order to avoid any possible conflicts with the ISSB standards.

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?

We agree with the proposal. Information about each of the six areas proposed is essential for investors and creditors to understand how the company generates value and cash flows. When information about the six areas is provided as a single set in a coherent way, they can be more valuable to investors and creditors when making a decision.

That said, we have one caveat on (e) the entity's external environment, as we discussed in Question 5(b).

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?

(a) We agree.

More information does not necessarily guarantee better communication. We are concerned that material information might be obscured by a flood of less important information.

Therefore, we believe requiring a focus on key matters in management commentary is essential, in order for it to be a truly useful and effective tool for the management to communicate with investors and creditors.

(b) We agree.

We believe the proposed guidance provides an adequate and sufficient basis for management to identify the key matters. The Board could offer more granular guidance, but that would risk making it more rule-based than principle-based.

(c) None.

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?

(a) We believe the proposed requirements and guidance in the ED to be adequate and sufficient.

We think, in the first place, the management of any entity should be interested in such matters as the entity's long-term prospects, intangible resources and relationships, and environmental and social matters. Management should be able to identify the key matters and material information regarding these matters without much guidance or the examples shown in Appendix B.

However, we do not deny that guidance and examples may help some managements [who are not familiar with exercising their own judgement] to identify those matters. Management is definitely required to exercise their judgement to identify what are key matters or material information to be disclosed in management commentary. Those matters tend to be very much entity specific and subject to different facts and circumstances. Therefore, we agree that the examples in Appendix B may help [relatively inexperienced] management identify material information on long-term prospects, intangible resources and relationships, as well as environmental and social matters.

(b) None.

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?

We believe the Trustees need to establish a formal communication body comprising the IASB and the ISSB to discuss the cross-cutting issues between financial and sustainability reporting. We also reiterate our concern expressed in Q5(b). We are concerned that it might be too early for the Board to finalize the Practice Statement on management commentary before the first ISSB standards are finalized.

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 think that the proposed guidance would help management identify material information in the context of preparing management commentary more effectively than those in the current Practice Statement. The proposed guidance and examples in Chapter 15 are far clearer and easier to understand than the current one.

That said, we are still concerned that it is more difficult to apply materiality judgements in preparing management commentary than when applied to the financial statements. We believe, therefore, that a post-implementation review of actual disclosure practice will be important to monitor how the guidance on the materiality judgement is being implemented, as we discuss in our comment to the Question 15 below.

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?

(a) We have some concerns about this proposal. The proposed requirement appears to be reasonable at first glance. However, we are not convinced that this requirement is fully consistent with the Conceptual Framework for financial reporting because the Practice Statement uses different language. The Conceptual Framework is primarily for the Board to refer to when it develops and maintains IFRS standards. Preparers, auditors and financial statement users are supposed to be secondary readers of the document. However, it defines the qualitative characteristics that financial reports should provide the users of financial reports with. Since management commentary is inextricably linked to – and must be consistent with – the financial reports, we think that the IASB is responsible for explaining how such attributes as completeness, balance and accuracy of the management commentary are related to such seemingly similar but different concepts as relevance, faithful representation, understandability and verifiability.

If the ISSB is developing a conceptual framework for sustainability reporting (constituents including the SASB and IIRC have one), this could also be applied to management commentary. The underlying principle will remain the same: to provide information that is useful in making economic decisions; as will the primary users: existing and potential investors, lenders and other creditors.

(b) We agree with the proposal with some reservations. We think it is an attractive proposal, given such cross-reference is more likely to make flexible disclosure possible, by using the cross-referenced information provided in the other corporate reports. Even if it is voluntary disclosure, the information could be sufficiently useful as a complement to the management commentary.

That said, we are concerned that the accuracy or completeness of the cross-referenced information cannot be guaranteed with the same degree of confidence as the statutory financial information because it is disclosed voluntarily. In order not to mislead financial statement users, a disclaimer should be included, emphasizing that the information in the cross-references is not assured by an independent auditor when provided in a voluntary disclosure document.

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 support the Board's approach not to specify a list of metrics that an entity would be required to provide in management commentary. We agree with the Board's conclusion that information about metrics that are specific to an entity and reflect the industry in which it operates is likely to be more useful to investors and creditors.

Therefore, the guidance on the metrics to be included in the management commentary should be principle-based rather than a check-list. Attributes of the metrics identified in the Practice Statement, i.e. clarity and accuracy, comparability and coherence, are all agreeable to the users of financial statements.

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?

See answer to Q8. Yes, we think it is a good idea to provide management with examples of material information about the six areas of content to supplement the principle-based disclosure objectives. It would help management understand what is the material information specific to the circumstances of their entity.

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?

We understand that it is up to the jurisdiction's discretion if it chooses to adopt the Practice Statement on management commentary as a part of its disclosure regime. Therefore, we do not think it is essential for the Board to set a certain effective date. That said, we agree the effective date could work as a tool to enhance the comparability of the management commentary published by companies based in those jurisdictions that are ready to adopt the Practice Statement.

One year appears to be long enough for companies based in jurisdictions with fairly sophisticated disclosure systems to implement the new requirements. Meanwhile, those jurisdictions where one year of preparation is not long enough for their companies do not have to adopt the revised Practice Statement 1 to meet a one-size-fit-all effective date.

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?

(a) We believe the review of the actual disclosure practice among the companies which adopt the Practice Statement is no less important than the ex-ante effects analysis. In that regard, we encourage the Board to monitor whether the requirements and guidance of the Practice Statement are working as intended, or not. We also recommend that the Board publishes examples of best practices after the implementation to help preparers understand how they can improve the quality of their management commentary in accordance with the revised Practice Statement 1.
(b) No, we are not aware of any obstacles.

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

None.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting and auditing standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers, investors and corporate governance and ESG professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

Signatures

Sue Milton

David Mitchinson

Peter Parry

Lothar Weniger

Marion Scherzinger

Yosuke Mitsusada

Naoki Hirai

Goro Kumagai

Chie Mitsui