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Dear Sir

Exposure Draft ED/2021/6: Management Commentary

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the ED.

We support the efforts of the IASB to introduce improved requirements for the reporting of management commentary. Many jurisdictions have their own requirements for how such information should be reported in various documents, however, improved internationally recognised requirements may result in greater comparability between entities globally.

In addition to our comments supporting the proposals, we have a number of suggestions to improve and clarify the Board's preliminary views. Most significantly, we emphasise the need for the IFRS Foundation to ensure significant connectivity between the IASB and the recently announced International Sustainability Standards Board that will be charged with issuing sustainability reporting standards. In this context, we strongly believe that Management Commentary should become a joint project of the two Boards.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

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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?

We agree. Permitting a broader group of entities to apply the revised Practice Statement would improve the information communicated to users of management commentary. While a consistent underlying accounting framework would enhance the comparability of management commentary information, we believe the benefits of broadening the application of the practice statement outweighs the benefits of restricting the application.

(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. Management commentary is typically prepared by entities with public accountability (e.g. publicly listed entities, and entities that hold assets in a fiduciary capacity for a broad group such as insurance companies) and in most jurisdictions, publicly accountable entities (or public interest entities - PIs) already have restrictions placed on the basis of preparation for 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?

We agree. This statement of compliance would provide users of the management commentary with information about the basis on which it was prepared. If different jurisdictions adopt all

or some of the requirements in the practice statement in forming their own management commentary standard, then those jurisdictions could modify or eliminate this requirement.

We observe that in many jurisdictions with their own form of management commentary requirements, entities are often not required to disclose a statement of compliance because compliance is a requirement of applicable law or regulation.

(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 agree that entities should be permitted to include statements of 'partial compliance' with the practice statement. In our experience, entities may then choose only the requirements they believe cast them in a positive light, while ignoring other requirements. A statement noting which of these requirements has not been complied with does not satisfactorily address this because users of management commentary information would still not have access to important information, and we believe many users may not readily identify that the management commentary provided does not comply with the full set of requirements and may, as a result, be biased.

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 with the proposed objective of management commentary.

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?

The proposed approach could be capable of being operationalised and enforceable. In some cases, it is challenging for entities to determine the information that is required to meet the disclosure objectives in management commentary requirements, as well as applying materiality to determine which information is most relevant. However, we believe the areas of content, disclosure objectives and extensive illustrative examples provided in the practice statement are needed in order to assist entities in meeting the requirements.

We suggest that, in addition, the disclosure objectives are supported by requirements for certain information which, if it is material, must always be disclosed. This would result in the advantages of overall disclosure objectives being preserved, while at the same time bringing greater comparability among different entities.

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 agree with the proposed design of the disclosure objectives. Since the practice statement does not include a prescriptive list of disclosures, we believe it is necessary for the practice statement to have a robust framework for entities to apply. We believe the ‘tiering’ of the requirements into a headline objective, assessment objective and specific objective would assist preparers, investors, auditors and regulators in preparing and assessing the usefulness of information provided by an entity.

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 proposed disclosure objectives. We believe these disclosure objectives address the fundamental information needs of users in understanding how an entity’s operations create value and interact with the external environment. We believe that future modifications to the requirements or additions made by local jurisdictions to those requirements could fit within the framework established by these six areas of content.

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 agree with the proposals. As noted in our response to question 5, if the practice statement does not provide a prescriptive list of disclosure requirements, it is crucial that preparers have a sufficient basis for making materiality judgements about the types of

information that should be disclosed. The guidance on key matters, when taken together with Chapter 12 - Making Materiality Judgments, provides a sufficient basis for determining which information is most relevant.

The examples of key matters also will assist auditors and regulators in enforcing the inclusion of specific information by illustrating when such information is considered material in several illustrative cases.

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 agree with the proposed requirements, however, as noted in our response to question 9 below, we believe that the IFRS Foundation must consider the interaction of these requirements with those to be issued by the recently announced International Sustainability Standards Board (ISSB). Specifically, the requirements in this practice statement focus on information relating to ESG matters insofar as they affect the six areas of content in paragraph 4.2 of the practice statement, whereas standards issued by the ISSB might consider the broader implication of ESG matters beyond how they affect the six areas of content. For example, the broader implications of an entity's activities on local fresh water supplies, above and beyond how those activities affect the entity's business model, risks, strategy, etc.

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 that the ISSB must work closely with the existing IASB in developing requirements relating to management commentary and sustainability reporting. We view these areas as complementary and highly interconnected. As noted in our response to question 8, the proposals in this exposure draft interact with many topics that will be explicitly addressed by the new board (e.g. environmental, social and governance related matters). Consequently, we strongly believe that it is appropriate for Management Commentary to become a joint project of the two Boards.

Creating greater connectivity between the two boards will ensure that the matters affecting an entity's value creation are reflected in management commentary, sustainability disclosures and where warranted, items recognised in financial statements if an entity applies IFRS. This connectivity and potential for joint projects is one of the reasons why we believe it is necessary and appropriate for the IFRS Foundation to have formed the ISSB.

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 agree with the proposed guidance.

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 proposals, particularly with the emphasis on completeness of information. Without this, there is a risk that entities might highlight only information that casts the entity in a positive light while excluding related information that might be perceived as negative. For example, disclosing information about an entity's strategy to develop its business model towards more environmentally friendly products, while not disclosing the associated risks such as increased production costs.

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 agree with the proposals. Consistent with our responses to other questions, because the exposure draft does not propose standardised information to be disclosed, it is important that a comprehensive framework be provided for disclosing metrics that satisfy the objectives set out in the practice statement.

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 believe the proposed examples would help management to identify material information. We support the inclusion of the extensive number of examples in the exposure draft.

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 agree with the proposed effective date. As the practice statement is not mandatory, jurisdictions may decide the extent to which the practice statement should be adopted, including local effective dates.

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 agree with the comments on the effects analysis.

The only local legal or regulatory obstacles we have identified are those relating to the disclosure of forward-looking information, which might be disclosed based on the requirements of the practice statement. In some jurisdictions, forward-looking information may result in legal liability on the part of the entity providing those disclosures and/or its directors and officers. This is because information disclosed in forward-looking information (e.g. an expected change in strategy, estimates of the effects of pollution on future cash flows, etc.) may provide users of that information with a basis for depending on representations provided by the company, which can result in legal liability if the actual outcomes are different from those disclosed previously.

Question 16 - Other comments

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

We have no other comments.