Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Management Commentary**	**Meeting:**	AASB September 2021 (M184)
Topic:	**IASB ED/2021/6 proposals – staff analysis**	**Agenda Item:**	15.1
		Date:	25 October 2021
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The objective of this paper

1 At its 24–25 February 2021 meeting, the Board agreed to make a submission to the International Accounting Standards Board (IASB) on IASB Exposure Draft ED/2021/6 *Management Commentary* (IASB ED/2021/6 or the revised Practice Statement). The objective of this agenda item is for the Board to consider the feedback received and **decide** its response to the specific questions for comment posed in ED/2021/6 and matters for inclusion in the cover letter.

Background

2 In May 2021, the IASB published IASB Exposure Draft ED/2021/6 *Management Commentary* for comment by 23 November 2021. IASB ED/2021/6 sets out the IASB's proposals for a revised IFRS Practice Statement 1: Management Commentary (current Practice Statement). The revised Practice Statement would supersede the current Practice Statement, issued in 2010.

3 AASB ED 311 *Management Commentary*, corresponding to IASB ED/2021/6, was issued in June 2021.[1] The comment period closed on 1 October 2021.

4 Although the IASB has concluded that management commentary is within the scope of financial reporting, the Practice Statement is not an IFRS. Consequently, entities applying IFRSs are not required to comply with the IFRS Practice Statement unless otherwise required by a regulator. Consistent with this, the AASB has included the current IFRS Practice Statement on the AASB website, making it available for all entities, including public sector entities. Currently, in Australia, there is no requirement to comply with Practice Statements.

5 At the November 2019 meeting, the Board approved a project plan and agreed to make a submission on the IASB's proposals on management commentary, which was eventually published as ED/2021/6.

1 ED 311 is available on the AASB website at https://www.aasb.gov.au/admin/file/content105/c9/ED311_06-21.pdf

6 As part of the project plan, staff undertook a benchmarking exercise to compare narrative reporting requirements between various countries. In May 2021, findings were published as an AASB Staff Paper, *Comparison of Narrative Reporting Requirements Applicable to For-Profit Entities*.

Attachments

7 The following documents are included for reference purposes:

(a) Agenda Paper 15.2 Summary of stakeholder feedback – Supplementary folder

(b) Agenda Paper 15.3 IASB's IFRS Practice Statement ED/2021/6 *Management Commentary* – Supplementary folder

(c) Agenda Paper 15.4 IFRS Practice Statement ED/2021/6 *Management Commentary* Basis for Conclusions

(d) Agenda Paper 15.5 Australian Institute of Company Directors (AICD) submission to ED 311 – Supplementary folder

(e) Agenda Paper 15.6 IFRS Practice Statement 1: Management Commentary – A framework for presentation (December 2010) – Supplementary folder

Structure of the paper

8 The staff paper is structured as follows. Each section includes a summary of stakeholder feedback received and staff analysis of the IASB ED proposals:

(a) Outreach activities – paragraphs 9 – 12;

(b) Part A: General requirements – paragraphs 13 – 26;

(c) Part B: Areas of content – paragraphs 27 – 51;

(d) Part C: Selection and presentation of information – paragraphs 52 – 69;

(e) Other comments – paragraphs 70 – 75;

(f) Cover letter and other matters – paragraph 76 – 77; and

(g) Next steps – paragraphs 78 – 79; and

(h) Appendix: References.

Outreach activities

9 Staff conducted the following educational and outreach activities to gather stakeholder views:

(a) 29 July 2021 – AASB User Advisory Committee (UAC) meeting (UAC meeting). Ten UAC members attended. In addition to AASB members (Stephen Taylor, Alison White and Toby Langley, who is also a UAC member) and AASB staff, IASB project staff and IASB Board member Ann Tarca attended to directly hear feedback from the UAC members. The summary of feedback received from the UAC meeting is provided in Agenda Paper 7.1 of the September 2021 meeting.

(b) 2 August 2021 – IASB and AASB webinar (educational session). The IASB and AASB webinar on invited stakeholders from the Asia-Oceania region to attend. There were 60 attendees. The webinar provided an overview of the IASB ED/2021/6. The session was recorded and is available on the AASB website for viewing. There was little feedback was received because the session's objective was to educate stakeholders and present the overview of the IASB ED/2021/6.

(c) 7 October 2021 – AASB virtual roundtable. The roundtable was attended by 27 individual stakeholders, including AASB Disclosure Initiative Advisory Committee members, AASB UAC members, professional bodies, academics, AUASB staff and other practitioners/users/auditors. In addition to AASB members (Stephen Taylor and Peter Gibson) and AASB staff, IASB project staff and IASB Board member Ann Tarca attended to hear feedback from stakeholders directly.

10 In addition to the outreach events:

(a) AASB staff, together with IASB Board members and staff, presented ED/2021/6 and the AASB Staff Paper *Comparison of Narrative Reporting Requirements Applicable to For-Profit Entities* at the Accounting and Finance Association of Australia and New Zealand (AFAANZ) Insight Series Workshop on 14 September 2021 and received informal feedback;

(b) one formal submission was received in response to ED 311 (attached as Agenda Paper 15.5); and

(c) staff received informal feedback via email and virtual meetings (including eight stakeholders who are representatives from: the professional bodies (2), policymakers and regulators (2), academia (1) and practitioners (3)).

11 Staff have considered all feedback received in providing their recommendations to the Board.

12 ED/2021/6 asks stakeholders to respond to 16 questions, many of which are interrelated. Accordingly, stakeholders repeated some common themes in different questions. A summary of stakeholder feedback received is provided in Agenda Paper 15.2 (supplementary folder).

IASB ED/2021/6 Part A – General requirements (Questions 1–3)

13 Part A of ED/2021/6 consists of three questions. Questions 1 and 2 are related to the exposure draft proposals that specify requirements for identifying management commentary and the related financial statements, authorising management commentary, and making a statement of compliance. Question 3 concerns the proposed objective of management commentary.

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).

Question 1 —The financial statements to which management commentary relates
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?

Staff analysis and recommendations

14 The current Practice Statement provides a broad, non-binding framework for the preparation of management commentary where financial statements are prepared in accordance with IFRS Standards. However, in the revised Practice Statement, the IASB proposes not restricting the Practice Statement's application to IFRS-compliant financial statements. Paragraph BC35 explains that the reason for lifting the current restriction is that the revised Practice Statement requires the management commentary to meet specified objectives rather than provide specified information.

15 Consistent with stakeholder feedback received for this question, staff support the broader application of the revised Practice Statement.

16 Staff note that entities that prepare Tier 2 General Purpose Financial Statements in Australia in compliance with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* cannot state compliance with IFRS Standards. Tier 2 entities would therefore be able to adopt the revised Practice Statement.

17 **Staff recommendation.** Staff think the Board submission should **agree** with the proposal to allow entities to state compliance with the revised Practice Statement even if their financial statements are not prepared according to IFRS Standards. No restrictions should be placed on the basis of preparation.

Questions for Board members
Q1 Do Board members agree with the staff analysis and proposed response to Question 1 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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?

Staff analysis and recommendation

18 The current Practice Statement states (paragraph 7):

> *When management commentary is presented, management should explain the extent to which the Practice Statement has been followed. An assertion that management commentary complies with the Practice Statement can be made only if it complies with the Statement in its entirety.*

19 The revised Practice Statement introduces the concept of unqualified and qualified statements of compliance. A qualified statement of compliance must identify departures from the requirements of the Practice Statement and give reasons for those departures.

20 Staff support the proposals because users of financial statements may find the statement of compliance helpful, in particular, in understanding to what extent the management commentary has complied with the revised Practice Statement.

21 Consistent with stakeholder feedback received, staff agree that using the terms unqualified and qualified in the statement of compliance could cause users to assume the management commentary has been audited, potentially giving rise to litigation risks. Therefore, staff suggest a reconsideration of the use of the terms unqualified and qualified.

22 **Staff recommendation.** Staff think the Board submission should:

(a) **agree** that management commentary provides a statement of compliance in accordance with paragraphs 2.5 and 2.6 of the revised Practice Statement; and

(b) **recommend** reconsideration of the requirement for unaudited management commentary to use the terms 'qualified' and 'unqualified'.

Questions for Board members
Q2 Do Board members agree with the staff analysis and proposed response to Question 2 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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?

Staff analysis and recommendation

23 In the current Practice Statement, the objective of management commentary is to provide users of financial statements with integrated information that provides a context for the related financial statements, including explaining the main trends and factors that are likely to affect the entity's future performance, position and progress from a management perspective.

24 In the revised Practice Statement, the IASB proposes to clarify the existing objective more explicitly by:

(a) linking the management commentary to assessments made by investors and creditors (i.e. assessments about an entity's prospects for future cash flows; and how efficiently and effectively management has used and protected the entity's economic resources, as a steward of those resources), and confirming more prominently that management commentary needs to provide information that is material to investors and creditors;

(b) clarifying how the objective of management commentary differs from the objective of financial statements (i.e. it requires more discussion and analysis than financial statements, is likely to include more non-financial information such as unrecognised intangible resources and may be more likely to have forward-looking information); and

(c) linking the management commentary with the entity's ability to create value and generate cash flows, including present and future cash flows across all time horizons – short, medium, and long-term – using the information used by management in managing the business.

25 Consistent with stakeholder feedback received, staff support the proposed high-level objective of management commentary and think the IASB should consider the following concerns:

(a) the revised Practice Statement requires entities to disclose forward-looking information, including commercially sensitive information (see para. BC113). Although RG247 *Effective disclosure in an operating and financial review* (RG247) requires the disclosure of forward-looking information, it incorporates an unreasonable prejudice exemption from the section 299A of the Australian Corporations Act 2001. Staff are of the view that entities should disclose forward-looking information in their management commentary but have mixed views on the issue of commercially sensitive information. While entities can usually disclose commercially sensitive information in a way that avoids proprietary costs, AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (para. 92) provides a limited exemption for prejudicial information and that could be replicated in the revised Practice Statement; and

(b) the materiality requirements in the revised Practice Statement could lead to more disclosure than is currently required in Australia. Staff address materiality in Question 10.

26 **Staff recommendation.** Staff think the Board submission should:

(a) **agree** with the proposed objective of management commentary; and

(b) **recommend** the revised Practice Statement address the concerns of requiring a management commentary disclosing forward-looking information, that might be including commercially sensitive information.

Questions for Board members
Q3 Do Board members agree with the staff analysis and proposed response to Question 3 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

IASB ED/2021/6 Part B – Areas of content (Questions 4–9)

27 Part B of ED/2021/6 consists of six questions related to the proposed six areas of content for management commentary and the requirements for providing information that meets the disclosure objectives for each of those areas of content.

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?

<u>Staff analysis and recommendation</u>

28 The IASB selected an objectives-based approach for the revised Practice Statement as a prescriptive approach is considered not feasible for management commentary. The overall approach of the revised Practice Statement is as follows:

(a) a high-level objective for management commentary;

(b) a materiality override;

(c) six specified areas of content;

(d) disclosure objectives for the six specified areas of content;

(e) a requirement to identify and disclose the fundamental drivers of the business (i.e. 'key matters') to help management make materiality judgements;

(f) requirements and guidance on selecting and presenting information, including:

(i) guidance on making materiality judgements;

(ii) examples of material information;

(iii) requirements for metrics; and

(iv) requirements for information to possess specified qualitative attributes.

29 Consistent with stakeholder feedback received, staff support the proposed objectives-based approach of management commentary and raise the following comments:

(a) the relationships between materiality, the six areas of content and key matters are unclear. Staff acknowledge this concern and think that discussions in Chapter 4 of the ED are helpful. However, staff think that the presentation of the revised Practice Statement may cause difficulties in understanding the guidance. For example, Chapter 3 discusses materiality and key matters but provides limited context on how they relate to the areas of content and disclosure objectives. Staff agree with stakeholders that the revised Practice Statement should clearly articulate the relationships. These relationships are critical because they seem to comprise the Practice Statement's underlying framework and principles. As such, staff think that the relationships should be introduced and discussed early in the revised Practice Statement (possibly in Chapter 3).

(b) readability of the proposed revised Practice Statement could be improved. The level of detail required by the revised Practice Statement is overwhelming. Staff note that, for example, Chapters 5–10 set out the requirements for each content area, providing introductions, three levels of disclosure objectives, notes, links, illustrations, examples of key matters and metrics. These Chapters repeat the disclosure requirements using different words that appear to extend the black letter requirements. Staff think that the chapters in the revised Practice Statement should focus on the principles and requirements; and some of the notes, links, illustrations and examples that are deemed necessary but that are not primary guidance or principles should be moved to appendices, with cross-referencing to improve the readability of the document;

(c) the three levels of disclosure objectives (headline, assessment and specific objectives) for the areas of content and the application of materiality principles also affect operability and enforceability. Staff discuss stakeholder comments on the disclosure objectives for the six areas of content in Question 5 and materiality in Question 10; and

(d) the level of detail and repetition in the revised Practice Statement may encourage a tick-a-box approach to preparation, assurance and enforcement.

30 **Staff recommendation.** Staff think the Board submission should:

(a) **comment** that the overall approach could be difficult to operationalise by preparers and enforce by auditors or regulators because of the concerns noted in the following questions; and

(b) **recommend** that the revised Practice Statement**:**

(i) provides a clearer framework that clarifies the relationship between materiality, the six areas of content and key matters; and

(ii) improve its readability, e.g. moving explanatory material and examples to appendices.

Questions for Board members
Q4 Do Board members agree with the staff analysis and proposed response to Question 4 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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?

Staff analysis and recommendation

31 For each area of content, the ED proposes disclosure objectives comprising:

(a) a headline objective describing the overall information needs of investors and creditors for that area of content;

(b) assessment objectives describing investors and creditors' assessments that rely on the information provided for that area of content; and

(c) specific objectives describing the detailed information needs of investors and creditors for the area of content.

32 For example, below are the (a) headline objective, (b) assessment objectives and (c) the first two (of four) specific objectives for an entity's business model (paras. 5.5–5.7 of the ED):

(a) Headline objective: Management commentary shall provide information that enables investors and creditors to understand how the business model creates value and generates cash flows.

(b) Assessment objectives: Information in management commentary shall provide a sufficient basis for investors and creditors to assess how effective the entity's business model is at creating value and generating cash flows, how scalable and adaptable it is, and how resilient and durable it is.

(c) Specific objectives: The information about the entity's business model shall enable investors and creditors to understand the range, nature and scale of the entity's operations, and the entity's cycle of creating value and generating cash flows.

33 Staff generally agree with the proposals requiring management commentary to meet disclosure objectives rather than a 'checklist' because staff are of the view that disclosure objectives encourage management commentary to provide more meaningful entity-specific information rather than generic information. However, consistent with stakeholder concerns, staff have concerns with the proposed different levels of objectives. As demonstrated in the example in paragraph 32 above, staff agree with stakeholders that repeating the objectives (i.e. assessment objectives and specific objectives) using slightly different words at three different levels of granularity is confusing. However, if assessment objectives are removed (see

Question 5), staff think that the remaining headline objective and specific objectives will be clearer and easier to practically apply in management commentary.

34 Further, staff note that the assessment objectives are a new concept introduced in the revised Practice Statement. Staff also observe that [ED/2021/3 *Disclosure Requirements in IFRS Standards—A Pilot Approach*], which proposes entities meet overall and specific objectives, does not contain assessment objectives. The following is an example of the assessment objectives for the business model content area from the revised Practice Statement (paragraph 5.6):

> *Information in management commentary* ***shall provide a sufficient basis for investors and creditors to assess*** *how effective the entity's business model is at creating value and generating cash flows, how scalable and adaptable it is, and how resilient and durable it is [emphasis added].*

35 Consistent with stakeholder feedback received, staff share the view that management is not usually in a position to positively assert that they have provided sufficient information for investors and creditors to make assessments. Further, staff are of the view that the revised Practice Statement should maintain consistency with existing Standards and should not extend its scope beyond what is proposed in ED/2021/3, subject to ongoing consultations on that project.

36 **Staff recommendation.** Staff think the Board submission should:

(a) **disagree** with the proposed design of the disclosure objectives; and

(b) **recommend** that the disclosure objectives for each area of content should be consistent with the eventual outcome of consultations for ED/2021/3 and use consistent language. Accordingly, based on the current proposals in ED/2021/3, disclosure objectives in the revised Practice Statement would include overall objectives and specific objectives but not assessment objectives.

Questions for Board members
Q5 Do Board members agree with the staff analysis and proposed response to Question 5 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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?

Staff analysis and recommendation

37 As outlined in Question 5, the proposed disclosure objectives for the six areas of content comprise three components—a headline objective, assessment objectives and specific objectives. Question 6 asks about the proposed content of the disclosure objectives for each area of content.

38 Staff generally support the proposals. Stakeholders have provided the following feedback:

(a) as discussed in Question 5 above, the assessment objectives and specific objectives of each area of content could cause confusion. Staff are of the view that these objectives should be streamlined;

(b) some disclosure objectives of an area of content are also related to other areas of content. For example, information such as specialised employees and raw materials with only one supplier could be related to the entity's business model, the entity's resources and relationships, or risks to which the entity is exposed. Staff agree that this is a valid concern, however, staff think that the ED also has addressed the concern in note (a) under paragraph 4.5, clarifying that areas of content are interrelated and information may meet more than one disclosure objective without being duplicated in several sections of the management commentary. Staff think that the note is helpful, and the text of the note should be explicitly included in a paragraph; and

(c) Information about an entity's resources and relationships is not information that would typically form part of an Australian operating and financial review (OFR), and stakeholders question whether users would rely on this information for decision-making. Staff acknowledge the feedback is valid because findings in the AASB Staff Paper: *Comparison of Narrative Reporting Requirements Applicable to For-Profit Entities* indicate that there are few requirements in RG247 for such information. However, staff also have consulted AASB UAC members to understand whether users of financial statements would use such information for decision-making. UAC members are generally of the view that this information is useful. In particular, they mentioned that information about significant contractual relationships and the nature of relationships; whether entity's resources are 'evergreen'; and estimated costs of replacing key resources are useful information related to an entity's resources and relationships. As such, staff think that the Board submission not to include this concern.

39 **Staff recommendation.** Subject to feedback in Question 5, staff think the Board submission should:

(a) **agree** with the disclosure objectives; and

(b) **recommend** the:

(i) IASB to review the headline (overall) and specific objectives be reviewed if assessment objectives are removed; and

(ii) revised Practice Statement to include a paragraph clarifying that areas of content are interrelated and information may meet more than one disclosure objective without being duplicated in several sections of the management commentary.

Questions for Board members
Q6 Do Board members agree with the staff analysis and proposed response to Question 6 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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>Staff analysis and recommendation</u>

40 The revised Practice Statement introduces the notion of key matters. Key matters are the fundamental drivers of the business that management monitors and manages. Key matters must be identified for each of the six areas of content, although key matters are pervasive and may relate to more than one area of content. The stated purpose of key matters in the revised Practice Statement is to help management make materiality judgements.

41 Consistent with stakeholder feedback received, staff generally support a management commentary focusing on key matters that are relevant for users for decision-making. Staff also think that the proposed examples are helpful.

42 However, stakeholders have raised concerns about the concept of key matters. In particular, why key matters are necessary and how they are different to materiality. Staff acknowledge the concern and note that the concept of key matters is new. Chapters 3 and 4 provide an explains the concept of key matters. Paragraph BC78 of the ED also explains why the revised Practice Statement introduces key matters and its definition:

The Board proposes to introduce the notion of key matters to help management make materiality judgements in preparing management commentary…materiality is an attribute of information, not an attribute of matters. For the same reason, the Board proposes the term 'fundamental' rather than 'material' in the definition of key matters to convey how important those matters are for the entity's ability to create and generate cash flows. The terms' key' and 'fundamental' are not meant to replace materiality as a threshold for determining what information should be included in management commentary.

43 Staff think that the explanations provided in the current draft are helpful. However, as suggested in Question 4, staff think that the revised Practiced Statement should explain the concept of key matters, including the relationships between key matters, materiality, areas of content and disclosure objectives, in its early chapters (possibly Chapter 3). Staff do not think this suggestion should be repeated in this question in the Board submission because it has been made in Question 4.

44 Stakeholders also commented that the term' key matters' could be confused with 'key audit matters' even though the two terms are not related. Staff think that this is a valid comment and suggest the IASB use another term.

45 **Staff recommendation.** Staff think the Board submission should:

(a) **agree** that the revised Practice Statement should require management commentary to focus on key matters;

(b) **support** the proposed guidance on identifying key matters, including the examples of key matters that would provide a suitable and sufficient basis for management to identify the key matters on which management commentary should focus; and

(c) **recommend** the revised Practice Statement to use another term to describe 'key matters'.

Questions for Board members	
Q7	Do Board members agree with the staff analysis and proposed response to Question 7 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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?

Staff analysis and recommendation

46 The current Practice Statement provides little discussion and guidance on long-term prospects; intangible resources and relationships; and environmental, social and governance (ESG). The ED proposes management commentary to integrate such information that might be material to a key matter. It provides related guidance in Appendix B, which clarifies and provides examples on how management commentary could integrate such information.

47 Consistent with feedback received, staff support the proposals because there is demand for entities to provide such information. However, staff note that:

(a) stakeholders have commented that the proposed revised Practice Statement has not sufficiently addressed disclosures about governance. Staff agree with the concern because the ED provides limited guidance and no example on this matter. Stakeholders have flagged that information about governance is important because a management commentary is often signed by the Board of Directors who make key decisions;

(b) AASB's submission to the IASB's Third Agenda Consultation recommends the IASB to add projects relating to intangible assets to its upcoming work plan as a high priority. In particular, the AASB has recommended the IASB should, as an interim solution while revisiting the recognition and measurement requirement in IAS 38 *Intangible Assets*, focus on developing a principle, an objective and implementation guidance for the disclosure of relevant information about unrecognised internally generated intangible assets. Staff think that the IASB should consider the outcome of the IASB's Third Agenda Consultation before finalising the guidance about the disclosure of intangible resources and relationships in the revised Practice Statement because the disclosures of intangible assets in IAS 38 are closely related to disclosures of intangible resources. Further, there is no clear conceptual thinking of what information should be disclosed inside or outside of the notes (i.e. in the financial statements). One example is paragraph 128 of IAS 38 which encourages entities to disclose information about significant intangible assets controlled by the entity but not recognised as assets because they did not meet the recognition criteria in IAS 38 (i.e. intangible resources). It is unclear whether this information could be disclosed in the notes or the management commentary (as part of intangible resources); and

(c) staff agree with stakeholder concerns about the timing of this ED in terms of its interrelation with the work that would be conducted by the potential new International Sustainability Standards Board (ISSB). Staff think that the IASB should consider the directions of the new ISSB before further developing the revised Practice Statement. Staff also address this matter in Question 9 below.

48 **Staff recommendation.** Staff think the Board submission should:

(a) **support** the proposals; and

(b) **recommend** the IASB to:

(i) develop better guidance on the disclosures about governance;

(ii) consider the outcome of the IASB's Third Agenda Consultation before further developing the revised Practice Statement; and

(iii) consider the directions of the new ISSB before further developing the revised Practice Statement.

Questions for Board members

Q8 Do Board members agree with the staff analysis and proposed response to Question 8 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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?

Staff analysis and recommendation

49 Stakeholders consulted have raised concern about the timing of this ED as it relates to the work to be undertaken by the proposed International Sustainability Standards Board (ISSB). In particular, some stakeholders suggest that the IASB should temporarily defer this project until there is more clarity on how the IASB intends to collaborate with the proposed ISSB, to help ensure the work of the two Boards is aligned. Stakeholders also commented that any

standards issued by the ISSB are likely to lead to many entities redefining their approach to narrative reporting, and this may give rise to undue cost and effort.

50 The feedback received is consistent with the AASB outreach conducted for the April 2021 IFRS Foundation Trustees Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*. In July 2021, the AASB with the FRC and the Auditing and Assurance Standards Board (AUASB) provided joint comments to the exposure draft. Similarly, one of the concerns raised in the comment letter was a lack of clarity about the proposed new standard-setter's remit, agenda, and its interaction with the work of the IASB. Further, a management commentary could reasonably be expected to include a discussion of topics for which a sustainability reporting standard-setter might develop requirements, placing outputs of both boards into the same document and introducing complexity into the reporting process, especially if the requirements are not aligned. Stakeholders had raised concerns about the duplication of effort by the boards, and more significantly, they were concerned that the different project outcomes would unnecessarily introduce complexity into their external reporting. Given the overlap, the comment letter suggested that the Foundation consider how it envisages the boards will develop coherent external reporting guidance or standards.

51 **Staff recommendation.** Staff think the Board submission should:

(a) **provide** the same concern raised in the joint comment letter to the IFRS Foundation Trustees in July 2021; and

(b) **recommend** the IASB to defer its development of the revised Practice Statement until there is clarity on the directions of the new ISSB.

Questions for Board members	
Q9	Do Board members agree with the staff analysis and proposed response to Question 9 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

IASB ED/2021/6 Part C – Selection and presentation of information (Questions 10–13)

52 Part C of the IASB ED consists of four questions related to the proposed additional requirements and guidance on the selection of information to include in management commentary, and on the presentation of that information.

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?

Staff analysis and recommendation

53 The current Practice Statement has a short paragraph on materiality that requires management to provide material information, explaining that it is an entity-specific aspect of relevance. The ED proposed the revised Practice Statement to include two chapters on materiality: Chapter 12 provides explanations and guidance on making materiality

judgements for management commentary, Chapter 15 provides examples of information that might be material for each of the six content areas.

54 Staff support that the revised Practice Statement should provide more guidance on materiality judgements. However, consistent with feedback received, staff have the following concerns:

(a) although the ED intends to adopt the concept of materiality from IFRS Standards, staff observe that the ED also introduces new and partial explanations about materiality in Chapter 12 of the revised Practice Statement. Staff question the objective of such approach and suggest the IASB to use *IFRS Practice Statement 2: Making Materiality Judgements* as the base for developing materiality concepts in the revised Practice Statement;

(b) although the current draft provides some guidance and examples on information that might be material, it does not provide sufficient guidance about how the identified potential material information could be concluded as material (i.e. assessing whether the information identified is, in fact, material). This guidance is provided in IFRS Practice Statement 2. Staff suggest the revised Practice Statement should adopt (or modify if necessary) concepts already developed in Practice Statement 2; and

(c) some guidance is unclear. For example, the ED proposes specific guidance on making materiality judgements relating to possible future events. In our outreach, stakeholders commented that the expectation of paragraph 12.8 is unclear, which could require them to disclose all possible future events including "the full range of possible outcomes and the likelihood, of the possible outcomes within that range". Staff understand that the paragraph should be read in the context of materiality. However, feedback received suggested that this paragraph should be rewritten to clarify the requirement.

55 Stakeholders have provided some concerns about applying materiality requirements to a management commentary as there are some legal implications:

(a) the materiality requirements in the revised Practice Statement could lead to more disclosure than is currently required in Australia because the term materiality is used but not defined in RG247 which does not refer to the definition of material in the accounting standards either, and s.299A(1) of the Corporations Act 2001 states that the annual directors' report must contain information that members of a listed entity would 'reasonably require to make an informed assessment' of the operations, financial position, and business strategies and prospects for future financial years, of the entity reported on; and

(b) it is unclear how materiality under the proposals interacts with price-sensitive information under the continuous disclosure obligation (i.e. the information was such that a reasonable person would expect it to have a material effect on the price or value of the entity's enhanced disclosure securities if it were generally available) and prospective information. In particular, there are some concerns that, if a management commentary neglected to disclose a material item but it was announced later in a future period as part of complying with continuous disclosure regime, directors or preparers may be potentially exposed to litigation risks. However, staff think that the recent amendments to the continuous disclosure law may have addressed the concern. In August 2021, the Federal Government passed the *Treasury Laws Amendment (2021 Measures No. 1) Bill 2021.* Entities and their officers will now only attract civil liability for breach of their continuous disclosure obligations where they acted with "knowledge, recklessness or negligence" (i.e. mental fault element), and the mental fault element must also be proven to establish liability for entities and their officers for misleading and deceptive conduct in circumstances where the continuous disclosure obligations have been contravened. These amendments are considered to have relaxed the continuous disclosure laws.

Staff acknowledge the concerns and do not think the Board submission should provide such details about domestic legislation and the legal environment. However, in response to stakeholder concerns, staff think the AASB submission should include a general comment requesting the IASB to consider implications of local law and legislation when developing the revised Practice Statement.

56 **Staff recommendation.** Staff think the Board submission should **suggest** the revised Practice Statement to adopt (or modify if necessary) concepts developed in Practice Statement 2.

Questions for Board members
Q10 Do Board members agree with the staff analysis and proposed response to Question 10 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

Question 11—Completeness, balance, accuracy and other attributes
(a) Chapter 13. 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?

Staff analysis and recommendation

57 The ED retains the current Practice Statement requirement that information in management commentary should possess the attributes of useful financial information ('qualitative characteristics') set out in the *Conceptual Framework*. The ED however proposes new terminologies to replace the *Conceptual Framework*. The IASB thinks that preparers of management commentary may not be familiar with the Conceptual Framework, particularly those preparers who do not apply IFRS Standards to their financial statements. Some terminologies used in the Conceptual Framework to describe qualitative characteristics are replaced by other words. For example, 'neutrality' is replaced by 'balance', 'freedom from error' is replaced by 'accuracy' and 'understandability' is replaced by 'clarity and conciseness'.

58 Limited feedback was received. Staff, however, have mixed views on this question. Some staff support the proposals because the IASB's rationale of providing plain language and replacing terminologies used in the Conceptual Framework is reasonable. Some staff think that this approach could also confuse. Staff, however, are not comfortable agreeing with the proposals

because staff are not aware of any supportive evidence demonstrating that the proposed terminologies could be interpreted in the same way as those in the Conceptual Framework.

59 Stakeholders have also commented that they support the framework of integrated reporting, that is a single report that brings together financial and non-financial information about how the entity creates value over time for all users of the financial report. However, they also support cross-referencing to information in other reports published by the entity, if entities still produce multiple reports. They are nevertheless of the view that cross-referencing can make information hard to find, making a report hard to understand and time-consuming to analyse. Therefore, a balance needs to be struck. Staff think that these are valid comments. Staff however also think that paragraph 13.21 of the ED has adequately addressed the concerns of cross-referencing.

60 Further, consistent with the discussion in Question 9, staff think that this section should be revised in conjunction with the directions of the new ISSB, particularly if the ISSB intends to develop a conceptual framework for sustainability reporting, possibly with new concepts and terminologies.

61 **Staff recommendation.** Staff think the Board submission should:

(a) **support** the proposals that require information in management commentary to be complete, balanced and accurate, and discusses other attributes that can make that information more useful;

(b) **recommend** the IASB to conduct further research on whether the proposed new terminologies are useful and would not cause unintended consequences (i.e. inconsistent interpretations);

(c) **suggest** this section to be reviewed in conjunction with the directions of the new ISSB.

Questions for Board members
Q11 Do Board members agree with the staff analysis and proposed response to Question 11 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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?

Staff analysis and recommendation

62 There is no guidance on metrics in the current Practice Statement. The ED proposes guidance and requirements that apply to metrics included in management commentary. The revised Practice Statement defines metric as a measure used to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position. The ED does not propose a list of specific metrics that an entity would be required to provide in a management

commentary, but rather it provides guidance for management to identify and disclose material metrics that could be useful for investors and creditors for decision making. It is important to note that the ED does not require entities to provide forecasts and targets. However, if an entity chooses to disclose such information, the information will be expected to comply with the requirements of applying to forecasts and targets information.

63 Consistent with stakeholder feedback received, staff generally agree with most users of financial statements that relevant metrics may be helpful in decision making. Many stakeholders, however, raised concerns similar to those considered in the previous questions about how metrics fit into the relationship between materiality, the six areas of content and key matters.

64 **Staff recommendation.** Staff think the Board submission should **agree** with the proposals and reiterate the suggestion about improving the discussion about the relationship between materiality, the six areas of content and key matters throughout the revised Practice Statement.

Questions for Board members
Q12 Do Board members agree with the staff analysis and proposed response to Question 12 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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?

Staff analysis and recommendation

65 In addition to Chapter 12 that proposes guidance to help management identify material information, the ED also proposes a separate Chapter (Chapter 15) that provides some examples of information that might be material in the revised Practice Statement. The proposed examples are each linked to a specific disclosure objective.

66 Staff agree with stakeholders that the examples in Chapter 15 are helpful. Staff, however, think that the examples focus only on identifying *what* information might be material and not about assessing whether the identified information is, in fact, material. Although paragraph 12.4 of Chapter 12 indicates that information might be material, staff think that more examples to help entities identify material information would be helpful. As such, consistent with staff suggestion in Question 10, staff think that the revised Practice Statement should adopt (or modify if necessary) the concepts that have already been developed in Practice Statement 2.

67 In response to other stakeholder feedback received, staff agree that:

(a) the examples could be better located, either integrated into Chapter 12 or cross-referenced in Chapter 12 with a separate appendix containing the examples. Staff think this issue is of little concern if the overall readability of the revised Practice Statement is improved and streamlined. Therefore, consistent with discussions in other questions, staff suggest the IASB improve the overall structure and presentation of the revised Practice Statement to improve its readability; and

(b) more examples are needed to demonstrate the application of aggregation (paras. 12.10–12.11) to provide better clarity.

68 Stakeholders commented that the revised Practice Statement should clarify that the examples are not prescriptive. Staff think that paragraph 15.2 in Chapter 15 attempts to address the concerns. Perhaps the paragraph needs to be more explicit, stating the fact that the examples are 'non-authoritative'.

69 **Staff recommendation.** Staff think the Board submission should:

(a) **support** the proposed examples that would help management to identify material information to be provided in management commentary; and

(b) **recommend** the following**:**

(i) the overall readability of the revised Practice Statement needs to be improved and streamlined*;*

(ii) provide examples to demonstrate the application of aggregation; and

(iii) be clear that the examples are 'non-authoritative'.

Questions for Board members
Q13 Do Board members agree with the staff analysis and proposed response to Question 13 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

IASB ED/2021/6 – Other comments (Question 14–16)

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?

Staff analysis and recommendation

70 The ED proposed that:

(a) the revised Practice Statement supersede the 2010 Practice Statement for annual reporting periods beginning on or after the date of its issue;

(b) the revised Practice Statement would be effective for annual reporting periods ending at least one year after the date of its issue; and

(c) early application of the revised Practice Statement is permitted.

71 Staff received limited stakeholder feedback on this question. Staff think that it is reasonable for the effective date of the revised Practice Statement to be the annual reporting periods ending at least one year after the date of its issue. There are uncertainties about how the ISSB standards would impact the adoption and implementation of the revised Practice Statement. Entities may need additional time to implement potential new standards developed by the ISSB in conjunction with the revised Practice Statement.

72 **Staff recommendation.** Staff think the Board submission should:

(a) **agree** with the proposed effective date with the assumption that the potential ISSB standards have minimal impact to the revised Practise Statement; and

(b) **recommend** the effective date should be revised and considered when there is clarity of the direction and work developed by the potential ISSB.

Questions for Board members
Q14 Do Board members agree with the staff analysis and proposed response to Question 14 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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?

Staff analysis and recommendation

73 As discussed in questions above, there are general concerns that some of the proposed disclosure requirements may potentially give rise to class action or litigation risks. However, staff have not heard from stakeholders that any legislation in Australia may preclude entities from voluntarily adopting the revised Management Commentary.

74 **Staff recommendation.** Staff think the Board submission should include the following observations:

(a) besides those concerns raised in other questions, there are no other comments on the analysis of the effects; and

(b) there is no legislation in Australia the Board is aware of that would prevent entities from adopting the revised Practice Statement voluntarily.

Questions for Board members
Q15 Do Board members agree with the staff analysis and proposed response to Question 15 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

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

Staff analysis and recommendation

75 Although the Practice Statement focuses on user needs of for-profit entities, two not-for-profit (NFP) stakeholders have suggested that the revised Practice Statement may possibly be modified for NFP entities to adopt in Australia. A public sector stakeholder commented that the public sector has been providing narrative information as part of their performance reporting and the revised Practice Statement may not be relevant. Staff think that the feedback is important because there is little guidance available to help NFP entities on narrative reporting. Staff will consider the feedback in the AASB NFP Reporting Framework project and the ITC 46 *AASB Agenda Consultation 2022–2026*.

Staff recommendation. There are no other comments to be included in the Board submission.

Questions for Board members	
Q16	Do Board members agree with the staff analysis and proposed response to Question 16 of the IASB ED/2021/6? If not, how do Board members wish to respond to the question?

Cover letter and other matters

76 **Staff recommendation.** Staff recommend that the cover letter to the AASB submission express support for the proposals but **disagree** with the proposed design of the disclosure objectives (see Question 5).

77 Staff also suggest the cover letter include the following overarching comments. The IASB should:

(a) consider the directions of the new ISSB before further developing the revised Practice Statement;

(b) conduct field-testing before finalising the revised Practice Statement;

(c) further consider the implications of local law and legislation when developing the revised Practice Statement; and

(d) re-expose the ED for more stakeholder feedback after revision.

Questions for Board members	
Q17	Do Board members agree with the staff recommendation on the tone of the cover letter? Are there other key points that Board members consider should be made as part of the cover letter?
Q18	Are there any other matters that Board members want to raise in relation to IASB ED/2021/6?

Next steps

78 The comment period to IASB ED/2021/6 closes 23 November 2021. As there is no further AASB meeting before the comment period close date, staff suggest a comment letter reflecting the Board's decisions from this meeting be finalised by out-of-session by a subcommittee of the Board.

79 The proposed timing is:

Timeline	Deliverable
16-19 November 2021	A draft comment letter is circulated by staff to the subcommittee for review Subcommittee meets to discuss the comment letter (if necessary) A revised comment letter is circulated to the subcommittee for further/final comment
23 November 2021	Comment letter is signed by AASB Chair and submitted by 23 November 2021

Questions for Board members

Q19 Do Board members agree with the staff recommendation that the AASB submission be finalised out-of-session via a subcommittee of the Board? If so, do any Board members want to be on that subcommittee?

Q20 Do Board members have any comments or concerns about the proposed timing of finalisation of the AASB comment letter?

Appendix: References

Paragraph	IASB Exposure Draft ED/2021/6 *Management Commentary*
2.5	Management commentary that complies with all of the requirements of this [draft] Practice Statement shall include an explicit and unqualified statement of compliance.
2.6	Management commentary that complies with some, but not all, of the requirements of this [draft] Practice Statement may include a statement of compliance. However, that statement shall be qualified, identifying the departures from the requirements of this [draft] Practice Statement and giving the reasons for those departures.
3.17	However, material information does not necessarily relate to a key matter. Material information is included in management commentary even if it does not relate to a key matter.
Note (a) under paragraph 4.5	The areas of content are interrelated. Information provided to help meet the disclosure objectives for one area might also help meet the disclosure objectives for other areas. For example, an analysis of an entity's dependence on a resource—for example, a commodity—could help investors and creditors understand the entity's exposure to risks relating to that resource, for example, commodity price volatility. Information can help meet more than one disclosure objective without being duplicated in several sections of the management commentary.
5.5	Management commentary shall provide information that enables **investors and creditors** to understand how the entity's business model creates value and generates cash flows.
5.6	Information in management commentary shall provide a sufficient basis for investors and creditors to assess: (a) how effective the entity's business model is at creating value and generating cash flows; (b) how scalable and adaptable it is; and (c) how resilient and durable it is.
5.7	The information about the entity's business model shall enable investors and creditors to understand: (a) the range, nature and scale of the entity's operations; (b) the entity's cycle of creating value and generating cash flows; (c) the environmental and social impacts of the entity's activities if those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term; and (d) progress in managing the entity's business model
12.4	Indications that information might be material include that it: (a) relates to a **key matter**; (b) is derived from information that management uses for managing the business—for example, information discussed with the entity's board or considered by management in setting strategy, allocating resources or assessing the entity's performance; or (c) has been included in the entity's capital markets communications—for example, in presentations to investors and creditors.
12.8	Some matters discussed in management commentary relate to possible future events that have not affected the entity's financial performance or financial position, are not reported in the entity's financial statements and have uncertain

	outcomes. In judging whether information about such possible future events is material, management considers: (a) the potential effects of the events on the amount and timing of the entity's future cash flows, including in the long term (the possible outcome); and (b) the full range of possible outcomes and the likelihood of the possible outcomes within that range.
12.10	Information in management commentary generally aggregates more detailed information available to management. If that information is aggregated too much, material information might be omitted. If it is not aggregated enough, material information might be obscured by immaterial information.
12.11	Factors to consider in judging how much to aggregate information include: (a) the possibility that items of information that are not material individually might be material when aggregated with similar items; and (b) the possible need to disaggregate information reported in the financial statements—for example, if that disaggregation is necessary for management commentary to provide an understandable explanation of the factors affecting an amount reported in the financial statements.
13.21	If management commentary includes information by cross-reference to another report: (a) management commentary shall identify the report clearly and explain how to access it; (b) the cross-reference shall be to a precisely specified part of that report; (c) the information included by cross-reference shall be as up to date as if it had been included in the management commentary directly; and (d) if the information is in a report for a period ending before the end of the reporting period covered by the management commentary, the management commentary shall: (i) state the cut-off date for that information; and (ii) if necessary to meet the requirements of this [draft] Practice Statement, provide further information up to the end of the period covered by the management commentary.
15.2	The examples are each linked to a specific disclosure objective for one of the areas of content. The information described in the examples is not always required, nor is information that might be needed to meet the disclosure objectives limited to those examples. Management applies judgement in identifying information that might be material and assessing whether that information is material.
BC35	The Board concluded that compliance with the revised Practice Statement would not rely on the financial statements including all the information required by IFRS Standards or on them being in accordance with concepts similar to those underpinning IFRS Standards. The Board reached this conclusion because the Board's proposed requirements for the revised Practice Statement focus on objectives: the objective of management commentary and disclosure objectives for areas of content within management commentary. The information needed to meet those objectives might depend, among other things, on the information provided in the related financial statements, and the information in the financial statements would in turn depend partly on the basis of their preparation. However, the revised Practice Statement would require management commentary to meet specified objectives, rather than to provide specified information; so, compliance with the requirements of the Practice Statement would rely on meeting those objectives.

BC108	Making materiality judgements could be more challenging in preparing management commentary than in preparing financial statements because: (a) management commentary contains more explanatory and forward-looking information than financial statements contain. Materiality judgements are more challenging for such information than for quantitative information. (b) IFRS Standards explicitly identify a large proportion of the information that entities need to consider including in financial statements. Explicit identification is more difficult in the case of the Practice Statement, which can explicitly identify only a much smaller proportion of the information that entities need to consider including in management commentary.
BC113	Paragraph 3.2 proposes to require management commentary to provide material information. The Board's Management Commentary Consultative Group discussed whether there should be an exception permitting an entity not to disclose information that is material but commercially sensitive. Members of the Consultative Group expressed mixed views. Furthermore, the disclosure requirements of IFRS Standards do not generally include exceptions for commercially sensitive information: there is an exception in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which applies only to 'extremely rare' cases in which disclosure of information could prejudice seriously the entity's position in a dispute with other parties. For these reasons, the Exposure Draft does not propose an exception for commercially sensitive information.