



**Australian Government**

**Australian Accounting  
Standards Board**

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UNITED KINGDOM

23 November 2021

Dear Dr Barckow,

**IASB Exposure Draft ED/2021/6 *Management Commentary***

The Australian Accounting Standards Board (AASB) is pleased to comment on the IASB's Exposure Draft ED/2021/6 *Management Commentary*. In formulating these comments, we sought and considered the views of Australian stakeholders, including:

- consultation with the AASB's User Advisory Committee (UAC);
- a formal comment letter;
- a virtual roundtable, comprising AASB Disclosure Initiative Advisory Committee members; AASB UAC members, professional bodies, academics, preparers, auditors, directors and other regulators; and
- other targeted outreach activity seeking stakeholder feedback on the proposals.

The AASB would like to acknowledge the efforts of the IASB to review and improve guidance provided in the IFRS Practice Statement 1 *Management Commentary*. While we are overall supportive of the project, we recommend that the proposals as currently drafted are excessively complex for preparers to operationalise. Likewise, they would be difficult for auditors to provide meaningful assurance and for regulators to effectively enforce. The AASB's specific responses and recommendations concerning the proposals are outlined below and detailed in Appendix A of this comment letter.

*Part A – General requirements*

We support the proposals and recommend that the IASB:

- avoid requiring unaudited management commentary that fully or partially complies with the revised Practice Statement using the terms 'qualified' and 'unqualified'; and
- provide a limited exemption for prejudicial disclosure in management commentary.

*Part B and Appendix B – Areas of content*

The AASB disagrees with the design of the disclosure objectives that would require preparers to consider a headline objective, assessment objectives and specific objectives and recommend that the IASB:

- provide a clear and intuitive framework that clarifies the relationship between materiality, the six areas of content and key matters;
- improve the readability of the revised Practice Statement, including shortening the length and moving explanatory material and examples to appendices;

- include a paragraph specifically 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;
- replace the term 'key matters' with another term such as 'key commentary matters' to avoid confusion with 'key audit matters';
- develop better disclosure guidance on governance; and
- consider the outcome of the IASB's Third Agenda Consultation and the work of the new International Sustainability Standards Board (ISSB) in further developing the revised Practice Statement.

*Part C – Selection and presentation of information*

We support the proposals and recommend that the IASB:

- better incorporate the concepts and guidance developed in IFRS Practice Statement 2 *Making Materiality Judgements*;
- incorporate principles and terminology expected to be developed in the ISSB's related Standards and guidance, as appropriate;
- provide examples to demonstrate the application of aggregation; and
- clearly state that the examples provided are non-authoritative.

Further, we recommend that the IASB considers the ISSB's direction and work plan before deciding the effective date of a revised Practice Statement.

Given the concerns highlighted in this letter, and the complexity of the proposals, the AASB encourages the IASB to field test the proposals and re-expose the ED if significant changes are made.

If you have any questions regarding this letter, don't hesitate to contact myself or Helena Simkova, AASB Deputy Technical Director ([hsimkova@asb.gov.au](mailto:hsimkova@asb.gov.au)).

Yours sincerely,



Dr Keith Kendall  
AASB Chair

## **APPENDIX A – Responses to questions raised in ED/2021/6 *Management Commentary***

### ***Part A – General requirements***

#### **Question 1 –The financial statements to which management commentary relates**

Paragraph 2.2 proposes that management commentary identify the financial statements to which it relates. That paragraph further proposes that, if the related financial statements are not prepared in accordance with IFRS Standards, the management commentary would disclose the basis on which the financial statements are prepared.

The Exposure Draft does not propose any restrictions on the basis of preparation of the related financial statements (for example, it does not propose a requirement that financial statements be prepared applying concepts similar to those underpinning IFRS Standards).

Paragraphs BC34–BC38 explain the Board's reasoning for these proposals.

- (a) Do you agree that entities should be permitted to state compliance with the revised Practice Statement even if their financial statements are not prepared in accordance with IFRS Standards? Why or why not?
- (b) Do you agree that no restrictions should be set on the basis of preparation of such financial statements? Why or why not? If you disagree, what restrictions do you suggest, and why?

The AASB agrees with the proposals and the reasons provided in paragraphs BC34–BC38.

#### **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?

The AASB supports the proposals. However, we suggest the IASB should avoid requiring unaudited management commentary that fully or partially complies with the revised Practice Statement using the terms 'qualified' and 'unqualified' for the statement of compliance. Those terms are commonly used in an audit opinion, potentially causing users to assume an unaudited management commentary has, in fact, been audited.

**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?

In Australia, Regulatory Guide [RG 247 \*Effective disclosure in an operating and financial review\*](#) (RG 247) requires management commentary for listed entities to disclose forward-looking information but provides an unreasonable prejudice exemption under section 299A of the *Corporations Act 2001* (Cth). The unreasonable prejudice exemption is most often applied where, for example, disclosing the information is likely to give third parties (such as competitors, suppliers and buyers) a commercial advantage, resulting in a material disadvantage to the entity. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (para. 92) provides a similar limited exemption for prejudicial information.

As such, although the AASB agrees with the proposed objective of management commentary, the AASB recommends the revised Practice Statement should provide a limited exemption for prejudicial disclosure such as commercially sensitive information. We are concerned that the absence of such an exemption will result in the revised Practice Statement being viewed as 'commercially naïve'.

**Part B and Appendix B – 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?

The overall approach could be complex for preparers to operationalise, as well as for auditors to assure and regulators to enforce for the reasons discussed below:

- (a) It is unclear how the relationships between materiality, the six areas of content and key matters should be applied and made operational by preparers. For example, Chapter 3 discusses materiality and introduces key matters but provides limited advice on how, at a practical level, key matters should be related to the six areas of content and the disclosure objectives. These relationships are critical because they are the revised Practice Statement's underlying framework and principles. In our view, the relationships should be clarified and introduced early in the revised Practice Statement (possibly in Chapter 3). Field testing may also be useful;
- (b) Stakeholders felt that the level of detail in the revised Practice Statement is overwhelming and may encourage a tick-a-box approach to preparation, assurance and enforcement. We note that, for example, Chapters 5–10 set out the requirements for each area of content, 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 or confuse the black letter requirements. We recommend that Chapters 5–10 in the revised Practice Statement should focus on the principles and requirements. If some of the notes, links, illustrations and examples are deemed necessary but are not primary guidance or principles, moving this information to appendices would improve the readability of the document; and

- (c) The three levels of disclosure objectives (headline, assessment and specific objectives) for the six areas of content and the application of materiality principles also affect operability and enforceability. They are discussed in Questions 5 and 10.

Overall, the AASB recommends that the revised Practice Statement should:

- (a) provide a clearer framework that clarifies the relationship between materiality, the six areas of content and key matters; and
- (b) be significantly shorter with improved readability. It may include the use of appendices in the place of some chapters.

#### **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?

The AASB disagrees with the design of disclosure objectives. The AASB recommends that disclosure objectives should be clear, simple and reflect practical intuition. The currently drafted disclosure objectives (i.e. headline objectives, assessment objectives and specific objectives) are repeated using slightly different words, which is confusing.<sup>1</sup> Further, it is not reasonable to assume management can positively assert that they could provide sufficient information for investors and creditors to make assessments, giving rise to unintended consequences such as litigation risks.

The AASB notes that Australia's [RG 247](#) has similar disclosure requirements as the proposals, however it does not require preparers to identify three different levels of disclosure objectives.<sup>2</sup> Further, we note that [ED/2021/3 Disclosure Requirements in IFRS Standards—A Pilot Approach](#) proposes that entities meet overall and specific objectives, but it does not have assessment objectives. We recommend that the disclosure objectives for each area of content should be consistent with the eventual outcome of consultations for ED/2021/3.

Overall, the AASB suggests that the disclosure objectives in the revised Practice Statement should include overall objectives and specific objectives but not assessment objectives.

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<sup>1</sup> For example, one of the specific objectives of the business model is to provide information for investors and creditors to understand progress in managing the entity's business model. It is unclear how this objective is different to the assessment objectives of business model.

<sup>2</sup> See [AASB Staff Paper: Comparison of Narrative Reporting Requirements Applicable to For-profit Entities](#)

**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?

The AASB generally agrees with the proposed disclosure objectives for information about the areas of content, provided that the design of the disclosure objectives is amended by removing assessment objectives. As discussed in Question 5, the disclosure objectives are repetitive. If assessment objectives are removed, we suggest the overall and specific disclosure objectives also be reviewed.

A secondary issue raised by some stakeholders is the duplication of objectives between the six areas of content. For example, information about specialised employees or 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. We suggest that the Note located under paragraph 4.5 (explaining that the content areas are interrelated and information may meet more than one disclosure objective without being duplicated) should be a paragraph rather than a Note.

**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?

Subject to the clarifications requested in Question 4, the AASB supports the focus on key matters. However, some stakeholders requested that the term 'key matters' be replaced by a different term such as 'key commentary matters', to avoid confusion with 'key audit matters'.

#### **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?

The AASB generally supports the proposals. However, we note that:

- (a) Some stakeholders felt very strongly that the revised Practice Statement should address disclosures about governance. We agree with this concern because governance is integral to matters addressed in the management commentary.
- (b) the AASB's [submission to the IASB's Third Agenda Consultation](#) recommends that the IASB add projects relating to intangible assets to its upcoming work plan as a high priority. We recommend that the IASB should consider the outcome of the IASB's Third Agenda Consultation before finalising the guidance about disclosing intangible resources and relationships in the revised Practice Statement because the disclosures of intangible assets in IAS 38 *Intangible Assets* 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 should be disclosed in the notes or the management commentary (as part of intangible



resources); and

- (c) we agree with stakeholders' concerns about the timing of this ED in terms of its interaction with the work that would be conducted by the potential new International Sustainability Standards Board (ISSB). We recommend that the IASB should consider the directions of the new ISSB before further developing the revised Practice Statement. We also address this matter in Question 9 below.

**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?

Stakeholders have raised concerns about the timing of this ED, as some areas overlap with the work to be undertaken by the ISSB. Some stakeholders suggested that the IASB should defer this project until there is more clarity on how the IASB intends to collaborate with the ISSB to avoid duplication of effort and costs for preparers.

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 Financial Reporting Council (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. More specifically, they were concerned that the duplication of effort may produce different project outcomes that 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.

Accordingly, we recommend that the IASB defer its development of the revised Practice Statement until there is clarity on the direction of the ISSB.

**Part C – Selection and presentation of 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?

The AASB generally supports guidance in the revised Practice Statement with respect to making materiality judgements. However, consistent with feedback received, we suggest the IASB use [IFRS Practice Statement 2: Making Materiality Judgements](#) as the basis for developing materiality concepts in the revised Practice Statement.

**Question 11—Completeness, balance, accuracy and other attributes**

(a) 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?

The AASB agrees with the proposals; however, we also recommend the IASB conduct further research on whether the proposed new terminologies are an improvement over existing terminology in the Conceptual Framework or are simply different and may therefore lead to confusion over meanings. Consistent with the discussion in Question 9, we recommend that terminology and concepts should be revised in conjunction with the ISSB's Standards and guidance, as appropriate.

Further, we recommend that the currently drafted proposals provide extensive 'boilerplate' guidance. We suggest the IASB review the chapter and provide better, more concise and simplified guidance.

**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?

Consistent with stakeholder feedback received, the AASB agrees that relevant metrics will be useful in decision making. Many stakeholders, however, raised concerns like those considered in the previous questions about how metrics fit into the relationship between materiality, the six areas of content and key matters.

**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?

Subject to our responses to earlier questions to clarify relationships between materiality, areas of content and key matters, and to make more use of Practice Statement 2 for assessing materiality, the AASB supports the provision of additional guidance on the information that might be material. Further, the AASB agrees with the following stakeholder comments:

- (a) as part of reducing the length of the document, the examples in Chapter 15 could be cross-referenced in Chapter 12 and the examples placed in an appendix rather than a chapter;

- (b) locating the examples in an appendix may also help with a request from stakeholders to make clearer that the examples are not requirements; and
- (c) more examples are needed to demonstrate the application of aggregation (paras. 12.10–12.11).

**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?

There are uncertainties about how the ISSB standards might affect the adoption and implementation of the revised Practice Statement, and entities may need additional time to implement potential new standards developed by the ISSB in conjunction with the revised Practice Statement. For this reason, although we broadly agree with the proposal, we suggest the effective date be reconsidered when there is clarity about the direction and work developed by the ISSB.

**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?

The AASB acknowledges stakeholders' general concerns that some of the proposed disclosure requirements could give rise to class action or litigation risks. However, we are not aware of any legislation in Australia that would preclude entities from voluntarily adopting the proposed revised Management Commentary Practice Statement.

**Question 16—Other comments**

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

The AASB has no further comments.