

Investor-focused management commentary

Global IFRS Institute

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“The Board’s proposals are designed to provide a comprehensive bridge between the historical picture presented in a company’s financial statements and the sustainability and other information that investors need to assess its long-term prospects. Given its proposed non-mandatory nature, the question now is whether the proposals are sufficiently attractive to companies and/or national regulators to become the global baseline for narrative reporting.”

Proposed new framework designed to bring financial and non-financial information into a single report

Highlights

- Why replace the existing practice statement?
- What is the Board proposing for management commentary?
- How would the proposals interact with sustainability reporting standards?
- Next steps

Management commentary – known as MD&A in some countries – is a report that complements a company’s financial statements.

Investors are concerned about ‘reporting gaps’ between the information provided in management commentaries and the information that they need. In response, the International Accounting Standards Board (the Board) is proposing a major overhaul to the existing IFRS Practice Statement 1 *Management Commentary*.¹

The **proposals** build on innovations in narrative reporting and aim to bring together in one place the information that investors need to assess the company’s long-term prospects including information about sustainability matters, intangible resources and key relationships.

They are designed to provide insight into factors that:

- *have affected* the company’s financial performance and position reported in its financial statements; and
- *could affect* the company’s ability to create value and generate cash flows in the future.

Companies would not have to apply the proposed practice statement to claim compliance with IFRS® Standards. However, national regulators may choose to mandate it.

Why replace the existing practice statement?

The existing practice statement would be replaced by a new comprehensive framework to address gaps in reporting. Common concerns from investors include too much generic information and failure to address company-specific matters – in particular, those that are important for the company’s long-term prospects.

1 **IFRS Practice Statement 1 *Management Commentary***

For example, some investors note there often is insufficient information on the key intangible resources and relationships that the company depends on for its future success, as well as on environmental, social and governance (ESG) matters and how they affect a company's business model, strategy, resources, relationships or risks.

What is the Board proposing for management commentary?

The proposals would require information to be provided on matters that are fundamental to the company's prospects (including, for example sustainability-related matters) covering six content areas:

- business model;
- strategy;
- resources and relationships – including intangibles;
- risks;
- external environment; and
- financial performance and position – including how this has been affected or could be affected in the future by the matters identified.

The information about each content area would need to address management's progress in managing key matters and the implications of those matters. It may need to include financial and non-financial KPIs used in managing the business. For example, a social media business might need to report on its subscriber numbers.

How would the proposals interact with sustainability reporting standards?

The proposed management commentary framework would provide the basis for identifying what matters to report on and how to present the information.

The proposals anticipate that companies may use topic-specific frameworks – e.g. covering sustainability matters – to help identify the information to be provided. For example, where a company has a water-stressed site at risk of closure, the proposals might require disclosure of revenue and water usage for that site, but would not specify how water usage should be measured.

Next steps

The Board is considering the feedback it has received on the proposals.

Many respondents, including most investors, acknowledged the project was necessary to address shortcomings with current practice. They expressed support for the Board's role in developing a comprehensive framework on management commentary to meet investors' information needs.

Most respondents asked for clarity on the interaction between the Management Commentary project and the future work of the International Sustainability Standards Board (ISSB). Respondents encouraged the IASB Board to work with the ISSB Board given the potential role for management commentary as a home for sustainability-related disclosures.

The Board will continue to discuss feedback and decide on a plan for the project's next phase during Q2 2022. In the meantime, speak to your usual KPMG contact and visit home.kpmg/ifs to keep up to date with the latest news and discussion on this topic.

Our [comment letter](#) (PDF 199KB) sets out the KPMG position on these and other issues.

Read the exposure draft and don't miss your opportunity to have your say before 23 November 2021 through the Board's [website](#).

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