

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## **Management Commentary Practice Statement**

### **Issues Paper**

#### **Objective**

- 1 The objective of this session is to provide an update on the IASB discussions and decisions since July 2020 and seek EFRAG TEG's preliminary views on the updates to the Management Commentary Practice Statement (revised Practice Statement).
- 2 The paper focusses on the discussions and decisions of the IASB in relation to the following topics:
  - (a) Reporting on financial resources (July 2020).
  - (b) Reporting on performance, position and progress (July 2020).
  - (c) Reporting on progress (July 2020).
  - (d) The use of metrics (July 2020).
  - (e) The status of the MCPS (September and November 2020).

#### **Reporting financial resources**

- 3 The revised Practice Statement is expected to include (as part of the Strategy content element) supporting guidance on providing information about obtaining and allocating financial resources.
- 4 Material information about the entity's capital requirements, management's plans for meeting those requirements and management's approach to allocating capital. could include:
  - (a) an indication of the financial resources required to implement the strategy, including those required to reach intermediate milestones and those required to achieve the long-term aims.
  - (b) an explanation of how management plans to obtain those financial resources, covering for example:
    - (i) financial resources already available to the entity;
    - (ii) financial resources that management expects the entity's operations to generate;
    - (iii) financial facilities, both drawn and undrawn, available to the entity at the end of the reporting period;
    - (iv) the period for which such facilities are expected to be available and terms and covenants that could cause them to be withdrawn;

## *Management Commentary Practice Statement - Issues Paper*

- (v) the extent to which management intends to use short-term financing facilities and schemes—for example, supplier financing and debt factoring; and
  - (vi) management targets or policies relating to the entity's financial position—for example, the entity's target capital structure or target credit rating.
- (c) an explanation of management's approach to capital allocation, including an explanation of:
- (i) how management prioritises different uses of the entity's financial resources—for example, reinvestment in operations, mergers and acquisitions, repurchase of shares or early repayment of debt, and dividend payments—and plans to allocate financial resources in the future; and
  - (ii) what criteria management uses to evaluate investment opportunities.
- (d) an explanation of changes in the financial resources required to implement the strategy, in management's plans for funding the strategy, or in management's approach to capital allocation.

### *Current guidance in the existing Practice Statement*

- 5 The existing Practice Statement includes only high-level guidance on providing information about financial resources in the management commentary.
- 6 Paragraph 30 of the existing Practice Statement states that management commentary 'should set out the critical financial and non-financial resources and how they are used in meeting management's stated objectives'. It also describes examples of possible disclosures for various types of resources in management commentary, including:
- (a) analysis of adequacy of the entity's capital structure;
  - (b) analysis of financial arrangements (whether or not recognised in the statement of financial position), liquidity and cash flows; and
  - (c) plans to address any surplus resources or identified and expected inadequacies.
- 7 In addition, paragraph 18 of the existing Practice Statement states that management commentary should provide information about trends, uncertainties and other factors that could affect the entity's liquidity and capital resources.

### *EFRAG Secretariat preliminary views*

- 8 The EFRAG Secretariat agrees with the importance to investors and creditors of obtaining information about the availability of financial resources, and how management allocates its financial resources.
- 9 We however note that the proposals include a combination of current (i.e., resources available as of the reporting date) and forward-looking information (financial resources that 'management expects the entity's operations to generate'; extent to which management intends to use short-term financing facilities). The latter may be more problematic to provide as the information is akin to providing forecast which may be restricted or prohibited by local regulations.
- 10 The EFRAG Secretariat also observe that IFRS Standards (IAS 1 *Presentation of Financial Statements* and IFRS 7 *Financial Instruments: Disclosure*) already include requirements about disclosure of capital requirements or financial instruments held by an entity. The articulation of the information provided in the financial statements with the one in the management commentary would need to be clarified to avoid duplication (for example the possibility to incorporate information in the

management commentary by cross-reference to particular disclosure in the notes to the financial statements).

- 11 The EFRAG Secretariat also considers that, in drafting the proposed requirements; information about financial resources contained as part of the Strategy content element should be linked with the information about the 'resources and relationships' and the 'performance and position' elements.

**Questions for EFRAG TEG – Reporting on Financial Resources**

- 12 Does EFRAG TEG have any comments on the proposed information about financial resources described in paragraphs 3 and 4 above and on the EFRAG Secretariat preliminary assessment??

**Reporting on performance, position**

*Reporting on Performance and Position*

- 13 Similar to other content elements, the revised Practice Statement is expected to include :
- (a) a disclosure objective for performance and position; and
  - (b) guidance supporting that objective, including on how to identify key aspects of performance and position and what information to provide about key aspects of performance and position.

*Disclosure objective*

- 14 The revised Practice Statement is expected to state that management commentary shall provide information that enables investors and creditors to understand the entity's financial performance and financial position depicted in its financial statements. In particular, information in management commentary shall provide sufficient basis for investors and creditors to assess:
- (a) key drivers of the entity's financial performance and financial position;
  - (b) how the entity's financial performance and financial position compare with investors' and creditors' previous expectations;
  - (c) the extent to which the financial performance and financial position reported in the entity's financial statements are indicative of the entity's ability to create value and generate cash flows in the future, including in the long term; and
  - (d) the entity's financial resilience.
- 15 The information provided about the entity's financial performance and financial position shall enable investors and creditors to understand:
- (a) what the key aspects of the entity's financial performance and financial position are;
  - (b) the factors including matters discussed in other areas of content in management commentary that:
    - (i) have affected the entity's financial performance for the reporting period;
    - (ii) have affected the entity's financial position at the end of the reporting period;
    - (iii) have affected the entity's financial performance or financial position since the end of the reporting period, or could affect them in the future, including in the long term;

- (c) how the entity has allocated capital in the reporting period; and
- (d) how the entity's financial performance and financial position compare with previously-published forecasts or targets, if any, and why variances arose.

*Supporting guidance*

- 16 Information provided in management commentary about an entity's financial performance and financial position supplements information provided in the related financial statements, and focuses on explaining the amounts presented and disclosed in those financial statements. Both financial information and non-financial information may be needed to explain the entity's financial performance and financial position.
- 17 The supporting guidance is expected to address the following:
- (a) The management commentary shall focus on key aspects of the entity's financial performance and financial position and disclose material information about those key aspects.
  - (b) Key aspects are aspects that are fundamental to understanding the entity's ability to create value and generate cash flows and are expected to depend on will the industry in which the entity operates.
  - (c) Material information about key aspects of an entity's financial performance and financial position is likely to include the metrics that management uses to monitor these key aspects. Such metrics could include:
    - (i) line items, subtotals or totals the entity presents in its statement of comprehensive income, statement of cash flows or statement of financial position;
    - (ii) other amounts the entity discloses in the notes to its financial statements; and
    - (iii) measures taken or derived from amounts presented or disclosed in the financial statements.

*Factors that have affected the entity's financial performance for the reporting period*

- 18 Material information about factors that have affected the entity's financial performance for the reporting period could include:
- (a) metrics of the entity's financial performance for the reporting period.
  - (b) an explanation of changes in those metrics from previous periods, quantifying the effects of each contributing factor. The explanations could cover:
    - (i) *the drivers of revenue*: for example, identifying regions or categories of products affected by different drivers;
    - (ii) *revenue variances*: for example, how revenue is affected by price, volume and product mix factors;
    - (iii) *the drivers of costs*: for example, the split of operating costs between fixed and variable costs; or costs incurred in order to enhance key features of the entity's business model;
    - (iv) *the drivers of cash flows*: for example, how changes in customer payment terms or use of supply chain financial contributed to the entity's cash flows in the reporting period;
    - (v) an explanation of how matters discussed in other areas of content in management commentary have affected the entity's financial performance for the period—for example, how progress in implementing

management's strategy has affected the entity's revenue, operating expenses and cash flows from operating activities.

**Factors that have affected the entity's financial position at the end of the reporting period**

- 19 Material information about factors that have affected the entity's financial position at the end of the reporting period could include:
- (a) metrics of the entity's financial position at the end of the reporting period;
  - (b) an explanation of changes in those metrics from previous reporting periods, quantifying the effects of each contributing factor;
  - (c) information about the entity's ability to meet its obligations, including in the long term. The information could include:
    - (i) an analysis of the entity's liquidity and leverage measures and indicators, explaining variances from previous periods;
    - (ii) an analysis of actions management has taken to manage the entity's liquidity;
    - (iii) an analysis of the entity's capital structure and financing arrangements;
    - (iv) information about the entity's compliance (or non-compliance) with financing covenants; and
    - (v) an analysis of how the entity's working capital requirements during the reporting period have differed from those at the end of the reporting period, or how they are expected to differ in the future.
  - (d) an analysis of non-controlling interests held by other parties in the entity's subsidiaries;
  - (e) an explanation of how key matters discussed in other areas of content in management commentary have affected the entity's financial position.

**Factors that have affected the entity's financial performance or financial position since the end of the reporting period, or could affect them in the future**

- 20 Material information about factors that have affected the entity's financial performance or financial position since the end of the reporting period, or could affect them in the future (paragraph (iii)), could include:
- (a) information to help investors and creditors assess the extent to which the entity's financial performance in the current period is indicative of its future performance, including information about:
    - (i) unusual income and expenses, and how they could affect the entity's future cash flows;
    - (ii) changes in drivers of financial performance—or the implications of those drivers on financial performance—that could affect the entity's financial performance in the future, including in the long term; and
    - (iii) changes in the structure of the entity that have affected performance for the current period—for example, changes resulting from the acquisition or disposal of businesses.
  - (b) an explanation of developments since the end of the reporting period that have affected the entity's financial performance or financial position, or could do so in the future, including, for example:
    - (i) an unexpected event; or

- (ii) change in a leading indicator—such as an order book—used by management as an indicator of future performance.
- (c) an explanation of how key matters discussed in other areas of content in management commentary could affect the entity's future financial performance or future financial position, including in the long term.
- (d) an explanation of other known or reasonably expected future changes that could affect the entity's financial performance in the future, including in the long term, even if the effect has not been significant in the reporting period—for example, known or expected changes in tax rates or laws that could affect the relationship between the entity's tax charge and profit or loss.

*How the entity has allocated capital in the reporting period*

- 21 Material information about how the entity has allocated capital in the reporting period could include:
- (a) information about capital allocation decisions during the reporting period, including:
    - (i) an indication of the target returns on which investment decisions were based; and
    - (ii) information about the actual returns generated by past capital allocation decisions.
  - (b) an analysis of expenditure during the reporting period on:
    - (i) maintaining ongoing operations;
    - (ii) enhancing the entity's ability to create value and generate cash flows—for example, by adding customers, investing in research and development or acquiring businesses; and
    - (iii) other purposes—for example, repurchasing shares, repaying debt or paying dividends.
  - (c) an analysis of authorised and contracted future expenditure.

*How the entity's financial performance and financial position compare with previously-published forecasts or targets*

- 22 Material information about how the entity's financial performance and financial position compare with previously-published forecasts or targets, if any, and why variances arose could include:
- (a) an analysis of variances between actual amounts and the forecast or target amounts; and
  - (b) an explanation of those variances and of their implications.

*Current guidance in the existing Practice Statement*

- 23 The existing Practice Statement provides that the management commentary should explain the performance and position depicted in financial statements by:
- (a) providing management's perspective of the entity's performance, position and progress; and
  - (b) supplementing and complementing the financial statements with explanations of the amounts presented in the financial statements and the conditions and events that shaped that information.
- 24 Guidance on reporting performance and position (provided under the heading 'results and prospects') states that management commentary should provide '*information that is essential to an understanding of [...] the results of operations*

and prospects and the critical performance measures and indicators that management users to evaluate the entity's performance against stated objectives'.

- 25 The Practice Statement specifies that this information should include:
- (a) a description of financial and non-financial performance of the entity;
  - (b) insight into the main trends and factors affecting the business;
  - (c) a discussion of the extent to which that performance may be indicative of future performance;
  - (d) a description of the relationship between the entity's results, management's objectives and management's strategies for achieving those objectives; and
  - (e) discussion and analysis of significant changes in financial position, liquidity and performance compared with those of the previous period or periods.
- 26 The current Practice Statement also asks for management's analysis of the entity's prospects to help investors and creditors understand how management intends to implement its strategy over the long term.
- 27 In the guidance on providing forward-looking information, the Practice Statement states that management commentary:
- (a) should communicate the entity's direction, but does not predict the future;
  - (b) should include forward-looking information when management is aware of the trends, uncertainties or other factors that could affect the entity's liquidity, capital resources, revenues and the results of its operations; and
  - (c) may (but is not required to) include forecasts and targets and should explain performance for the current reporting period in the context of past forecasts included in prior period management commentary.

*EFRAG Secretariat preliminary views*

- 28 The EFRAG Secretariat therefore agrees with the expected inclusion in the stated objective of the management commentary that it '*shall provide information that enables investors and creditors to understand the entity's financial performance and financial position depicted in its financial statements*' (emphasis added).
- 29 The EFRAG Secretariat considers that it is essential that the revised Practice Statement should clearly state that the starting point for the discussion of an entity's performance and position should be explaining the amounts included in the entity's IFRS financial statements.
- 30 In that respect, we also encourage the IASB to consider the linkage of the provisions on the revised Management Commentary with the IASB's project on 'General Presentation and Disclosures' (including in the language used).
- 31 The EFRAG Secretariat also agrees that information to explain the different facets of the entity's performance and position (including non-financial information); how management monitors those key facets and how they affected the entity's performance and position in the reporting period is useful.
- 32 We also consider the explaining how the entity's performance and position reported in its financial statements compare to previous expectations and in particular with previously-published forecasts or targets and why variances arose can provide useful information. However, making it a requirement may create conflict with local regulations that constrain or prohibit forecasts or that require an extensive process to justify publishing a forecast or updated forecast.
- 33 We observe that, different from the expected proposals, the existing Practice Statement allows but does not require an entity to include forecasts or targets in its management commentary. If entity makes the decision to include forecasts, it

however requires a comparison of actual performance for the period or position at the end of the reporting period to the forecast or target and to analyse and explain significant variances. We suggest that the IASB reconsiders whether the language in the current Practice Statement should not be retained.

- 34 The requirement, if maintained in the final amendments, would need to be clarified to be operational:
- (a) What is meant by published (does the requirement target specific types of publications)?
  - (b) Do the forecast and targets only refer to the management measures and indicators that need to be addressed in the management commentary?
  - (c) In case of revised forecasts over the period (e.g., quarterly forecasts) does the requirement only apply to the most recent forecasts?

**Questions for EFRAG TEG – Reporting on Performance and Position**

- 35 What are EFRAG TEG's preliminary views and comments on the proposed disclosure objective for financial performance and position as contained in paragraphs 14 to 15 and on the EFRAG Secretariat preliminary assessment?? If you disagree, what do you suggest instead?
- 36 Does EFRAG TEG consider that the proposed application guidance (paragraphs 16 to 22) is helpful and would provide sufficient basis to identify material information that needs to be included in management commentary to meet those disclosure objectives? If not, what alternative guidance would you suggest?
- 37 What is EFRAG TEG's view on the expected guidance on financial performance and position compared with previously-published forecasts or targets (paragraph 22).

**Reporting on Progress**

- 38 The IASB tentatively decided that the requirements and supporting guidance on reporting on progress in managing key matters would be best placed into the guidance on each content area (business model, strategy, resources and relationships, risks) rather than being combined with the requirements on the entity's performance and position (as it is the case in the existing Practice Statement).
- 39 Information about progress in relation to the key matters is important because it provides the context for understanding the drivers that affected the entity's performance and position depicted in the financial statements for the reporting period, or drivers that could affect the entity's performance and position in the future, including over a long term.
- 40 The revised Practice Statement is therefore expected to state that the disclosure objectives for business model, strategy, resources and relationships, risks and external environment should require management to provide information about progress in managing key matters affecting these elements.

*Progress in managing the entity's business model.*

- 41 Material information about progress in managing the entity's business model could include:
- (a) information about actions management has taken to change or focus the range, nature or scale of the entity's operations—for example through acquisitions or disposals of businesses; and



- (b) information about actions management has taken to manage the entity's inputs, processes or outputs (including a description of those actions and their purpose; and an explanation of their effects).
- (c) information about actions management has taken to manage the entity's environmental and social impacts; including:
  - (i) a description of actions management has taken to maintain or enhance positive impacts and reduce or mitigate negative impacts and
  - (ii) an explanation of the effects of those actions, supported by metrics management uses to monitor the impacts and to monitor the effectiveness of its actions to enhance, reduce or mitigate them.

*Progress in managing the entity's strategy.*

42 Material information about **progress in managing the strategy** could include:

- (a) an analysis of progress made towards achieving intermediate milestones and long-term aims, supported by metrics and covering, for example:
  - (i) both long-term aims and milestones that have been achieved, and progress towards those that have not yet been achieved.
  - (ii) progress made in the reporting period and cumulative progress over several periods. For example, an analysis of progress in implementing a five-year strategy may need to include information about progress in the reporting period and cumulative progress since the beginning of the period covered by that strategy.
  - (iii) how progress has met, exceeded or fallen short of management's previous expectations.
- (b) an explanation of the factors affecting that progress;
- (c) an explanation of how management has adapted the strategy in response to variances; and
- (d) an explanation of how incentive schemes for management or other employees are linked to progress in implementing the strategy overing, for example:
  - (i) whether and how the metrics used to measure progress in implementing the strategy relate to those used to determine incentive payments and
  - (ii) if applicable, how and why incentive schemes have changed during the reporting period.

*Progress in managing resources and relationships.*

43 Material information about progress in managing resources and relationships could include:

- (a) a description of the actions management has taken to manage the entity's resources and relationships, for example to:
  - (i) manage the effectiveness with which a resource or relationship is deployed—for example, by increasing utilisation or productivity;
  - (ii) maintain the quantity of a resource; for example, by managing the quantity used during the reporting period or the remaining availability; and
  - (iii) develop a resource or relationship; for example, through investment in research and development, staff training, or advertising, promotion or other actions to acquire customers.

- (b) an explanation of the effects of those actions, supported by metrics management uses to monitor the resources and relationships and to monitor the effectiveness of its actions.

*Progress in managing risks.*

- 44 Material information about progress in managing risks could include:
- (a) metrics management uses to monitor:
    - (i) the extent of the entity's exposure to risks; and
    - (ii) the effectiveness of management's risk management actions.
  - (b) an explanation of factors affecting those metrics.
  - (c) an analysis of the effectiveness of past risk management actions—for example, how well previous actions mitigated the effects of an event that occurred in the period.

*Existing guidance in the current MCPS*

- 45 The notion of 'progress' is already recognised in the existing Practice Statement, which requires management to provide its view of the entity's 'performance, position and progress. However, the Practice Statement does not provide guidance on reporting.

*EFRAG Secretariat preliminary views*

- 46 The EFRAG Secretariat that agrees information about progress is important because it provides the context for understanding the drivers that affected the entity's performance and position depicted in the financial statements for the reporting period, or drivers that could affect the entity's performance and position in the future, including over a long term. Information on progress should therefore cover both the description of the key matters and of how they are monitored and managed.
- 47 We also agree with the placement of the guidance in the different content element of the Management Commentary (i.e., the entity's business model, management's strategy for maintaining and developing the business model, the entity's resources and relationships, its risks and its external environment) since understanding the key matters discussed under these content elements would not be complete without understanding the progress in managing those matters.

**Questions for EFRAG TEG – Reporting on Progress**

- 48 What is EFRAG TEG's views on the proposed guidance on 'progress' as contained in paragraphs 38 to 44 and on the EFRAG Secretariat preliminary assessment?
- 49 In particular do you support the fact that that the guidance on progress is disseminated in the different content element section of the Management Commentary (i.e., business model, strategy, resources and relationships, risks.) rather than presented together with the discussion on Financial Performance and Position.

**Use of metrics**

- 50 The revised Practice Statement is expected to include guidance for the consistent and comparable use of metrics (of financial performance or financial position) in the management commentary. Metrics are defined as measures used by management to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position.

*Guidance applicable to all metrics used in the Management Commentary.*

- 51 The guidance is expected to state that :
- (a) if a metric included in management commentary is not presented or disclosed in the entity's financial statements, management commentary shall:
    - (i) define the metric and its scope using a meaningful, clear and precise label and description;
    - (ii) explain how the metric contributes to an understanding of the matter being discussed; and
    - (iii) explain the method used to calculate the metric, the inputs to the calculation, including assumptions made and limitations of the method.
  - (b) If a metric of financial performance or financial position included in management commentary is derived by adjusting measures presented in the entity's financial statements, management commentary shall:
    - (i) describe the metric using a label that is not misleading and clearly differentiates the metric from the measure presented in the financial statements;
    - (ii) reconcile the metric to the most directly comparable measure presented in the financial statements, identifying and explaining each reconciling item; and
    - (iii) present the metric no more prominently than the measure to which it is reconciled.
- 52 To help investors and creditors compare a metric for the current reporting period with a metric for a previous reporting period, management commentary shall:
- (a) provide comparative amounts, if available, for the previous reporting period and for earlier reporting periods if the comparative amounts are necessary to show the emergence of trends or if the financial statements include information for those earlier periods.
  - (b) describe changes since the previous reporting period in the method or assumptions used to calculate a metric, or in the label used to describe it , and explain the reasons for those changes.
- 53 To help investors and creditors compare a metric with those reported by other entities:
- (a) If management is aware of differences between the method used to calculate the metric, or its label , and a method or name commonly used by other entities operating in the same industry, management commentary shall describe those differences.
  - (b) If the metric is drawn from published requirements or industry guidelines the management commentary shall name those requirements or guidelines. If applicable, it shall also identify and explain differences between the metric and the metric defined in the requirements or guidelines.
  - (c) If management commentary includes a metric that is the same as, or similar to, a measure used in determining management compensation, it shall explain that fact and the differences, if any.

*Current guidance in the existing Practice Statement*

- 54 The existing Practice Statement requires management to disclose performance measures and indicators (both financial and non-financial) that are used by management to assess progress against its stated objectives:

*Management Commentary Practice Statement - Issues Paper*

- (a) Management should explain why the results from performance measures have changed over the period or how the indicators have changed. This disclosure can help users of the financial reports assess the extent to which goals and objectives are being achieved.
  - (b) The performance measures and indicators that are most important to understanding an entity are those that management uses to manage that entity and are understood usually reflect the industry in which the entity operates.
  - (c) Management should explain why the performance measures and indicators used are relevant and report them consistently over time. When management changes the performance measures and indicators used, the changes should be identified and explained.
- 55 If information from the financial statements has been adjusted for inclusion in management commentary, that fact should be disclosed.
- (a) If financial performance measures that are not required or defined by IFRSs are included within management commentary, those measures should be defined and explained, including an explanation of the relevance of the measure to users.
  - (b) When financial performance measures are derived or drawn from the financial statements, those measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IFRSs.

*Specific Guidance applicable to metrics that are forecast.*

- 56 If management commentary includes a forecast of, or target for, a measure of the entity's future financial or non-financial performance or position it shall:
- (a) clearly describe the measure to which the forecast or target relates.
  - (b) provide information on how the metric compares with a publicly available forecast or target if:
    - (i) the actual metric for the current period is included in the current period management commentary and a forecast of that metric was included in a publicly-available communication; or
    - (ii) the forecast of, or target, for that metric was included in a previous period's management commentary.
- 57 If an entity have published a forecast or target relating to a metric that is included in the management commentary but the forecast or target is for a period that extends beyond the reporting period, the requirement in paragraph 56 would not apply and the entity would only be required to state the fact that the forecast exists and whether it has been updated since its publication date.

*EFRAG Secretariat preliminary views*

- 58 The EFRAG Secretariat notes the interactions of the expected proposals in the revised Practice Statement with the proposals contained in the Exposure Draft General Presentation and Disclosures (Presentation and Disclosures ED).
- 59 We observe in that regard that the notion of "metrics" referred to in the management commentary is broader than the notion of Management Performance Measures (MPM) used in the Presentation and Disclosures ED (which only related to financial performance i.e., income and expense) as it includes:
- (a) Both financial and non-financial measures: and
  - (b) Both performance and financial position measures

- 60 Since Management Performance Measures as defined in the Presentation and Disclosures ED would fit as a subset of the 'metrics' as defined in the revised Management Commentary it is essential to ensure that both guidance are fully consistent and interoperable.
- 61 We note in that respect, that the expected proposals described in paragraph 51 b that address the situation whereby a metric is derived by adjusting measures presented in the entity's financial statements, are generally consistent with the proposals contained in the Presentation and Disclosures ED. However, the final amendments resulting from the ED are not known to date and any arising inconsistency will need to be monitored and addressed.
- 62 The EFRAG Secretariat agrees that the consistent and comparable use of metrics in the Management Commentary enhances the information available for investors and creditors. However, we are concerned about the requirement for preparers to report differences they 'are aware of' with the definition or labelling of metrics used by their competitors.
- 63 Although the proposals are not expected to go as far as requiring entities to actively monitor such differences, we believe that it is the role to standard setters to ensure that their requirements lead to comparable information and comparability. It should not be expected of preparers to compare their disclosures with other entities and investigate differences.

**Questions for EFRAG TEG – Management Measures and Indicators**

- 64 Does EFRAG TEG have any comment on the expected proposals on the use of metrics and on the and on the EFRAG Secretariat preliminary assessment??

**Status and statement of compliance**

- 65 At its September 2020 meeting , the IASB met to discuss the status that the revised Practice Statement would have, and the procedures for an entity to follow when it chooses or is required by local legislation to issue management commentary applying the revised Practice Statement.
- 66 The IASB decided that the guidance on Management Commentary should retain the status of the current Practice Statement, meaning that :
- (a) it remains a non-binding framework for the preparation of management commentary (some Board members however expressed a view that it should be mandated in the future and stated that this should be an ambition for the revised Practice Statement);
  - (b) an entity could state that its financial statements comply with IFRS Standards without preparing a management commentary that complies with the revised Practice Statement.

*Statement of compliance*

- 67 The IASB also tentatively decided that the revised Practice Statement should:
- (a) require an entity to include in its management commentary an unqualified statement of compliance with the revised Practice Statement if the management commentary complies with all the requirements in the revised Practice Statement.
  - (b) Allow (but does not require) to include in its management commentary a statement of partial compliance with the revised Practice Statement. In this case, the management commentary would need to explain which requirements of the revised Practice Statement the management commentary does not comply with.

*Identification of Management commentary and related Financial Statements*

- 68 The existing Practice Statement states that when management commentary relates to financial statements, an entity should either make the financial statements available with the management commentary or identify in the management commentary the financial statements to which it relates. It also requires an entity to clearly identify its management commentary and distinguish it from other information. The revised Practice Statement is expected to continue to have these requirements.
- 69 The existing Practice Statement does not have a requirement for an entity to provide the authorisation date of its management commentary. The revised Practice Statement is expected to:
- (a) require an entity to specify the date when its management commentary is authorised for issue and to reflect any material information about events occurring after the end of the reporting period and before the date when the management commentary was authorised for issue.
  - (b) require identification of the individual(s) or the body(s) who authorised the management commentary for issue.

**Questions for EFRAG TEG – Status and Statement of Compliance**

- 70 Do EFRAG TEG have comments on the status and statement of compliance provisions as described in the paragraphs above?
- 71 Do EFRAG TEG have other comments or suggestions in relation to the Management Commentary project?