



23 November 2021

IFRS Foundation,
7 Westferry Circus,
Canary Wharf,
London – E14 4HD,
United Kingdom.

Re: Public Consultation on the Exposure Draft of the IASB Management Commentary Practice Statement

Dear Prof. Dr. Andreas Barckow,

The Italian Foundation for Business Reporting (O.I.B.R.) was formally established in June 2019, replacing the previous Italian body called NIBR, which was founded in 2012.

The O.I.B.R. is an organisation dealing with the elaboration and dissemination of guidelines, studies and researches, principles, and standards with a technical and practical orientation in the field of business reporting, non-financial disclosure, sustainability and integrated reporting, and the TCFD recommendations. It gathers more than 70 Italian stakeholders going from large, listed companies to SMEs and Universities, professionals and managers, financial analysts, and consultants. The O.I.B.R. is an authoritative Italian voice in the international dialogue on corporate reporting (www.fondazioneoibr.it – info@fondazioneoibr.it).

The O.I.B.R. is a legally recognised Foundation and is a market-led organization open to all the Italian stakeholders, inspired by an inclusive approach and with an articulated governance able to guarantee all the interests at stake. It is a non-profit and multi-stakeholder body, with no commercial engagement, and that operates exclusively in the public interest.

The O.I.B.R. leverages on its international support by key-players such as the Value Reporting Foundation, the GRI, and the World Business Council for Sustainable Development. It also officially represents the WICI Global Network in Italy and is part of WICI Europe.

The main activities of O.I.B.R. Foundation are:

- Provide Italy with a common meeting point and working platform;
- Represent a significant Italian voice in the global debate;
- Promote a new culture of reporting, transparency and governance in Italy and internationally;
- Develop and release local guidelines and standards;

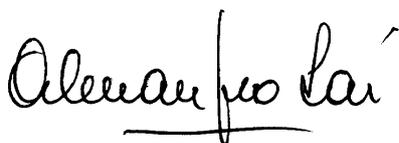
- Conduct studies on topics that are felt as relevant by the Italian stakeholders;
- Organize multi-stakeholder working groups;
- Respond to, and engage with, national and international consultations.

In particular, we would like to draw your attention to our publication on the implementation of Integrated Reporting for SMEs and that on the representation of Business Model in Integrated Reporting (<https://www.fondazioneoibr.it/en/guidelines-and-documents/>), which could represent a useful guidance for an evolutionary version of the Management Commentary (cf. also our response to Q16).

The O.I.B.R. Foundation is pleased to forward to you and the IASB its responses to the public consultation on the Exposure Draft of the Management Commentary Practice Statement you have proposed to our attention.

While we remain at your disposal, we thank you for the opportunity to collaborate with you, the IASB, and the IFRS Foundation.

Sincerely yours,

A handwritten signature in black ink, reading "Alessandro Lai". The signature is written in a cursive style with a horizontal line underneath the name.

Prof. Alessandro Lai
President
O.I.B.R. Foundation

Responses to the Public Consultation on the IASB Management Commentary Practice Statement (MCPS)

In general terms, we would like to point out that in our view there are two preliminary critical issues about the future of the MCPS that should be clarified by the IASB for the success of this project:

- A) The relationship between the MCPS and the International Integrated Reporting Framework;
- B) The possible transformation of the MCPS into a standard in agreement with the relevant authorities, and in particular the European Commission.

Question 1 - The financial statements to which management commentary relates

Paragraph 2.2 proposes that management commentary identifies 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?*

Yes. It is beneficial in order to stress the usefulness of MC.

- (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?*

Yes. No restriction is needed at the initial stage. When this might be needed in the future, the introduction of a possible rule can be considered.

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. Do you agree? Why or why not?*

Yes. We agree that the existing requirement should be retained to provide insights into the basis of preparation. We also think that a statement of compliance should be provided on a required, rather than voluntary, basis.

(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. Do you agree? Why or why not?

Yes. It is useful to judge to what extent the preparer intends to align with the MCPS. Accordingly, we think that a qualified statement of compliance should be required in order to provide financial capital providers with important insights. In addition, we suggest changing the wording of paragraph 2.6 ‘may include’, as this positions the statement as voluntary in cases of partial compliance.

Question 3 - Objective of management commentary

Do you agree with the proposed objective of management commentary? Why or why not? If you disagree, what do you suggest instead, and why?

Yes. It is expected that this proposal may encourage management to identify and fully recognize the objectives of the company. However, we suggest three main changes to the proposal as written.

- i) Firstly, we noticed that reference is made to both the terms ‘value creation’ and ‘enterprise value’. We urge to better clarify the meaning of these two concepts in the context of the IASB MCPS and the possible relationship between them.
- ii) Secondly, in paragraph 3.1 the reference to the primary user is not always clear. While part (a) explicitly refers to investors and creditors, this is not the case for part (b). Hence, we suggest adopting a more consistent approach for both parts.
- iii) Thirdly, always in paragraph 3.1 (b) we find the expression ‘across all time horizons, including in the long term’ to be too generic and amenable to different interpretations by companies. We think that a different formula, such as ‘in the short, medium and long term (as defined by the entity)’ could represent an appropriate balance between specificity and flexibility.

Question 4 - Overall 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 the requirements of the Practice Statement? If not, what approach do you suggest and why?

Yes. Objectives in (a), (b) and (c) may have, though, a little bit different nuance. However, examples shown in Chapter 15 are so well described that companies can understand the meaning of these objectives to the extent that they can enforce them. In particular, what is described in (d) is critical. With the help of this part, companies can disclose information which is peculiar to themselves with a certain confidence. **If the relationship of the term ‘objective’ with other ones like ‘purpose’ and ‘aim’ appearing in this document is made clearer, more preparers could understand better.**

However, a shortcoming exists with respect to the comparability of information. This can be easily overcome through existing industry, activity, or topic-based standards (e.g., SASB Standards).

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?

Yes. Table 11.1 is quite indicative and useful. The key issue is that this is not a requirement. Indeed, to understand and consider these disclosure objectives as the basis of explanation is essential. **“Assessment objectives” require some clarification.**

(b) Do you have general comments on the proposed disclosure objectives that are not covered in your answers to Question 6?

No.

Question 6 - Disclosure objectives for the 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?

Yes. We propose some minor changes.

(a) The entity’s business model. As pointed out in our response to Question 3, we suggest the adoption of a more specific, though flexible formula to indicate the time horizon. Hence, we recommend including ‘in the short, medium and long term (as defined by the entity)’ at the end of paragraph 5.5.

(b) Management’s strategy for sustaining and developing that business model. Differently from Section 4D of the International <IR> Framework, ‘opportunities’ are here positioned within ‘strategy’, rather than ‘risks’. We suggest to better highlight this deviation, by including ‘opportunities’ as part of the disclosure objective.

(c) The entity’s resources and relationships. It would be useful to include in the disclosure objective also an ‘inside-outside’ perspective (i.e., the effects of the entity on key resources and relationships that influence enterprise value).

Question 7 - Key matters

(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?

Yes. If disclosed information includes matters other than key ones, users or recipients may be bothered or fail to understand material issues.

(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?

Yes.

(c) Do you have any other comments on the proposed guidance?

Yes. We propose two main suggestions.

(i) It would be helpful to guide the reader in understanding the relationship between ‘content areas’, ‘key matters’ and ‘material information’. A graph outlining this relationship could be included.

(ii) To improve the understanding, we propose clarifying that ‘materiality is an attribute of information, not an attribute of the matters [ref: paragraph BC 78].

Question 8 - Long-term prospects, intangible resources and relationships and ESG matters

(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?

Yes. We think that Appendix B is excellent. Examples in it show that different companies have their own ‘ESG and intangibles’ elements to be disclosed. In such a sense, these requirements and guidance provide companies with willingness and confidence to explain those elements in their own value creation story. However, we suggest to also include examples related to companies that operate in sectors other than in those ‘intangible-, environmental-, social- intensive’.

(b) Do you have any other comments on the proposed requirements and guidance that would apply to such matters?

Yes. We think that governance should not be left to regulation only by local laws, but a minimum requirement is needed to align the IASB MCPS to the stewardship principle in the IASB’s existing Conceptual Framework and guarantee comparability of information to investors and creditors.

To do so, we suggest firstly including the definition of ‘management’ in the proposed list of Defined Terms, separately from that of ‘those charged with governance’. Secondly, we recommend also inserting the board’s perspective.

We find that examples in Appendix B clearly show the importance of intangibles as key matters. Therefore, the O.I.B.R. Foundation, as the Italian jurisdiction of the WICI Network, the only international recognized network of experts on intangibles reporting, is willing to contribute to the future work of the IASB in this subject area.

Question 9 - Interaction with the IFRS Foundation Trustees’ project on sustainability reporting

Are there any matters relating to the Trustees’ plans that you think the Board should consider in finalising the Practice Statement?

Yes. If the standards formulated by the forthcoming IFRS ISSB and the IASB MCPS result to have little linkage with each other, companies may encounter difficulties in adopting both. This could also translate in major costs on disclosure. **Integrated report might represent the umbrella under**

which both elements are included and well connected. In particular, intangibles are the “natural” connecting elements between financial and sustainability issues.

The OIBR Foundation strongly recommends the IASB to make it clear that such path is desirable.

Question 10 - Making materiality judgements

Chapter 12 proposes guidance to help management identify material information. Do you have any comments on the proposed guidance?

Yes. The main interest of investors or creditors lies usually in the corporate value or value creation of the company and the value created. Hence, companies may be judged more easily if the MCPS clearly states that a company should judge materiality based on the extent to which a certain element is critical to the company’s unique way of creating value. However, to do so, we think that the ‘materiality lens’ that is adopted should be clearly defined. As pointed out in our response to Question 3, the use of different concepts, such as ‘value creation’ and ‘enterprise value’, entails a different approach to materiality.

Question 11 - Completeness, balance, accuracy and other attributes

(a) Chapter 13 proposes to require information in management commentary to be complete, balanced and accurate and discusses other attributes that can make that information more useful. Chapter 13 also proposes guidance to help management ensure that information in management commentary possesses the required attributes. Paragraphs BC97–BC102 and BC114–BC116 explain the Board’s reasoning for these proposals. Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

Qualified yes. We generally agree with these proposals but with four main caveats: i) we acknowledge that the coherence attribute infers connectivity, but this should be better explained; ii) it would be useful to provide readers with examples on how the balance attribute can be adopted in practice; iii) we suggest including the timeliness attribute in line with the IASB Conceptual Framework for Financial Reporting; and iv) to pursue both completeness /accuracy and conciseness is not easy. It may be useful if MCPS could suggest companies to present the priority/ies among these elements.

(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?

Yes.

Question 12 - Metrics

Chapter 14 proposes requirements that would apply to metrics included in management commentary. Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

No. Paragraph 14.10 asks companies to present information of other companies. This is too much. As Appendix B indicates, whether to choose a certain metrics depends on key matters of each company. Therefore, the choice itself is an important clue to know the characteristic of the company.

Quantitative comparison is effective among companies which choose same metrics as key matters, but to compare them with other companies with little interests on the matter is less meaningful. Of course, we do not intend to prevent companies from comparing their own figures with other companies' one to show the numerical competitiveness against other companies.

Anyway, the person who compares is investor or creditor, so to raise the capability of them may be important.

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. 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?

Yes. These examples are quite useful because they well reflect the real business, as well as strongly indicate that key matters are different from a company to another. In addition, they inform users that it is important for investors and creditors to evaluate companies by comparing the uniqueness of the value creation story of each company instead of by simply comparing some figures. In such a sense, this has a convergence with the 'WICI Intangibles Reporting Framework'.

We suggest the following changes to Chapter 15:

- With reference to the entity's business model, we think that the intangibles activity should also be included at the same level of environmental and social aspects, in that they are a fundamental component of enterprise value (paragraph 15.5);
- In paragraph 15.5 (a) we propose highlighting those impacts can also be *internal* and *external*, in addition to positive and negative;
- In paragraph 15.3, (c) and (d) we recommend underlying that interdependencies and trade-offs can also exist between resources and relationships;
- We recommend that paragraph 15.15(a) encourage entities to consider how changes to intangibles (e.g., brands, reputation) might affect continued access to a resource (or the quality of a resource).

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?

Yes/No. We have an objection in regard to its quick entry into force, but some transitory period, say, of one-two years may be adequate for companies to understand and smoothly implement the new MCPS. However, **the key issue here is exploration of the possibility to transform the MCPS into a full standard, possibly based on the International Integrated Reporting Framework, in order to provide stronger guidance to entities about the narrative and sustainability disclosure, also in light of the future adoption of the European CSRD, which will require companies to include sustainability information in the Management Commentary.**

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?

No.

(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?

No.

Question 16 - Other comments

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

Yes. The OIBR Foundation would like to advise that the IASB MCPS should first clarify the role of integrated reporting and the importance of intangibles before touching upon the details of each item. For that purpose, OIBR Foundation expects that the **combination of IASB MCPS, the International Integrated Reporting Framework (2021) and the WICI Intangibles Reporting Framework (2016) (<https://www.wici-global.com/framework>)** may be the core of the future Management Commentary and, ultimately, Business Reporting.