

# P&A Accounting Alert

## IASB issues revised 'Practice Statement on management commentary'

### Executive summary

The International Accounting Standards Board (IASB) has issued a revised 'Practice Statement on management commentary' (the Practice Statement). The objective of the revision is to provide a global benchmark for the preparation of management commentary accompanying financial statements including sustainability-related financial disclosures. The Practice Statement achieves this by adopting an objectives-based framework, focusing on what investors need to enable them to assess an entity's ability to create value and generate cash flows over time. The Practice Statement is non-mandatory but designed to be used alongside IFRS Accounting Standards and IFRS Sustainability Disclosure Standards.

### Background

The Practice Statement was originally issued in 2010 to provide a broad, non binding framework for the presentation of management commentary that relates to financial statements that have been prepared in accordance with International Financial Reporting Standards (IFRS Accounting Standards).

The revised Practice Statement was designed to improve the quality and consistency of management commentary globally. This was achieved by addressing shortcomings in current practice, particularly around the clarity and connectivity of narrative reporting and thereby provides a global benchmark for regulators to update or develop national guidance. The Practice Statement also aligns with IFRS Sustainability Disclosure Standards, helping entities identify material sustainability-related information for inclusion in management commentary.

### Status of the Practice Statement

The Practice Statement is not an IFRS Accounting Standard or an IFRS Sustainability Disclosure Standard. Financial statements can comply with IFRS Accounting Standards even if they are not accompanied by management commentary or if they are accompanied by management commentary that does not comply with this Practice Statement.

Conversely, the management commentary can comply with the Practice Statement even if it accompanies financial statements prepared on a basis other than IFRS Accounting Standards or if it does not accompany or include sustainability-related financial disclosures prepared in accordance with IFRS Sustainability Disclosure Standards or on another basis.

Therefore, the management commentary might accompany financial statements as a distinguishable part of a larger report or as a stand-alone report.

## Key elements of the framework

The Practice Statement introduces an objectives-based framework based on six key areas of content:

1. the entity's **business model** focusing on how the entity creates value and generates cash flows
2. management's **strategy** for sustaining and developing that business model, including the opportunities management has chosen to pursue
3. the **resources and relationships** on which the business model and strategy depend, including resources not recognised as assets in the entity's financial statements
4. **risks** that could disrupt the business model, strategy, resources or relationships
5. factors and trends in the **external environment** that have affected or could affect the business model, strategy, resources, relationships or risks, and
6. the entity's **financial performance and financial position**—including how they have been affected or could be affected in the future by the matters discussed for the other areas of content.

Each area of content has predetermined disclosure objectives which comprise a headline objective—describing the overall information needs of users for the area of content; and specific objectives—describing the detailed information needs of users for the area of content.

To identify the information needed to meet the disclosure objectives for an area of content, management:

- considers the descriptions of users' assessments for the area of content
- identifies the information needed to meet the specific objectives for the area of content, and
- evaluates whether the information needed to meet the specific objectives is sufficient to meet the headline objective for the area of content. If the information is insufficient, management identifies additional information needed to meet the headline objective for the area of content.

## Concept of materiality

To ensure that the management commentary is useful to the entity's stakeholders, the Practice Statement requires that information is disclosed if it is material.

In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial reports make on the basis of those reports, which include the management commentary and the related financial statements and which provide financial information about a specific reporting entity.

To help management to identify material information to meet the disclosure objectives, the Practice Statement focuses on key matters, that is, matters that are fundamental to the entity's ability to create value and generate cash flows, including in the long term. The Practice Statement assumes that key matters likely relate to matters that management actively monitors, manages or reports to internal and external stakeholders. Identifying key matters is therefore entity-specific and considered an area where management will need to apply judgement.

## Attributes of useful information

The management commentary should provide a single, concise and coherent narrative setting out management's perspective of the factors—including sustainability-related factors—that have affected the entity's financial performance or financial position or that could affect the entity's ability to create value and generate cash flows in the future.

The Practice Statement asserts that the management commentary can achieve this if the information is

- complete, neutral, and free from error
- understandable
- comparable with information provided by the entity in previous periods, and with information provided by other entities, and
- provided in a way that enhances its verifiability.

The Practice Statement further asserts that the attributes all rely on information being presented as a well-integrated, coherent whole. Coherence does not require information provided outside management commentary to be duplicated in management commentary. Instead, for the management commentary to be considered coherent, the Practice Statement requires information in the management commentary to be provided in a way that clarifies relationships between either related areas of content or related pieces of information.

## Interaction with other reporting requirements or guidelines

Entities can apply this Practice Statement alongside local law or regulation. If local law or regulation specifies only general requirements, an entity can apply the Practice Statement requirements and guidance to help it comply with that law or regulation. Conversely, if local law or regulation is detailed and prescribes disclosure of specific information, an entity is permitted to include all of that information in its management commentary, even if some of the information is not required by the Practice Statement, as long it does not obscure material information.

Entities can also apply this Practice Statement together with narrative reporting requirements or guidelines published by another standard-setting body or other organisations, including requirements or guidelines for use by entities in specific industries or on specific topics, such as sustainability reporting. Such requirements or guidelines could help management identify information it might need to provide to meet the requirements of this Practice Statement. That is more likely to be the case if the requirements or guidelines have a reporting objective that focuses on the information needs of the primary users of general-purpose financial reports, such as IFRS Sustainability Disclosure Standards.

## Effective date

This Practice Statement supersedes 'Practice Statement 1 Management Commentary' for annual reporting periods beginning on or after 23 June 2025. Earlier application is permitted. If an entity applies this Practice Statement for an earlier period, it must disclose that fact.

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Questions about this communication should be referred to the members of the TSQC Group through [TSQC Ticketing System](#).