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IFRS Practice Statement 1 "Management Commentary"
Exposure Draft ED/2021/6 (May 2021)

Dear Mr Barckow

On behalf of the German Insurance Association (GDV) we appreciate the opportunity to contribute to the IASB's public consultation on the IFRS Practice Statement 1 *Management Commentary* (Practice Statement) based on the Exposure Draft (ED), released by the IASB on 27 May 2021. Although the Practice Statement is not endorsed in the EU, we are supportive of the activities undertaken by the IASB to thoroughly evaluate and where necessary to revise and amend the Practice Statement issued originally in 2010.

In the forefront of our comments in the appendix to the questions asked in the ED we would like to provide our general assessment regarding the Practice Statement and its potentially even more important role in the future.

- We consider **management commentary** to be an **integral part of the financial reporting package** and we support the development of globally consistent requirements for management commentary. But we continue to favour a **mandatory standard** to provide such requirements. This standard should be **principle-based and fully integrated** into the IFRS framework. Such an approach would ensure a fully consistent reporting environment for companies applying IFRS. Hence, we encourage the IASB to consider changing the status of the Practice Statement.
- We acknowledge that the management commentary is envisaged to be an appropriate location for the sustainability information in the reporting package. Considering the recent dynamic developments in sustainability reporting area, we encourage the IASB to cooperate closely with the International Sustainability Standards Board (ISSB) to achieve a common basis for an **efficient, consistent, and stable package of reporting requirements** for all reporting entities, specifically for those applying IFRS for all their business activities across the globe.

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- Specifically, from the perspective of German insurers operating on a global basis it is essential that all necessary efforts and activities are undertaken to **avoid already in a mid-term persistently diverging sustainability reporting requirements** because being developed in parallel. In this regard a **principle-based approach at the global level** might be best suitable to contribute to the objective of connectivity.

While being fully supportive of the European Green Deal and the related initiatives at EU level, the German insurers hold the view that the **fragmentation of financial or sustainability reporting requirements should be avoided**. Globally active insurers like any other reporting entities should have an option to apply the requirements set up in the global management commentary standard, amended for specific aspects of European or local law if any. To achieve this important objective already in the mid-term the global requirements for management commentary should be determined by the IASB in an IFRS standard which would be then subject to an endorsement process as applicable in the relevant jurisdictions.

We are aware that the review of the Practice Statement was initiated by the IASB awhile before the sustainability reporting activities gained the momentum we have been observing recently. That's why we would encourage the IASB to thoroughly evaluate the possibilities to use all its rich standard-setting experience to create a **globally accepted and ambitious IFRS standard for an up-to-date management commentary**, as suggested above, including principle-based but comprehensive requirements for sustainability information (ESG matters) as a global base line in an initial phase, closely cooperating in this regard with the ISSB and the European Commission. It's how a consistent corporate reporting can be ensured, creating an added value for prepares, investor and other users of financial reports.

Finally, as a matter of principle, we back the IASB's main objective to ensure that management commentaries provide users of financial reports with the information they really need. In this regard we however also believe that such evaluation should also include a thorough analysis whether the revised and amended guidance remains **cost-effective for preparers**.

Our detailed responses to the specific questions in the ED are provided in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

Appendix

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?

As a matter of fact, we believe that the management commentary should always disclose and explain clearly on which basis the related financial statements are prepared. In this regard we agree that reporting entities should be permitted to state compliance with the revised Practice Statement even if their financial statements are not prepared (fully) in accordance with IFRS Standards. This is the rationale why we don't see any need to set restrictions on the basis of preparation of such financial statements.

Nevertheless, it is essential that the information provided in management commentary and information provided in the related financial statements are coherent to each other. Consequently, we support the principle of coherence in this regard (paragraph 13.29 of the ED).

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?

We think that it is absolutely essential to ensure that investors and other users of financial reports are able to assess whether the management commentary under consideration complies with all requirements in the IASB's Practice Statement or not. Only in the case of **full compliance** the management commentary should include an explicit and **unqualified statement of compliance**.

If it is not the case, we agree that the statement of compliance must be qualified and any departure from the IASB's requirements shall be clearly identified and disclosed, and reasons for those departures shall be explicitly explained to avoid the potential risk of misleading users of such information. We recommend the IASB to explicitly **reinforce** these requirements for the qualified statement of compliance when finalising the Practice Statement.

Our main rationale here is that the statement of (unqualified) compliance with the high quality IASB's requirements for the management commentary might be considered as an important distinguishing feature and it is reasonable to expect that such relevant information will to be disclosed properly. Companies being able to fully comply with the IASB's requirements might have a competitive advantage from investors' perspective. Hence, those companies which do not fully comply with the Practice Statement should make it transparent to be easily identifiable. Any misleading statements of compliance should be avoided to prevent any misperception on the investors' or creditors' side.

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 itis 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?

We agree with the proposed description of the objectives of management commentary. Specifically, the financial statements on their own do not provide all the relevant information that investors might need to make proper investment decisions. Due to their design and their purpose the financial statements largely portray the financial effects of past events and do not necessarily provide information for example of non-financial nature affecting the entity or they do not provide forward-looking information. In this regard the management commentary complements and supplements the financial statements, providing the proper context for the financial performance and financial position of the reporting entity (paragraph 10.3), for understanding of its specific business model and its activities. In this regard we are fully supportive of the **coherence principle** as explained in paragraphs 13.29-13.30 (and referred to in paragraph 10.4).

And we agree that also for information provided in the management commentary the concept of materiality applies as described in paragraph 3.2 of the ED. Finally, we support that management commentary, being part of the corporate reporting package, focuses on the common information needs of investors and creditors (paragraphs 3.8 - 3.9).

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?

In general, we have the view that specifically the management commentary is eligible for the suggested objective-based approach. It is up to management to determine what material entity-specific information is necessary to meet these objectives and how to present them to arrive at a comprehensive corporate report. A prescriptive rule-based approach would not be appropriate for management commentary. And we believe that the objective-based approach can be operationalised while it will provide the necessary flexibility to reporting entities to portray their own specific stories. From our perspective such management reports are still enforceable and auditable, though it might require more time to get an insight and proper understanding of the information provided by the companies in relation to their peers.

While being generally supportive of the objective-based approach for the management commentary, we have some reservation with regard to the proposed design of this approach as explained in the joint response to Questions 5 and 6 below.

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?

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?

As noted in our response to Question 4, above we believe that the objective-based approach is suitable for the management commentary as it will allow the management to define which material entity-specific information about the entity's ability to create value and generate cash flows should be provided. And we generally support the proposed areas of content in the ED as reflected in the Question 6. Nevertheless, we suggest extending the area of risks (Chapter 8) by equal consideration of opportunities, hence not only cross-referring to opportunities as subpart of considerations in the Chapter 6 – Strategy (paragraph 8.1, paragraph 6.6). Such amendment would better address the existing need for a balanced, neutral approach when portraying the entity's situation and the external conditions under which the reporting entity is operating in the market.

While we can follow the intentions and the provided rationale related to the **headline objective** and to the **specific objectives** as described in the ED, we have difficulties to support the **assessment objectives** phase. It seems to be problematic and specifically challenging to require reporting entities to assess whether the information intended to be provided can sufficiently meet the information needs of (different and/or anonymous) investors or other users of the management commentary for their own assessments. Particularly this kind of consideration used to be the original responsibility of the standard setter along the due process to robustly identify what kind of information needs must be fulfilled by reporting entities. This observation applies from our perspective regardless whether specific disclosure requirements are prescribed, or an objective-based approach is followed.

We assume that the level of granularity of the information to be provided will be mostly determined at the level of the specific objectives. And the respective headline objective might allow or even require further information to be included in management commentary to address the missing elements of the business story of the reporting entity after considering the whole information package foreseen to be provided based on the specific objectives at large. Therefore, we think that even conceptually the assessment objectives are neither really fitting to the proposed objective-based concept nor are an indispensable part of it.

Because of these considerations we would like to **recommend abolishing the assessment objectives phase** of the proposal (i.e., removing the paragraph 4.3 (b) and paragraph 4.4 (b)). It would significantly simplify the operational processes for consideration which information should be included in the management commentary or not. We recommend instead to align the IASB's approach in the management commentary with the design of the proposal in the project "*Exposure Draft and comment letters: Disclosure Requirements in IFRS Standards - A Pilot Approach*". This recommendation does not mean however that all the proposals in this interrelated consultation are backed by us as the proposals in the Pilot Approach concern the financial reporting information provided in the notes to financial statements.

Finally, we welcome the clarification in paragraph 8.9 of the ED in which the inclusion of risk information is discussed regardless of whether those risks are key risks for the entity and regardless of whether that information is material when this disclosure is required by local laws or regulations. We believe that this clause should be however a more general one, i.e., it should refer to all areas of content and not only to the Chapter 8 – Risks.

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?

While we principally agree with the need to focus the management commentary on the 'key matters', we suggest reconsidering the need for a new terminology to be additionally implemented in this regard. The suggested additional nuances might be rather difficult to follow and confusing, but they will not replace the need for the management to apply judgment on how to portray the status quo of the entity in a most suitable way and to highlight the important aspects in an adequate way.

We believe that it would be sufficient to refer solely to 'material information' as it used to be the case for the financial statements. Specifically, as the paragraph 3.17 states that "material information is included in management commentary even if it does <u>not</u> relate to a key matter". An additional graduation of the information does not seem to be reasonable when both types are to be mandatorily included in management commentary. Otherwise, it would create confusion why particular information needs to be disclosed even if not being key for understanding of the entity's business model or risks of its activities.

We recommend allowing the management of the reporting entity to determine and highlight what kind of information is considered to be "<u>fundamental</u> to the entity's ability to create value and generate cash flows" (paragraph 3.16 of the ED). It would be perfectly in line with the **management's perspective** as described in paragraph 3.18 (a) - (c) of the ED. And finally, in paragraph 4.8 of the ED it is already concluded that "much of the information that is material to investors and creditors will relate to key matters".

Hence, the additional layer of nuanced/ artificial considerations which of the material information is material and key to investors and creditors and which one is only material, but still to be disclosed in management commentary, although not being key, is creating an unnecessary operational burden for prepares. It might be also confusing for investors and other users of management commentary expecting a focused approach being aligned with the management perspective (e.g., paragraph 4.13 of the ED) leading to a concisely set up report at large, aligned with the observation in paragraph 13.2 (a) of the ED that information is more useful to investors and creditors if it is "clear and concise". And we fully subscribe to this view.

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?

We agree with the view that the management commentary might be indeed an appropriate location for information on matters that could affect the entity's long-term information prospects or about environmental, social and governance (ESG) matters if material when considering the entity's perspective. We recommend however to analyse further whether more comprehensive information about intangible resources is better placed and disclosed in the notes and then cross-referenced in the management commentary. In line with our recent recommendation for the IASB's Agenda Consultation in our comment letter of 10 September 2021 we suggest the IASB reviewing the current accounting treatment of intangibles. Only on this basis the robust decision might be taken subsequently, whether additional disclosures in the management commentary are then indeed indispensable or not when considering its specific purpose.

Furthermore, we would like to highlight the need for equal proper <u>reporting about the governance matters</u> as part of the ESG matters. It might be the case that governance matters are regulated differently in different regions/ jurisdictions (paragraph BC83 of the ED). Nevertheless, and specifically for this particular reason the management commentary might be incomplete if it would not include relevant information in this regard. While we agree that the management commentary is not about to regulate governance issues, but proper disclosure of information relevant to understand the governance of the reporting entity and the management is obliged to follow is from our perspective specifically important to be provided.

Specifically, potential future changes to business model(s) of the entity might be triggered by changes in governance/regulatory environment in which the entity is operating. Hence, including the description of the governance matters would provide for a better understand of the entity's business model(s) and its operations in the reporting period and provide potential indications regarding the outlook what might need to be re-adjusted or significantly changed in the future (as required by paragraph 5.4 of the ED). In this regard we recommend for example an amendment to paragraph 5.7 (c) of the ED which refers solely to environmental and social impacts of the entity's activities.

Finally, we would like to recommend for the IASBs consideration where reporting entities should be obliged to explicitly disclose how they define what medium- or long-term from their entity-specific perspective is.

Beyond these recommendations above we believe that the requirements and guidance proposed by the IASB in the ED are suitable to serve as a suitable and sufficient basis for management to identify the material information investors and creditors need.

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?

In our response to the consultation of the Trustees of the IFRS Foundation of 27 July 2021 we expressed our strong support for the proposals aiming to establish a new board for setting sustainability reporting standards. We highlighted the need for a transparent due process and robust governance of the new board, aligned with the established set-up of the IASB, specifically allowing for a great level of stakeholders' involvement in the standard-setting process. For insurers operating at the global level, it is of paramount importance that the phase of fragmentation of sustainability reporting frameworks is overcome. There is an urgent need to complete the successful story of the IFRS Foundation and the IASB in the field of financial reporting and to **create a commonly accepted set of global sustainability reporting standards**. Only a close cooperation of the IASB with the new board from the outset will ensure a consistent corporate reporting at large.

Being in favour of ESG matters to be part of the communication within the management commentary, we agree that standards issued by the new board might help to "identify some information about environmental and social matters". But our expectations go further as we recommend that close cooperation of both boards will help to create a common understanding what the **comprehensive base line** regarding the ESG matters is and to which reporting entities would refer to and on which the reporting design might be finally set up. We are however concerned that the two boards might follow two contrary conceptual approaches how the reporting requirements for the information to be provided need to be designed. While the ED suggests a **principle- and an objective based approach** for the management commentary, we perceive the tendency in the sustainability reporting initiatives to prefer rather a very **prescriptive approach**, including detailed reporting requirements, potentially with a different concept of materiality. Hence, we recommend exploring further on which basis both boards might establish a common understanding in this regard and how to reconcile potentially different approaches when setting standards for the same population of reporting entities from investors' and creditors' perspective.

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 proposed guidance appears to us to be generally helpful to conduct entity specific considerations whether information is material or not. Nevertheless, we would like to provide the following comments on the proposals.

- We would like to reiterate our suggestion to eliminate the need for identifying 'material information' and 'key material information' as stated in our response to Question 7 above.

- We recommend eliminating the vague clause in paragraph 12.5 of the ED which links somehow the preferred management approach and entity's specific considerations with the need to identify whether entities with similar activities are providing specific types of information. This requirement would make it necessary to operationalise and document the thinking process of the entity, specifically for the case of statutory audit. In addition, enforcement authorities might have a different understanding what "entities with similar activities" or "If management (…) knows …" might mean and what kind of conclusions are to be drawn out of it.

  For this rationale we suggest omitting this paragraph fully or at least to adjust the wording from "(…), it considers whether" to get "(…), it might consider whether" to make the intended consideration of peers' communication and reporting strategy explicitly as a possibility and not a requirement. Furthermore, the peer's reference should express not as "entities with similar activities" but more general with a reference to "entities with similar business model".

- As a matter of principle, for the similar rationale we suggest omitting paragraphs 12.6 and B13 of the ED. References to industry bodies or organisations with interest in sustainability reporting causes also an additional burden on reporting entities, creating the need to identify which organisations need to be closely followed and which guidelines need to be processed. In particular, being fully supportive of the new board for sustainability reporting standards at the global level (es expressed in our response to Question 9), we encourage the IASB to closely coordinate its efforts with the new board and <u>not</u> to generally refer the prepares to other organisations to search what information might be material, key material or not.

- Regarding the intended inclusion of reporting on the sustainability/ESG matters in management commentary we believe that the adoption of the **concept of double materiality** (i.e., outside-in and inside-out perspective) needs to be explicitly verified by the IASB in this respect as well, in close cooperation with the new board. We noted that in paragraph 5.7 (c) of the ED (with some limited exemplifications provided in paragraphs 15.5 and 15.6 (c) of the ED) there is already a kind of initial reference to the "the environmental and social impacts of the entity's activities (…)". It indicates for reporting entities the need to consider and evaluate whether and how the entity's activities have an outside impact, though limiting it to the specific consideration if there was or might be in future a final impact on the entity' capabilities to create value and generate cashflows. But the concept of the double materiality in sustainability reporting raises this question in a broader manner: how the ESG issues may affect the entity's financial performance and financial position (outside-in) and the impact of the entity's activities on ESG matters (inside-out). It might be helpful to clarify that following this double materiality concept in the management commentary is not contradicting the IASB's investor perspective. It would underline also the IASB's openness for an idea of connectivity between the global framework for management reporting and those advanced legislative proposals for sustainability reporting discussed intensively at EU level.

Finally, as we already stated above, we welcome the clarification in paragraph 8.9 of the ED. Accordingly the inclusion of risk information is allowed regardless of whether those risks are key risks for the entity and regardless of whether that information is material when this disclosure is required by local laws or regulations. We reiterate our recommendation to provide a more general clause in this regard, hence not limited it to risk disclosures only and not being hidden in the section on clarity and conciseness (paragraph 13.18 of the ED). It would allow for a better connectivity of the IASB's framework on management commentary with the more advanced specified local requirements.

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? (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?

Re question (a)

We agree with the importance of attributes discussed in the ED for the management commentary. However, we would **recommend not to introduce alternative terminology** compared to the one established and used in the Conceptual Framework for Financial Reporting. It would be rather more appropriate to explain how the terminology applicable to financial statements applies in the context of management commentary. Different terminologies to be applied in the same reporting package and communicated to users would be rather counterintuitive. Hence, we do not back the rationale provided in paragraph BC16 of the ED.

Generally, we support the additional **principle of coherence**. However, we would recommend limiting its proposed scope and to require consistency between information provided for different area of content within the management commentary itself (paragraph 13.28 of the ED) and consistency between information provided in the management commentary and in the related financial statements (paragraphs 13.29 and 13.30 (a) of the ED). The requirement to consider in this regard also information provided outside the reporting package (external coherence) goes from our perspective too far and would create an additional burden for reporting entities when preparing management commentary within tight deadlines. It would be the task for securities and markets authorities to define whether investor communication with other means then those defined in financial statements or management commentary needs to be supplemented with additional disclaimers or disclosures on a case-by-case basis. To include such disclosures in management commentary does not seem to be reasonable. Hence, we suggest removing the paragraph 13.30 (b) in the ED when finalising the document. Consequently, we suggest clarification for paragraph 14.11 in the ED that only internal coherence within the reporting package (i.e., financial statements and management commentary) is envisaged.

Re question (b)

As a matter of principle, we are supportive of the view that management commentary must be a stand-alone, self-contained document. Nevertheless, we do not generally oppose to include other material information in management commentary by cross-referencing. That’s why we support the strict requirements proposed in the ED and related to cross-referencing. Cross-referencing might be helpful to achieve a more concise management report regarding its size, but it has still to be a document which contains in general all material information on a stand-alone basis regarding its content. We believe that reporting entities will be well in a position to weight the efforts necessary to meet the IASB’s requirements when cross-referencing against the alternative of not doing so.

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?

In general, we support the guidance provided in the ED. For the sake of completeness, we would like to highlight however that we understand that the related proposals in the ED include only examples on how the metrics could be provided if any and not a general requirement to include metrics for the areas of content. The same applies to the examples as such provided in the ED. Specifically, in the insurance industry the disclosure of industry-specific metrics would be more useful to investors and other users.

Nevertheless, we do not agree with the general requirement in the paragraph 14.10 of the ED to identify, analyse and provide extensive explanatory disclosures about metrics provided in management commentaries of other reporting entities or about guidelines published by "an industry body or an organisation with an interest in sustainability reporting". While these disclosures might be preferred from users' perspective, such requirements do not seem to meet the cost-benefit hurdle. In accordance with our recommendation for the removal of paragraphs 12.5 and 12.6 above, we similarly strongly suggest here omitting the paragraph 14.10 of the ED. Particularly, from the operational perspective it would be specifically burdensome for reporting entities if being forced to identify, explain, and even justify differences in calculation of metrics by other reporting entities. In addition, such a requirement is completely contradicting the management approach followed by the IASB for management commentary. As long the IASB itself does not identify and prescribe how a particular metric is to be calculated, reporting entities (and auditors) should not be burdened with the obligation to overcome a potential diversity in reporting practice. As a matter of principle, it is not the primarily task of reporting entities to identify which metrics are the right and proper ones from the market perspective at large. And the mere existence of entity-specific metrics in the market (and even within one industry) is a natural and acceptable outcome of the management approach which we continue to fully support for the management commentary project.

We support that the ED proposed not to require management commentary to include **forecasts or targets** (paragraph 14.14 of the ED) but defines requirements which only apply if management takes a decision to include a forecast or target to better explain management's strategy for the entity.

In this regard we agree that it is reasonable to expect an information how the current-period amount compares with a forecast or target amount previously published by the entity (paragraphs 14.15 and 15.28 of the ED). We would however suggest clarifying that “previously” means “in the preceding reporting period”. The additional requirements in the paragraph 14.17 seem to be redundant as regular updating of the forecast or target used to take place in subsequent reporting periods and paragraph 14.16 covers already the need to disclose the forecast or target related to the actual current-period amount. Finally, we would recommend reconsidering the reference in paragraph 14.15 (a) to “any publicly available communication” and to limit its scope to forecasts or targets provided in the management commentary or the related financial statements. We refer here also to our rationale supporting the recommendation to focus on internal coherence only in the response to Question 11 (a).

In this respect we also recommend clarifying the meaning of the references to “previous expectations” in paragraph 10.5 (b) of the ED and “forecasts or targets previously published” in paragraph 10.6 (c) of the ED. Do they refer to *any* previous expectations or *any* forecasts or targets published in the past in management commentary, or do they refer to the comparative period directly preceding the reporting period. We suggest limiting this requirement to such information provided in management commentary only.

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?

From our perspective the proposed examples might be helpful for the management to identify material information to be provided in the management commentary to meet the disclosure objectives for the suggested area of content which we generally support as stated above in our response to Questions 5 and 6.

We do not provide any additional examples to be included into the Practice Statement. However, we also kindly refer to our recommendation to consider removing the additional level of complexity created by the need to identify "key material information". Our rationale is provided in detail in our response to Questions 7 and 10.

Regarding our recommendation to address the principle of double materiality in context of reporting on ESG matters in the management commentary we refer to our response to Question 10. In this context a close cooperation also with European Commission/EFRAG might be helpful, as they have been working intensively on how to operationalise the Commission's proposal for the Corporate Sustainability Reporting Directive (CSRD) in this regard.

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?

We agree with the proposed recommendation based on our understanding that comparative (quantitative and qualitative) information for the preceding year would not be required to be provided when applying the final requirements for the first time. Should it be already the case for the transitional period, we would suggest extending the transition period effectively by one additional year. Specifically, also because of the need to get sufficiently familiar with the new objectives-based approach proposed for the management commentary (paragraph BC147 of the ED).

Specifically, in the case of the need to provide additional and even more granular information on ESG matters in the future, additional time might be necessary and very much useful to allow preparers to set up the necessary internal reporting systems and to collect the necessary data already for the comparative period.

Finally, we like to note that endorsement processes at the level of local jurisdictions might also need a considerable amount of time before a clarity for preparers is given if and starting from when the final requirements released by the IASB can or must be applied.

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?

Re question (a)

We do not have any critical comments on the analysis provided and its overall positive conclusion (paragraph BC177). We indeed welcome cost-benefit analysis conducted also from preparers' perspective (paragraphs BC168 - BC170), though we understand that the effects analysis was mainly of qualitative, rather than of quantitative nature (paragraph BC142) and that the Board has little evidence of entities applying the 2010 Practice Statement (paragraph BC140).

Re question (b)

We are not aware of generally critical obstacles that would make it difficult for entities to comply with the Practice Statement from the German perspective, though we haven't conducted a detailed analysis or comparison of local GAAP requirements in this regard with the potential outcome of applying the proposed objective-based requirements in the Practice Statement which would be, because of its nature, rather an entity-specific consideration to be undertaken. However, our recommendations included in our comments above are derived from our current understanding of the IASB's proposals in context of the current management commentary practice in the market (e.g., re our preference for internal coherence principle only). We also note that some of the requirements in the German market are already stricter than the proposals in the ED (e.g., the ED does <u>not</u> require management forecasts and targets to be included in management commentary).

Nevertheless, as the Practice Statement is currently not endorsed in the EU, considerable double efforts would be required if the Practice Statement and the local requirements would have to be followed at the same time.

We would prefer instead to allow prepares to follow a single set of global reporting requirements, hence, to apply IFRS as issued by the IASB.

In this regard we acknowledge that the ED clarifies in paragraph 1.5 that the [draft] Practice Statement is not intended to be an IFRS Standard. As already noted above in the cover note, we consider **management commentary** to be an **integral part of the financial reporting package**. And we support the development of globally consistent requirements for management commentary. But we continue to **favour a mandatory standard** to provide such requirements. This standard should be **principle-based and fully integrated** into the framework of IFRS. Such approach would ensure a fully **consistent reporting environment for companies applying IFRS**. It would be also in line with the matter of fact that financial statements and management commentary are both subject to statutory audit requirements with the same level of external assurance in Germany.

Hence, we encourage the IASB to consider changing the status of the Practice Statement and to upgrade it to a level of a regular IFRS. It would trigger a regular endorsement procedure in the EU which is initiated by the European Commission in case of IFRS Standards.

Question 16 – Other comments
Do you have any other comments on the proposals set out in the Exposure Draft?

As rightly pointed out in paragraph BC106 (b) of the ED, management commentary and financial statements contribute to the same objective and provide information to support the same assessments. And these assessments would be based on both management commentary and the related financial statements. Hence, management commentary has been and remains also in future an integral element of the <u>financial</u> reporting package.

Consequently, we would like to encourage the IASB to continue with this important project and to cooperate closely regarding the sustainability matters with the new board, should they be included more extensively into the management report (paragraphs BC13 and BC14 of the ED). Only a close cooperation of both boards will provide confidence to stakeholders that the final outcome will be a consistent one, useful for users and also capable to be implemented in a cost-effective way by preparers.

Finally, we are fully supportive of Board's parallel considerations how the proposals can contribute to help improve the quality of **electronic reporting** (paragraphs BC159 – BC161, BC172, BC173 (e) of the ED).