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Andreas Barckow
Chair, International Accounting Standards Board

16 November 2021

Dear Mr Barckow

Comments - Exposure Draft on the Management Commentary Practice Statement

We extend our appreciation to the International Accounting Standards Board (IASB) for taking this initiative in seeking to connect financial and sustainability information and thank you for the opportunity to comment.

We have concerns regarding a fundamental principle related to the draft Practice Statement which we hope will be considered. Notwithstanding, and in the interests of completeness, we have proceeded to comment on specific questions.

The draft Practice Statement does not define the critical term “management” and clarity is needed as the lack of definition could create significant governance problems. The Basis for Conclusions refers to the introduction to the 2010 Practice Statement where “management” is referred to as “*the persons responsible for the decision-making and oversight of the entity*” and “*may include executive employees, key management personnel and members of a governing body*”. It is unclear as to whether or not “management” should be understood as the governing body (the board of directors), and if this is the case it should be clarified. The current use of the term “management” is contrary to the way it is applied in a governance context. Further, the Basis of Conclusions appears to allow flexibility and thus “management” may refer to the executives and key personnel (management as it is usually understood) and not the board of the entity.

We do not see the draft Practice Statement as a better alternative to the integrated report prepared in accordance with the best practice guidance of the *International <IR> Framework*. We strongly suggest the integrated report, as the ‘voice’ of the board, is best positioned to explain to investors and other stakeholders the entity’s process of value creation, preservation or erosion over time. The integrated report prepared in accordance with the *International <IR> Framework* connects financial and sustainability information and can serve as the umbrella report to the IASB and the International Sustainability Standards Board (ISSB).

Although the draft Practice Statement is not intended as a mandatory standard, clarity is still needed on its applicability and potential use in jurisdictions where connected reporting, such as the integrated report, is established practice.

Our comments process included initial development by the IRC’s technical Working Group and input from the IRC’s organisation, corporate and honorary members before review and approval by the IRC Board. Professor Suresh Kana, Deputy Chair of the IRC and a Trustee of the IFRS Foundation, recused himself from the approval process.

Yours sincerely

Leigh Roberts CA(SA)

CEO

Annexure

Introduction and caveat to our comments

As set out in the covering letter and detailed in our response to question 3, we disagree in principle with the concept of management commentary as per the draft Practice Statement because the lack of a clear definition of the term “management” raises governance concerns. It therefore has the potential to confuse the roles of the board and management, undo the steps taken to ensure accountability at board level for corporate reporting, and potentially allows for the board to abdicate its duties of accountability and reporting.

As the above concern relates to a fundamental principle, we propose that the Exposure Draft is withdrawn and reconsidered. Notwithstanding, and in the interests of completeness, we have proceeded to comment on specific questions. These comments should not be read in isolation of this caveat or as support for the implementation of the management commentary and rather serve to clarify and reinforce the governance concern raised.

Further, to the extent that the specific detail is addressed without addressing the governance concern there will still be significant prejudicial impact on good corporate governance.

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?

Subject to the caveat above, we offer the observation that partial compliance can be open to weakness. We suggest that more clarity is needed, including the consideration of time limitations.

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 it is 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?

Subject to the caveat above, we offer the following points and observations:

THE DIFFERENT ROLES OF MANAGEMENT AND THE BOARD

The term “management” is not defined and it is unclear as to whether or not management should be understood as the board, and if this is the case it should be clarified as the current use of the term “management” may be confusing and contrary to its ordinary meaning as understood in the context of the governance of an entity. Further, the Basis for Conclusions appears to allow flexibility and thus

“management” may refer to the executives and key personnel (management as it is usually understood) and not the board of the entity. This creates a significant governance concern as explained below.

The approach risks being contrary to principles of good corporate governance, because it has the potential to:

- confuse the roles of the board and management and in so doing, undermines the authority and accountability of the board;
- create a framework which could lead to the abdication by the board of its duties of accountability and reporting; and
- misinterpret the important role of governance as a legislative or compliance issue.

Elaborating on these points:

- The board’s role is a reflective one, independent of management, to steer the entity, approve strategy, monitor risks, set an ethical culture, generally exercise oversight (including over management) and report on the entity’s performance. This position is supported by most corporate governance codes and guidance available globally.
- In so far as reporting is concerned, the *King Report on Corporate Governance in South Africa 2016* (King IV), for example, firmly entrenches this responsibility on the board. It includes the practice recommendation that: *“The governing body should assume responsibility for the organisation’s reporting by setting the direction for how it should be approached and conducted”*.
- Contrary to the above, the draft Practice Statement potentially creates a framework where management is required to report externally, directly, on matters that fall within the accountability of the board. Paragraph B12 states: *“Management commentary may provide insights into some aspects or consequences of an entity’s governance..... Investors and creditors might need such information to assess management’s stewardship of the entity’s resources..... However, this [draft] Practice Statement does not require comprehensive or detailed reporting on an entity’s governance. Governance is typically regulated by local laws, which may also require entities to provide specified information about governance.”* Firstly, in governance terms, it is the board and not management, that is accountable for the stewardship of the entity.

Secondly, a significant implication is that the issues set out in the draft Practice Statement are not “governance” issues. While local laws do regulate entities and the board’s duties, there is a broader range of governance issues that are universal and based on good governance principles and practices. Strategy, risk, business model, sustainability etc are key aspects of governance that cannot be reported on separately or seen as something apart from the governance of the entity.

- The draft Practice Statement excludes information on how governance and governance mechanisms are essential to the value creation, erosion or preservation process, but the importance of effective governance is emphasised by regulators, codes of best practice, investors and others.
- The draft Practice Statement is potentially contrary to principles of good corporate governance in both unitary and two-tier governance structures.

VALUE CREATION, PRESERVATION OR EROSION

- The draft Practice Statement frames value creation as for the entity itself and as a function of the amount and timing of future cash flows. Paragraph 3.12 states: *“An entity’s activities create value if they enhance or preserve the present value of the entity’s future cash flows. Conversely, an entity’s activities erode value if they reduce the net present value of the entity’s future cash flows”*. It is noted that similar wording is used to describe the relevance of financial information in the IASB’s *Conceptual Framework for Financial Reporting*. The draft Practice Statement’s objective, however, is

to provide useful information to investors by complementing the information in the financial statements and thus a broader approach to value creation is required, rather than one limited to cash flows (financial capital).

- The draft Practice Statement states that disclosure of the impacts the entity's activities have on other parties is necessary only if *“those impacts could affect the entity's ability to create value for itself”*. Understanding an entity's financial future cannot be fully informed unless all material interactions (dependence and impacts) among the resources and relationships relied on to generate sustainable returns are explained. If a matter is important to stakeholders it is also likely to be of interest to investors in determining their short-, medium- and long-term view of the entity. Some people refer to such matters as 'pre-financial'.
- We recommend that a broader approach to value creation, erosion or preservation is more appropriate. The *International <IR> Framework* defines this as the increases and decreases in the six capitals¹ over time as a result of the entity's business activities and outputs². Many integrated reports currently communicate the value creation, preservation or erosion for the entity and stakeholders, reflecting the positive and negative impacts on the six capitals over time.
- It is arguable whether a report with only partial disclosure of impacts, as that envisaged by the draft Practice Statement, can ever be considered complete or balanced. Indeed, it could be criticised as misleading to users.
- We acknowledge that there are different interpretations of value creation, erosion or preservation which are linked to different understandings of materiality and that these concepts are evolving. We are concerned at the confusion this brings to preparers. We believe an entity's board should decide on its understanding and approach and that this is explained and reflected in the entity's reporting and choice of frameworks used.
- The term *“resources and relationships”* rather than six capitals is applied in the draft Practice Statement. We see this as regressive given the established six capitals terminology.
- The draft Practice Statement's approach to value creation seems conceptually inconsistent with the broader international agenda of the UN Sustainable Development Goals and the European Union's concept of double materiality and other efforts to promote sustainability and accountability through reporting.

REPORTING AS THE STORY OF THE ENTITY

We suggest that the focus of reporting is the entity and its process of value creation, preservation or erosion. The determination of what is important to the entity over time includes consideration of the matters important to stakeholders and the impacts on the six capitals. The IRC has long adopted the view that the 'story of the company' is the focus. To clarify, this should not be read as meeting the needs of all stakeholders in one report, but rather that the integrated report serves as a primary report showing the connections of financial and sustainability matters, with other subject-specific and detailed reports stemming from it. (We refer to this as the 'octopus approach to corporate reporting' where the integrated report is the 'head' with all other reports being the 'arms' - see our FAQ <https://integratedreportingsa.org/faq-the-octopus-model/> This approach is commonly used in South Africa.)

OTHER

We are concerned that the draft Practice Statement may obfuscate efforts to achieve globally consistent and comparable corporate reporting and a consistent approach for reporting on sustainability matters. Practically, the draft Practice Statement will not provide a holistic view of an entity and it could add to the

¹ These are (1) financial, (2) manufactured, (3) intellectual, (4) human, (5) social and relationship and (6) natural capital.

² *International <IR> Framework*, Glossary definition

plethora of different reports produced by an entity – with most potentially having to be released at the same time. Such reports could include the financial statements, management commentary, governance report, annual/integrated report, sustainability report for the ISSB sustainability-related financial disclosures, and sustainability report for other sustainability matters and impacts (GRI reporting etc).

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?

Subject to the caveat above and further to our response to Question 3:

- We do not think that it will be easy to operationalise the draft Practice Statement, because: It runs the risk of allowing the board to abrogate responsibility for overseeing an entity’s commitment to long-term value creation; it creates an alternate reporting model rather than building on the existing *International <IR> Framework*; the content areas are not laid out with sufficient clarity; and, it may be premature given the work currently underway to develop international standards for sustainability reporting.
- The draft Practice Statement does not provide an objective framework with sufficiently clear criteria which can be used to enable the assurance of economic, environmental and social disclosures.

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?

Subject to the caveat above and further to our response to Questions 3 and 4:

- We suggest that the disclosure objectives are better phrased as disclosure of what is material to the process of value creation, preservation or erosion, taking into account the views of investors and other stakeholders, rather than information only material to investors. This similarly applies to the disclosure objectives of the content areas.

- Implementation of the disclosure objectives, as stated, will result in silo'd information that will not clearly reveal the reality of the entity's connections between the financial and non-financial. In contrast, the *International <IR> Framework* has fully considered all aspects of an entity's business, its operations, risks and opportunities, strategy, stakeholders, and value creation, preservation or erosion in a connected manner and a multi-capital lens.

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

There is some information about the entity that has been excluded but is relevant information as covered by the *International <IR> Framework's* Content Elements for Organisational overview, Performance, Governance and Outlook. Also, the reporting boundary as addressed in the *International <IR> Framework* is relevant to the draft Practice Statement because of the inclusion of non-financial matters and information.

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?

Subject to the caveat above and further to our response to Questions 3, 4 and 5:

As an overall comment, the *International <IR> Framework* offers eight Content Elements which include the content areas listed in the draft Practice Statement and we wonder at the IASB's 'reinventing the wheel' on this already established understanding that has been practiced for more than ten years. Further, the *International <IR> Framework* also offers the necessary connectivity of information which is missing from the draft Practice Statement. We add that our experience of integrated reporting has shown that the consideration of the six capitals is a useful completeness check to ensure that all significant inputs from and impacts on resources and relationships are disclosed.

(a) The entity's business model – In addition to the above, we suggest that the definition of business model include the outcomes/impacts on the six capitals and that there is consideration of the outlook for these with implications for the business model and strategy.

(b) Management's strategy for sustaining and developing the business model (Strategy) - It is suggested that the link to management's remuneration incentives be disclosed (the board-approved targets and metrics used in the incentives calculation). Also, include information about the entity's chosen trade-offs between the various resources and relationships in its strategy and strategic decisions because this information reflects the choices made and is of stewardship interest. Further, it is suggested that this content area be more accurately named "Strategy and Performance" given the content it addresses, and the link between value creation and performance needs clarity.

(c) The entity's resources and relationships – Resources and relationships (aka the six capitals) are fundamental to each content area and hence underlie each and every disclosure objective, key matter and material information. It is appropriate, however, to treat stakeholder relationships as a defined content area.

In the draft Practice Statement, the significance of stakeholder engagement and management for value creation is not sufficiently addressed, and importantly, the ‘connectivity feedback loop’ from the relationships should be shown – i.e., how the entity has responded to the key stakeholders’ needs, interests and expectations and then showing the related connections to risks, opportunities and strategy.

(d) Risks to which the entity is exposed – It is suggested that the process of risk determination be disclosed, specifically that the process captures risks stemming from the six capitals (both the dependence on inputs and the risks from outcomes). Our experience of integrated reporting is that other useful information to include is a ranking of the risks and any change over the year, inherent vs residual risk, and related connectivity to strategic objectives.

(e) The entity’s external environment – It is important to show the connectivity from the external factor to the entity’s strategy, risks, opportunities, performance and outlook.

(f) The entity’s financial performance and financial position - The connectivity between financial and non-financial information, including links between management commentary and the financial statements, is more suited as an underlying principle rather than a content area.

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.

- (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?**
- (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?**

Subject to the caveat above and further to our response to Question 6:

- The term “key matters” is confusing given that it is largely used to address key (or most important) information (aspects, features and factors) in a specific content area. It may be simpler to call it what it is, say key aspects/ information.
- As previously mentioned, the basis of determining the important information to disclose should be to enable an informed understanding of the entity, rather than a narrower view of what is material for investor decision-making.
- As stated in our response to Question 3, we highlight that the responsibility for approving material matters should be with the board, acting on information provided by management, and not by management on its own.
- We refer to the *International <IR> Framework’s* information on materiality and the process of determining material matters as useful explanatory information for consideration.
- Confusion may arise from the similarity in wording of the draft Practice Statement’s “key matters” and the entity’s key audit matters.

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?

Subject to the caveat above and further to our response to Question 3:

- The responsibility for determining such matters should be with the board, acting on information provided by management, and not by management on its own.
- We suggest that, without a clear focus on the different capitals, the guidance on long-term prospects will be applied myopically.
- Guidance in a form other than tables may be simpler to follow, and information offering more clarity on materiality is needed.
- Our integrated reporting experience is that the process of determining materiality is a critical disclosure as it shares insight on the completeness of the entity’s process, and hence is significant information for investors and other users.

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

We suggest consideration of the six capitals lens as it offers a useful completeness check for intangibles (intellectual capital), use of public infrastructure (manufactured capital), human capital, and ESG matters (natural capital, social and relationship capital). The remaining capital is financial capital.

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?

Subject to the caveat above. We suggest clarity is given on the expected timing of the various reports. For instance, per the draft Practice Statement, the management commentary is to be released at the same time as the financial statements, but will the disclosures per the ISSB standards also be required at the same time?

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?

Subject to the caveat above and further to our response to Questions 4, 5, 7 and 8:

- In our integrated reporting experience, the process of assessing materiality should include the two critical elements of six capitals and time (short, medium and long term). This offers a wide lens to ensure all matters that may affect the entity's ability to create, preserve or erode value over time are considered. We refer to the *International <IR> Framework* useful section on Materiality (section 3D) and the Guiding Principle is stated thus: *An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.*
- The reference to capital market communications elevates the risk that only information which has a direct and short-term impact on financial capital will be understood as being material.
- The factors monitored by the board and its committees need to be considered when determining material matters. Similarly, those aspects of performance and value creation, preservation or erosion that are focal points for regulators and stakeholders need to be considered.
- Consider using the term 'relevant information' to differentiate it from material matters.
- BC107 states: "...management commentary is designed to complement financial statements so, by design, most information in the financial statements does not need to be duplicated in management commentary". The management commentary would surely need to include material information making it easier to assess the information. Further, financial statements can run to 200 or more pages and contain detailed information.

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?**

Subject to the caveat above. We suggest that the attributes of information, as stated, be determined only after the finalisation of other related publications, namely the international sustainability standards, and suggest that there is consideration of the *International <IR> Framework's* Guiding Principles to ensure closer alignment.

- (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?**

An important consideration is for the management commentary to be complete, i.e., it includes all material information. For the sake of conciseness, the related detailed information could be made available in a separate report with a cross-reference link. Paragraphs 13.19 – 13.21 permit cross reference to information in another report but requires that full report to be considered as a part of the management commentary. This may not be practical.

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?

Subject to the caveat above. We suggest that the emphasis of guidance on metrics be on those approved by the entity's board to measure and monitor performance, impacts and remuneration. Thereafter, the metrics used internally for measurement and reporting.

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?

Subject to the caveat above. Citing examples can be helpful but the downside is that the lists offered cannot ever be comprehensive and hence could lead to a narrow and misleading view. Further, lists of examples run the risk of a box-ticking exercise, rather than a mindful consideration of material information.

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?

Subject to the caveat above. A longer transition period may be needed if the final Practice Statement requires that all the reports in the entity's annual reporting package need to be simultaneously prepared and released, and possibly assured. Importantly, local regulators will have to assess the Practice Statement and its applicability to existing laws, regulations, codes and practices.

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?**

Subject to the caveat above.

- The most important effect that has not been considered relates to the potentially negative effects on corporate governance because of the unclear definition of the term “management” and the flexibility that is allowed.
- In South Africa, a management commentary is not legally required nor practiced.
- The corporate reporting system in South Africa is governed by the Companies Act which requires use of the IFRS standards. Companies listed on the JSE follow the Listing Requirements, which include the corporate governance code, King IV. A practice recommendation of King IV is the release of an annual integrated report. The integrated report is firmly seen as a board report.
- The *International <IR> Framework* has been endorsed by the IRC as best practice guidance for the preparation of an integrated report. Listed companies are not the only entities that prepare annual integrated reports in South Africa. It is commonplace among state-owned entities, NGOs and others. Their reasons for preparing integrated reports include adopting King IV as a governance code, improved reporting, and giving a holistic overview of the entity’s story, governance, performance and prospects using the multi-capital lens. King IV’s 17 principles entrench the board’s overarching responsibility for integrating important sustainability matters into the strategy and risks of an entity. This is alongside stewardship and good corporate citizenship, which includes avoiding negative impacts on society and the natural environment.

Question 16 - Other matters

- In our view, there is no conceptual framework for the draft Practice Statement given that it includes non-financial reporting information. The presumption that the Conceptual Framework for Financial Reporting can be applied *mutatis mutandis* to broader reporting models should be reconsidered. This is especially the case given the decision to develop standards dealing specifically with sustainability-related issues.
- We recommend a more thorough analysis is needed of the differences between the draft Practice Statement and the *International <IR> Framework*. Although the draft Practice Statement is intended to have non-mandatory status, it cannot be construed as being the same as the *International <IR> Framework* or that it has absorbed the contents or intentions thereof. A fundamental difference is that the draft Practice Statement views from a singular financial capital lens, in line with the IASB’s remit, whereas the *International <IR> Framework* views from a six capitals lens.
- We suggest the requirement for the inclusion of a preamble to an entity’s management commentary explaining that it is a communication for limited purpose to the particular stakeholder group of investors and creditors. This is to avoid confusion over what it does and doesn’t cover.
- If there is implementation of management commentary as per the draft Practice Statement, we see this as regressive for corporate reporting in countries where integrated reports are the norm, and potentially regressive for corporate governance because of the implications for prevailing governance codes.

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