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<u>This comment is made in my personal capacity and not as a representative of any organisation.</u>

The International Financial Reporting Standards Foundation (IFRS) began harmonising accounting standards across the European Union. Its original name was the International Accounting Standards which were issued between 1973 and 2001. In 2001 the International Accounting Standards Board (IASB) took over the responsibility for setting international accounting standards and established the standing interpretations committee standards.

The management commentary was developed as a non-binding report by management relating to the financial statements prepared according to the IFRS standards. It is an explanatory narrative by management on the financial position and operating performance of the company.

The conceptual framework for the IFRS financial standards was issued in 2010. It created the basic concepts and principles that act as the foundation for the preparation and presentation of the financial statements. It is also used to resolve accounting conflicts. The conceptual framework addresses the following matters:
the objectives of the financial statements
the underlying assumptions of the financial statements
the qualitative characteristics of the financial statements
the elements of the financial statements
the recognition of the elements of the financial statements
the measurement of the elements of the financial statements.

The IASB's Exposure Draft (ED) to amend its existing Management Commentary (MC) proposes including matters beyond those embraced in the conceptual framework namely matters that could affect an entity's long-term prospects because of intangible resources and relationships, environmental and social matters.

The proposed new MC deals with:
the business model
the strategy for sustaining that business model
the resources used by an entity and its relationships with stakeholders
the risks to which it is exposed

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the entity's external environment

the entity's operating performance and financial position.

It will be seen that the first five of the six subject matters are not related to the financial statements prepared according to the IFRS standards. These five matters are however dealt with in the IR Framework.

The IFRS in 2020 issued a consultation paper asking for comment as to whether or no it should expand its mandate to deal with sustainability issues as well as financial matters. In the ED it is stated that there could be interaction with the establishment of the proposed ISSB with its global baseline sustainability standards and the matters which would be reported by management under the amended ED.

I do not see it as an interaction but as a duplication of reporting because if the global baseline sustainability standards will be looked at through an EVC lens the above five matters will be covered.

The board is the most informed body of persons in the corporate architecture of the limited liability company. The board has to spend more time understanding the financial report and the sustainability report under the new global baseline standards and report to the company in clear concise and understandable language the matters both financial and non-financial which will have a substantive impact on value. Corporate reporting is the lifeblood of accountability.

The board has the duty to be accountable and must therefore approve not only the FR and the SR but the report connecting the material matter arising out of these reports. It is common cause between the various task teams working on these changes in corporate reporting that this connection has to be reported. Further the board makes a huge contribution to EVC by agreeing the business model, the strategy, IT governance and cybersecurity, the risks and opportunities impacting the company from climate change, good corporate citizenship in the supply chain, stakeholder relationships and the oversight over management implementing the business judgement calls of the collective mind of the board. These are all governance issues but the amended practice statement expressly excludes the G from the ESG factors saying it must be the G which is applicable in each different country.

The board can delegate its duties but it cannot abdicate its responsibilities. When something goes wrong the statement in the proposed amendment that this is management and not board commentary will not absolve the board from its responsibilities.

The board will under the new regime of the IFRS approve the financial statements according to IFRS standards and the sustainability report according to the global baseline standards issued by the ISSB. But the board will not be approving the critical connection between the financial and the non-financial. This proposed amendment is endeavouring to connect the financial accounting with the sustainability reporting in between the two siblings under the IFRS. The CEO of the VRF in responding to the IFRS's consultation paper said that the financial accounting and

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sustainability standards should be connected and the wheel did not have to be reinvented because use could be made of the management commentary (as it now exists) and the IR framework so that there is an umbrella framework connecting the two matters. The IR framework has been tested over the last 10 years and its efficacy and resilience as an overarching framework connecting the financial and the non-financial has been proven. The wheel does not have to be reinvented and certainly not by management comments which have not had the rigour of board approval applied to them.

The governance dictate during the 20th century was to follow Prof Friedman's thesis that the sole purpose of the company was to make profit as long as it remained within the rules of the game. We know that the 20th century was one of unsustainable development and ended with ecological overshoot, namely the use of natural assets faster then nature was regenerating them. The consequence was a century of unsustainable development.

The focus on profit and increasing the wealth of the shareholders has been replaced by a value creation process from inputs into a company, its activities in producing its product or service and its outputs namely its product or service and waste, for example. These go out into society and have an impact on the three critical dimensions for sustainable development namely the economy society and the environment. During the second decade of the 21st-century it was realised that like a coin sustainability had another side to it namely the impacts which those three dimensions were having on limited liability companies around the world. For example, the collapse of Lehman Bros, the pandemic and climate change have impacts on a company's financial condition (its balance sheet), its operating performance (its income statement and cash flows) and its risk profile (its cost of capital). Integrated thinking and reporting became more and more important because it enabled the user to make more informed judgement calls about value added to the enterprise itself. Hence the word enterprise was added to value creation.

By value creation it was always implied that it included value preservation and erosion. That is now expressly stated in the revised IR framework.

The IR framework describes six capitals or resources which companies use and which are integrated with the relationships between the company and its stakeholders. The six capitals are financial, manufactured, human, intellectual, natural and social which includes the relationships between the company and its stakeholders. The boards of companies today have a multi-capital approach to making business judgement calls.

It is expressly stated in the ED that any country adopting the IFRS financial reporting standards does not have to follow the management commentary. In most of the countries adopting the IFRS financial reporting standards the existing management commentary is not mandated.

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The proposed ED is expressly stated to be information for the providers of capital and the creditors of the company while other stakeholders could seek information from other reports. This could lead to a plethora of reports exactly what the IFRS is now attempting to eradicate. Further, the tone of the proposed ED is backward looking with value creation being linked to cash flows. It is regressive to think of value creation in a resource constrained world based on a conceptual framework designed as the foundation for the preparation and presentation of financial statements.

There are critical aspects of governance namely accountability, oversight, the board's contribution to enterprise value creation, the basis of preparation and presentation of reports and the assurance of those reports. Yet governance is expressly excluded from the proposed amended management commentary which attempts to be comments on ESG factors. One of the purposes of the realignment of corporate reporting is to ensure that we can have a reasonable assurance of sustainability and an integrated report. No credible external auditor would audit a management commentary which attempts to deal with ESG factors but excludes any comment on governance.

The primacy of the shareholder was an exclusive approach to capitalism. The world has turned towards an inclusive approach to capitalism namely taking account of the needs, interests, expectations and concerns of a company's stakeholders but always making business judgement calls in the long-term best interests of the health of the company. The management commentary adopts an exclusive approach focusing on the information needs of an entity's investors and creditors but acknowledges that there are other stakeholders' information needs but that is not an objective of the proposed management commentary.

The proposed MC does not have a multi-capital approach, has no conceptual framework, avoids the importance of the board in enterprise value creation and the draft is not assurance friendly. Further it has been issued at an unfortunate time when there is collaboration between framework providers and standard setters in the ESG space and the IFRS is creating a sustainability standards board to issue global baseline sustainability standards. It has been a distraction to the task teams working on the noble cause of trying to harmonise corporate reporting.

The ED called for comment after the IFRS had stated publicly that it would expand its mandate to include sustainability standards. The IASB's staff started working on this proposed MC in 2017 in a context where there was competitiveness among ESG standard setters and framework providers. Now there is collaboration leading to the founding of the ISSB.

The IASB's parent body only had the scope and power to oversee financial reporting standards. The proposed MC was conceived and drafted in a different context and beyond the scope and powers of the IASB.

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Connectivity has been a board exercise ever since the IIRC was established and consequently we submit that content and timing wise the ED is misconceived. It should be put aside to let the time be used to finalise an overarching framework to connect the financial to the so-called non-financial.

On the basis of not reinventing the wheel the tested IR Framework should form the foundation of such an overarching framework.

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