

November 18, 2021

Submitted electronically via www.ifrs.org

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear IASB members,

Re: Management Commentary (ED/2021/6)

This letter is the response of the [Canadian Accounting Standards Board](http://www.frascanada.ca) (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Management Commentary" (ED) issued in May 2021.

Our process

This response letter represents the views and collective expertise of the AcSB members and staff based on their knowledge and experience. In preparing this response, the AcSB did not consult with Canadian stakeholders on this ED. For reporting issuers in Canada, management commentary is contained in the Management Discussion and Analysis (MD&A). The authority over the MD&A in Canada resides with provincial and territorial securities regulators, and not the AcSB. Accordingly, the views expressed in this letter are based solely on the AcSB's role and experience as the Canadian accounting standard setter.

Given the AcSB's role in Canada with respect to management commentary, our response does not seek to address all the questions posed in the ED. Instead, this letter focuses on a few key areas that we think are relevant from our perspective as an accounting standard setter.

Our view

The AcSB supports the IASB's project to update the existing IFRS Practice Statement 1, *Management Commentary*. We think this project is important to maintain the relevance of this Practice Statement. Furthermore, we continue to hear that financial statement users seek out and rely on increasingly more information outside the financial statements. We commend the IASB for taking a leadership role in

strengthening the relevance of financial reporting, particularly for jurisdictions that do not have robust laws and regulations governing management commentary.

Users of Management Commentary

The AcSB agrees that in the traditional financial reporting environment, the primary users of management commentary are generally the same as the primary users of the entity's general purpose financial statements – being existing and potential investors, lenders and other creditors. The proposal defines management commentary as a report that complements an entity's financial statements. Therefore, the complementary nature of this report implies that the primary audience is the same.

Like the ED, Canadian securities law (specifically, Form 51-102F1 *Management Discussion & Analysis*) notes that the MD&A is intended to complement and support the financial statements. This again validates the premise that generally the primary users of management commentary are the same as the financial statements.

However, through our discussions, we note this might not be true for all entities or sectors. For example, in Canada, government business enterprises apply IFRS, and the management commentary of such entities often has a broader audience, including government officials and program stakeholders. Similarly, sectors subject to prudential regulation view regulators as significant users of management commentary.

We observe that the financial reporting landscape is rapidly changing. Specifically, we note that the IASB developed the proposal prior to recent significant developments globally regarding sustainability reporting, including the establishment of the International Sustainability Standards Board (ISSB). Like the IASB's proposal for management commentary, the ISSB has proposed that their sustainability standards will be focused on the needs of investors and creditors. Furthermore, the ISSB proposes that sustainability information would be contained in management commentary. Given this connectivity, we think it is critical that next steps on this Management Commentary project include careful consideration of the international developments on sustainability and the work of the ISSB, including any consultation with the ISSB deemed appropriate in the circumstances. Doing so will help maintain the relevance of this Practice Statement.

Statement of Compliance

We think it will be unlikely for entities in our jurisdiction to voluntarily state compliance with the Practice Statement, partially or in full. In Canada, robust securities laws over management reporting mean that reporting issuers already incur significant cost and effort to comply with local requirements. As a result, we think it will be unlikely for these entities to undertake the additional cost and effort to voluntarily state compliance with the Practice Statement, even partially. Anecdotally, the AcSB has issued optional guidance in its [Framework for Reporting Performance Measures](#). While we are aware of entities referring to this guidance, we are not aware of any entity asserting compliance.

However, for jurisdictions without similarly robust requirements, we think that the option to state partial compliance could be helpful. In particular, this would allow entities to comply with local laws and

regulations and apply the Practice Statement to areas not covered by local requirements – especially when there are conflicts and/or overlap between local requirements and the Practice Statement. In such cases, we think the option to assert partial compliance will increase the applicability of the Practice Statement and ultimately, overall take-up. Additionally, the option to assert partial compliance would allow an entity to work towards full compliance over a period of years.

We have identified some concerns with the option to assert partial compliance included in the proposal. We note that there are no parameters regarding a partial statement of compliance. Therefore, this statement could technically cover only a very small portion of the management commentary or could exclude critical aspects of the Practice Statement. In these cases, the level of compliance could be misconstrued by users. From our outreach with users on various projects, we know that some users currently misunderstand the level of assurance over information outside the financial statements. We think it will be important to ensure users of management commentary have a thorough understanding of what is meant by partial and full compliance, so that the proposal doesn't add to the confusion in this area.

Guidance on Materiality

We think the additional guidance on materiality included in the proposal will not be necessary for many entities. We note that the IASB has also provided guidance on materiality within the *Conceptual Framework for Financial Reporting*, as well as Practice Statement 2: *Making Materiality Judgements*. In Canada, securities laws also contain further materiality guidance for management commentary. We think this existing guidance is well understood and most entities already have established appropriate processes to identify material items, and therefore do not need further guidance.

For those entities that are seeking more information on materiality, we think it could be confusing to have the relevant guidance located in multiple places. Therefore, we think the IASB should consider whether the management commentary materiality guidance might be better located elsewhere, such as combining it within the Materiality Practice Statement.

Next steps

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Katharine Christopoulos, Director, Accounting Standards (+1 416 204-3270 or email kchristopoulos@acsbcanada.ca), or Katherine Knowlton, Associate Director, Accounting Standards (+1 416 204-3332 or email kknowlton@acsbcanada.ca).

Yours truly,



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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS[®] Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.