



Grupo Latinoamericano
de Emisores de Normas
de Información Financiera
Group of Latin American
Accounting Standard Setters

November 19, 2021

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: Exposure Draft – Practice Statement on Management Commentary

Dear members of the IFRS Foundation:

The “Group of Latin American Accounting Standard Setters”¹ – GLASS welcomes the opportunity to comment on the *Exposure Draft – Practice Statement on Management Commentary* (the ED).

This response contains the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in June 2021. All country members had the opportunity to designate at least one member to participate in this TWG. Each standard setter represented in the TWG carried out different tasks in their respective countries (for example, surveys, internal working groups). All results were documented and served as the platform for the TWG discussion process.

The TWG discussed the different comments received through virtual conferences. In those conferences, the TWG developed a final document based on the comments received. Finally, the TWG document was submitted to the GLASS Board, who discussed its content and approved it.

Overall comments

GLASS generally agrees with the ED since application of the *Practice Statement on Management Commentary* (PS) will provide very useful information on the main events that affect the entity and the related effects on its financial situation and results of operations, which will be welcomed by investors and creditors. However, entities might be reluctant to provide information that might be sensitive and could be used against it by other parties, especially competitors.

¹ The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB and to generate proposals originated from the regional initiatives. Therefore, GLASS aims to have a unified regional opinion before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile, Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board).



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We noticed a significant change in the status of management commentary, since its preparation is no longer restricted to only when the financial statements are prepared based on IFRS and, therefore, are no longer under the coverage of the Conceptual Framework. Since this is an important change, we believe this issue should be emphasized at the beginning of the basis for conclusions, even if that is indicated therein later on.

In the outreach carried out the TWG contacted the regulators of several countries to determine if they were interested in adopting the proposed format of the new management commentary. There were different reactions, since some regulators showed interest in the project; however, none of them made a commitment regarding its future adoption.

Specific Comments

In addition to expanding our above comments, attached please find our specific responses to the questions presented in the ED.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jorge José Gil".

Jorge José Gil

Chairman

Group of Latin American Accounting Standard Setters (GLASS)



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GLASS Comment Letter on the Exposure Draft Practice Statement on Management Commentary

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?

GLASS:

- a) agrees entities should be permitted to state compliance with the PS, even if their financial statements are not prepared following IFRS or similar GAAP, since the objective is to provide a better understanding of the business to investors and creditors.
- b) also agrees that no restrictions should be established on the basis of preparation of the financial statements.

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.



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Paragraph BC33 explains the Board's reasoning for this proposal.

Do you agree? Why or why not?

GLASS believes that:

- a) An explicit and unrestricted statement should be included indicating that the management commentary complies with all the requirements of the PS. However, two member countries indicated that such statement applies only to mandatory standards. Another member country indicated that such statement would give more transparency to the report, especially if assurance is provided by an auditor. Another member country indicated that, as the management commentary includes assumptions, judgements and metrics that are not exact, it would not be easy for management to make such assertion.
- b) There was a consensus that a qualified statement of compliance should be allowed, which could give more value to the PS. Two member countries indicated that, according to what they previously indicated, a statement of compliance is not warranted. Another member country indicated that a qualification will frequently be necessary, since in many cases management will be unwilling to disclose information it considers sensitive. Another member country indicated that qualifications would improve management commentary over time. Another member country indicated that it should only be indicated that certain information was not presented, without explaining why. Another member country indicated that local regulations may create a condition for a qualification.

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.



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Do you agree with the proposed objective of management commentary? Why or why not? If you disagree, what do you suggest instead, and why?

GLASS agrees with the proposed objective of enhancing investors and creditors' understanding of the financial performance and financial position of the entity presented in the financial statements and that the management commentary provide 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. One member country indicated it is necessary to provide guidance as to what is considered to be long term. Another member country indicated that entities might be reluctant to disclose their long-term strategies.

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?

GLASS:

- a) Considers that the Board's proposed approach would be capable of being operationalized since it specifies a general information objective on each of the areas the report has to cover, as well as evaluation and specific objectives to be covered, which provides an adequate and sufficient basis to enable management to identify the information that investors and creditors need. However, one member country indicated that certain areas will be very complex, such as in strategies, long-term expectations,



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entity's resilience, comparing entity's performance with prior projections and other issues.

- b) Agrees the information should be required in such a way that the entity is able to state compliance with the PS and provide a suitable basis for auditors and regulators to determine if the entity has in fact complied. One member country indicated it will be a challenge for auditors to provide assurance on commentaries that do not include precise information such as in the financial statements, and due to fact that some regulators may have objections to adopting the PS.

Several countries indicated that establishing objectives with which to comply is better than having a detailed and prescriptive list of information, since such list would not be able to cover all the information possibilities that an investor or a creditor may require.

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?

GLASS:

- a) Considers that establishing a headline objective, assessment objectives and specific objectives would help to best cover the information to be provided to users in the management commentary. One member country indicated that assuring the information provides a good basis to investors and creditors to make their assessment would entail complex judgment. One member country indicated that to comply with certain specific objectives the entity would have to provide sensitive information, and some entities may be reluctant to do so.
- b) Does not have any further comments on the proposed information objectives.

Question 6—Disclosure objectives for the areas of content



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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?

GLASS generally supports the proposed objectives for information on the six areas of content. Several member countries indicated that in the case of specific objectives some entities would be reluctant to disclose them in sufficient detail, since there could be sensitive information that they do not want known by competitors. One member country indicated that feedback indicated reluctance on disclosing 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?

GLASS:

- a) Believes that it would be sufficient to provide information on key matters, since this would explain how value is created and cash flows are originated. Key matters are those



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that management closely monitors. One member country indicated it is possible that information on key matters may not be provided, since it could be sensitive information.

- b) Considers that the proposed guidance provides a suitable and sufficient basis for management to identify the key matters on which management commentary should focus.
- c) Has no other comments on the proposed guidance.

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?

GLASS:

- a) Considers that the requirements and guidance proposed in the ED would provide a suitable and sufficient basis for management to identify material information that can affect long-term perspective, intangible resources and relationships and environmental and social matters, since when seeking compliance with the specific objectives of each of the content areas it would be necessary to generate information on such matters.



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One member country believes that regarding social and environmental matters the entity will have to use information of a sustainability report, and due to the length of such report it will be incorporated by reference and only relevant matters will be included in the management commentary. Another member country indicated that the guidance should include financial or services activities, since those included in the ED are geared mainly to industrial and extractive entities. Another member country indicated that better guidance should be included to determine what is considered as long term, since it is a concept that can be subject to diverse interpretations, generation confusion and diversity in its application. Another country indicated that guidance should be improved to avoid omitting long-term information.

b) Had no additional comments on the proposed guidance and requirements.

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?

GLASS agrees that in the future, entities might be able to apply standards issued by the new Board to help them identify some information about environmental and social matters that is needed to comply with the PS. We believe that it will take time before the standards of the new board are available. Therefore, entities will have to work on this matter using guidance issued by entities such as the GRI, the new Value Reporting Foundation, the TCFD and others. One member country indicated that guidance will have to be provided on how to make the set of standards compatible.

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?

GLASS believes that the guidance provided is sufficient. One member country suggested that, in addition to the guidance in chapter 12, reference be made to Practice Statement 2, *Making*



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Materiality Judgements, in which guidance can be found on how to identify material information that would be useful for the users of management commentary.

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?

GLASS:

- a) Agrees, because if the information is complete, balanced and accurate in the management commentary, such information will be well integrated and congruent, including what is relevant.
- b) Agrees making cross-reference to other reports, since information should be as complete and transparent as possible. A university in a member country indicated that it will not be fully complete, since information will have to be searched in other reports. Another member country indicated that making reference to other reports would be complex. Another member country indicated that the reports to which cross-reference is made should be audited in order to ensure that the information is complete and transparent.

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.



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Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

GLASS agrees with the proposal that the metrics to be provided be the ones that are used by management to run the business. The metrics and the way they are determined should be clear and accurate. They are useful because they are used to control quantitative and qualitative features of the financial position or financial performance of the entity. One member country indicated that preparers are worried due to the lack of metrics related to non-financial information. Another member country indicated that the metrics should be established on a general basis and not determined by management.

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?

GLASS believes that the examples are helpful since management will be able to provide better information on its business, external environment, financial position and financial performance. One member country indicated that the examples would be very useful for reporting the business model and the strategy. One listed entity does not consider it useful to provide information regarding the external environment. Another member country indicated that Practice Statement 2, *Making Materiality Judgments*, should be considered. Another member country indicated it received different points of view, since some consider them useful and others not.



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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?

GLASS agrees with the proposed effective date.

Question 15—Effects analysis

(a) Paragraphs BC139–BC177 of the Basis for Conclusions accompanying the Exposure Draft analyses 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 jurisdictions 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?

GLASS:

- a) Agrees that the basis for conclusions adequately analyzes the effects of the proposals of the ED.
- b) Considers that it will be up to the local regulators to decide if the PS shall be followed in their jurisdictions. Specific points of view expressed by member countries were:
 - it does not see any obstacle to implement it but does not know if its regulator will decide to do so.
 - its regulator indicated that the PS is interesting, but it has already issued detailed information to be provided, and it would be dependent on the use of the PS in other countries to determine if it is adopted to have comparability of the information provided by local entities.
 - the PS is very valuable and does not see any obstacle to adopt it for its listed entities.
 - it would complement its local regulations.
 - local laws could prohibit its implementation.



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Question 16—Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

GLASS does not have any other comments on the project.