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Brasília, Distrito Federal – Brazil
http://www.cpc.org.br

November 23, 2021

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: ED/2021/6 - Management Commentary

Dear Board Members.

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to ED/2021/6 – Management Commentary.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

The detailed responses to the questions are included below. If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

Question 1—The financial statements to which management commentary relates
(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?

Response:

(a) We concur that entities should be permitted to state Compliance with the revised Practice Statement even if the related financial statements are not prepared in accordance with IFRS Standards (or similar). In Brazil, generally, the financial statements to which management commentary is related are prepared in accordance with IFRS Standards (or similar), therefore we believe that the cases of preparation of management commentary and financial statements under different GAAPs will be rare.

(b) We agree that no restrictions should be set on the basis of preparation of such financial statements, however we think that it would be important to clarify that the revised Practice Statement is expected to be applied to general purpose financial statements and not to specific purpose financial statements.

However, a CPC participant, the Brazilian Economic Development Bank, believes that is not appropriate to allow entities to declare compliance with the "Revised Statement of Practice", when their financial statements are not fully prepared in accordance with IFRS standards (Question 1). The bank understands that this type of permission may not be properly understood by the market. The revised statement of practice may convey the idea that the financial statement has been prepared in accordance with IFRS standards, even if this is not the case. The bank does not suggest restricting the use of the standard, but recommend that the statement of conformity is not allowed or encouraged within the Practice Statement, even considering paragraph 2.2 of such Statement.

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?

Response:

(a) We believe that including an explicit statement of compliance (qualified or unqualified) is an inherent requirement of a standard. Considering that the objective of the revised Practice Statement is developing a guidance to help management identify information that investor and creditors need to be provided and also is a non-mandatory document, therefore we do not agree that entities need to include an explicit statement of compliance in management commentary.

(b) We do not agree for the same reasons given in the previous answer.

Question 3—Objective of management commentary
Do you agree with the proposed objective of management commentary? Why or why not? If you disagree, what do you suggest instead, and why?

Response:

In general, we agree with the proposed objective of management commentary that provides information that enhances investors and creditors' understanding of the entity´s financial performance and financial position reported in its financial statements and provides information about factors that could affect the entity´s ability to create value and generate cash flows across all time horizons, including in the long term.

An additional comment provided by the Brazilian Economic Development Bank, a state-owned institution, is that the cash flow model is not the only value approach. For state-owned entities, there is the concept of public value, required by Federal Court of Accounts, which includes the products and results generated, preserved or delivered by the activities of an organization that represent effective and useful responses to the needs or demands of the public interest and modify aspects of society as a whole. As such, the Board should consider adding some guidance to state-owned entities in the Practice Statement.

Question 4—Overall 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?

Response:

(a) We believe that the proposed approach is capable of being operationalised, mainly because it is information already used by management to monitor the entity´s business.

(b) Nowadays, in Brazil, regulators have never applied this Practice Statement in its local requirements, and they have not taken a stance about the revised Practice Statement. Regarding to the auditors, they do not have concerns about the application of the Practice Statement because there are no requirements for auditors to make any assurance about management commentary, e.g. they are not responsible for giving an opinion on the state of compliance in accordance with the Practice Statement, and possibly, will not enforce the application of the revised Practice Statement.

Question 5—Design of disclosure objectives
(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?

Response:

(a) We agree with the proposed design of the disclosure objectives, however some preparers were uncomfortable in meeting the assessment objectives. They mentioned that ensuring that the information disclosed would provide an adequate basis for investors and creditors to make their assessments can be a complex judgement for management to make. In addition, the revised Practice Statement introduces a third category of objectives (referred to as 'assessment objectives') that is not aligned with the ED Disclosure requirements in IFRS Standards – A Pilot Approach.

(b) We do not have further comments on the proposed disclosure objectives.

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?

Response:

We generally support the headline and specific objectives proposed in ED for the six content elements, however as mentioned in our response to question 5, we suggest that the IASB considers the outcome of its ongoing consultation on the ED Disclosure Requirements in IFRS Standards – A Pilot Approach, where only overall and specific objectives are provided and assesses if a similar approach could be applied to the revised Practice Statement Management Commentary.

Question 7—Key matters

(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?

Response:

(a) We come to terms that the information provided in the Management Commentary should focus on matters that are fundamental to an entity´s ability to create value and generate cash flows, however we are concerned about the introduction of the term key that is not used in the rest of the IFRS literature and it may create confusion with the concept of 'key audit matters' as defined in the auditing standards (ISA 701).

(b) We do not have further comments other than included above.

(c) We do not have further comments on the proposed guidance.

Question 8—Long-term prospects, intangible resources and relationships and ESG matters (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?

Response:

(a) We support the provision of additional guidance to help entities provide information on matters that could affect their long-term prospects, intangible resources and relationships and environmental and social matters.

(b) We do not have further comments on the proposed guidance.

Question 9—Interaction with the IFRS Foundation Trustees' project on sustainability reporting Are there any matters relating to the Trustees' plans that you think the Board should consider in finalising the Practice Statement?

Response:

We do not have comments about this topic.

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?

Response:

We suggest that the IASB clarifies how this guidance could be related to the IFRS Practice Statement 2 – Making Materiality Judgements.

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?

Response:

(a) In general, we admit that qualitative attributes of information can make that information more useful.

(b) We also agree that including information in management commentary by cross-reference to another report can reduce duplication and hence management commentary more concisely.

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?

Response:

We support the requirements and guidance on the use of metrics however preparers were concerned about the lack of guidance on metrics related to non-financial information, mainly related to ESG, intangibles, and long term prospects, that could be very judgemental.

Question 13—Examples of information that might be material
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?

Response:

We support that the proposed examples would help management to identify material information that meets the disclosure objectives.

Question 14—Effective date
Do you agree with the proposed effective date? Why or why not? If not, what effective date do you suggest and why?

Response:

We consider that the proposed effective date is appropriate.

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?

Response:

(a) We do not have further comments on that analysis.

(b) We are not aware of any obstacles that the local regulators that make the Practice Statement difficult for entities to implement however, as mention before, the local regulators have never applied this Practice Statement in its local requirements.

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

Response:

We have no further comments other than included above.