

30 November 2021

Dr. Andreas Barckow

Chair

International Accounting Standards Board

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**Comments on the Exposure Draft (ED/2021/6) *Management Commentary***

1. The Accounting Standards Board of Japan (“the ASBJ” or “we”) welcome the opportunity to provide our comments on the International Accounting Standards Board (“the IASB”)’s Exposure Draft (ED/2021/6) IFRS Practice Statement 1 *Management Commentary* (“the ED”), issued in May 2021.
2. Our understanding is that the ED forms part of the IASB’s work on Better Communication in Financial Reporting. We agree that there is room for improvement in this area and we commend the IASB’s efforts to address the issues that exist in this area. We would like to contribute to the initiatives to improve global financial reporting by submitting our comments on the ED.
3. As the proposals in the ED may affect the information included in the financial statements, we comment on questions 9, 10 and 11. Particularly, we would like to emphasize our view that the IASB should not proceed with this project without clarifying the scope of the information to be addressed by the IASB and that of the new Board for setting sustainability reporting standards (“the ISSB”).

**Question 9: Interaction with the IFRS Foundation Trustees’ project on sustainability reporting**

4. First, we agree with and support the direction of the IFRS Foundation’s initiatives related to the ISSB. The importance of information provided outside financial

statements, including sustainability information, is increasing more than ever and we believe that the IFRS Foundation's initiatives will help improve the transparency, consistency and comparability of sustainability reporting on a global basis.

5. However, the contents of the ED are likely to overlap with matters that the ISSB may address in the future, and we are of the view that the IASB should not proceed with this project without clarifying the scope of the information to be addressed by the IASB and that of the ISSB.
6. For example, the wording in Question 9 implies that the information prepared in accordance with the standards published by the ISSB would be part of the information included in the Management Commentary. However, if the ISSB were to cover all pieces of information that are not included in the financial statements, we believe that the information prepared in accordance with the standards published by the ISSB could be wider in scope than the information included in the management commentary. We believe that the IASB would need to discuss this matter once the ISSB is established.
7. Moreover, once the ISSB is established, we note that the IASB and the ISSB will need to work together, and even if it is determined that the project is to be addressed by either Board, the other Board would also be expected to be involved in some manner. The specific details of the interaction need to be discussed by the two Boards and it is important that such details are accepted by the stakeholders.

#### Question 10: Making materiality judgements

8. Our understanding is that the qualitative characteristics of the IASB's *Conceptual Framework* were developed with a strong focus on the information provided in the financial statements. Information provided in the financial statements and information provided outside the financial statements have different objectives and thus it is likely that the most relevant conceptual framework for the respective types of information would be different. Accordingly, we agree with the IASB's conclusion that the qualitative characteristics of the IASB's *Conceptual Framework* cannot be directly applied to the management commentary.
9. Furthermore, we note that the meaning of the term "materiality" already differs significantly when it is used in the context of information provided in the financial statements (for example, "materiality" in IAS 8 "*Accounting Policies, Changes in*

*Accounting Estimates and Errors*”) and when it is used in the context of information provided outside the financial statements (for example, "single materiality" and "double materiality" in the context of sustainability information). Given such circumstances, we believe that it would be difficult to change the terms to avoid the duplication of the concepts. Accordingly, we believe it is important to clarify the context in which the term is used so that there is no confusion among stakeholders due to the use of the same term with different meanings. One possible solution to this problem might be to develop separate conceptual frameworks for information provided in the financial statements and for information provided outside the financial statements and clarify the relation between the two frameworks.

10. Regarding the specific proposals on materiality in the ED, we believe that the following points need to be clarified if the IASB were to describe the attributes of management commentary using the IASB's *Conceptual Framework* as the starting point:
  - (a) Why *materiality* is not considered a “required attribute”
  - (b) Whether *materiality* in the ED includes aspects of relevance other than *materiality* in the IASB’s *Conceptual Framework* and why (The ED proposes replacing *relevance* with *materiality* "for simplicity", but the implications of such replacement are not clear.)
11. Moreover, as we believe that *materiality* in the context of information provided in financial statements is different from *materiality* in the context of information provided in the Management Commentary, we do not support amending PS 2 "*Making Materiality Judgements*" in response to the amendment to PS 1.

Question 11: Completeness, balance, accuracy and other attributes

12. As noted in paragraph 8, we are of the view that information provided in the financial statements and information provided outside the financial statements have different objectives and thus it is likely that the most relevant conceptual framework for the respective types of information would be different. Accordingly, once the ISSB is established and the scope of the information to be addressed by the IASB and that of the ISSB is clarified, the most relevant conceptual framework should be discussed for each type of information.
13. We hope our comments contribute to the IASB's deliberations. Please contact us if

you have any questions.

Yours sincerely,

A handwritten signature in black ink, reading "Y. Kawanishi". The signature is written in a cursive, flowing style with a large, stylized "Y" and "K".

Yasunobu Kawanishi

Vice Chair

Accounting Standards Board of Japan