



iGAAP in Focus

Financial reporting

IASB publishes revised practice statement on management commentary

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This *iGAAP in Focus* outlines the revised IFRS Practice Statement 1 *Management Commentary*, published by the International Accounting Standards Board (IASB) on 23 June 2025.

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- The IASB issued a revised practice statement on management commentary to support improvements to management commentary and similar reports, including a greater global alignment in the requirements
- The revised practice statement sets out requirements for management commentary and explains how those requirements can be met
- The revised practice statement is not an IFRS Accounting Standard or an IFRS Sustainability Disclosure Standard. Financial statements can comply with IFRS Accounting Standards even if they are not accompanied by a management commentary or if they are accompanied by a management commentary that does not comply with the revised practice statement. A management commentary can comply with the revised practice statement even if it accompanies financial statements prepared on a basis other than IFRS Accounting Standards or sustainability-related financial disclosures prepared on a basis other than IFRS Sustainability Disclosure Standards
- In addition to general requirements and guidance that apply to management commentary as a whole and the information included in it, the revised practice statement sets out requirements and guidance for the following six specified areas of content to be included in management commentary:
 - the entity's business model
 - management's strategy for sustaining and developing that business model
 - the resources and relationships on which the business model and strategy depend
 - risks that could disrupt the business model, strategy, resources or relationships
 - factors and trends in the external environment that have affected or could affect the business model, strategy, resources, relationships or risks
 - the entity's financial performance and financial position
- The revised practice statement is effective for annual reporting periods beginning on or after 23 June 2025 with earlier application permitted.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Background

To stay aligned with the latest developments in corporate reporting, the IASB initiated a research project that showed that management commentaries do not always provide the information that investors need. To address this concern, the IASB added a project to its work plan to review and update its practice statement on management commentary. An exposure draft for a revised practice statement was published in May 2021. After reviewing the comments received on the exposure draft, the IASB decided to finalise the revised practice statement with some changes.

The revised practice statement

Using the revised practice statement

Purpose

The revised practice statement sets out requirements for management commentary and explains how those requirements can be met. Management commentary accompanies general purpose financial statements prepared in accordance with IFRS Accounting Standards or on another basis.

The revised practice statement does not specify which entities are required to prepare management commentary, how frequently entities should do so, who should authorise management commentary for issue or the level of external assurance to which management commentary should be subjected. The revised practice statement is meant to provide a global benchmark for regulators to use in updating or developing national requirements and guidance on management commentary and a comprehensive resource for entities in providing information that meets investors' needs.

Interaction with other reporting requirements or guidelines

The IASB designed the revised practice statement to be flexible, so that it could be applied by entities in different circumstances. For example, entities can apply the revised practice statement together with local law or regulation. If local law or regulation specifies only general requirements, an entity could apply the revised practice statement to help it comply with that local law or regulation.

Entities can also apply the revised practice statement together with reporting requirements or guidelines published by other organisations, including requirements or guidelines for specific industries or on specific topics, such as sustainability reporting.

Other narrative reporting requirements or guidelines could help management identify material information. That is more likely to be the case if those requirements or guidelines have a reporting objective that focuses on information needs of investors, such as IFRS Sustainability Disclosure Standards.

Interaction with IFRS Sustainability Disclosure Standards

The revised practice statement allows an entity to provide sustainability-related financial disclosures prepared in accordance with IFRS Sustainability Disclosure Standards within management commentary. Although they have different objectives, the requirements in the revised practice statement and in IFRS Sustainability Disclosure Standards are expected to work well together because they focus on investor information needs, share aligned conceptual foundations and specify complementary requirements.

Both the revised practice statement and IFRS Sustainability Disclosure Standards are built on a shared concept of value creation, requiring investor-focused material information about sustainability-related factors that have affected an entity's financial performance or financial position, or could affect its prospects.

An entity could benefit from applying the revised practice statement together with IFRS Sustainability Disclosure Standards and incorporating sustainability-related financial disclosures within its management commentary. For example, the entity:

- could use its processes for identifying sustainability-related risks and opportunities to identify sustainability-related factors to report on in management commentary
- could refer to IFRS Sustainability Disclosure Standards to help identify material information about those factors.

Because management commentary provides information that complements information in the financial statements, a well-designed management commentary incorporating sustainability-related financial disclosures could also effectively connect information in the entity's financial statements and in its sustainability-related financial disclosures.

Interaction with the Integrated Reporting (IR) Framework

In developing the revised practice statement, the IASB built on innovations in narrative reporting, including the IR Framework. The IASB noted the broad conceptual alignment of the two documents—with a few exceptions, such as disclosure requirements on governance matters—and their complementary nature.

Status of the revised practice statement

The revised practice statement is not an IFRS Accounting Standard or an IFRS Sustainability Disclosure Standard. Consequently, entities applying those standards are not required to comply with the revised practice statement, unless specifically required by their jurisdiction. Financial statements can comply with IFRS Accounting Standards even if they are not accompanied by management commentary or if they are accompanied by management commentary that does not comply with the revised practice statement.

General requirements

Identification, authorisation and statement of compliance

An entity may provide management commentary as a stand-alone report or with other information as part of a larger report. An entity should identify the management commentary clearly and distinguish it from other information provided in the same larger report or in other reports published by the entity.

An entity that complies with all of the requirements of the revised practice statement when preparing its management commentary is required to include an explicit and unqualified statement of compliance. The revised practice statement permits an entity that complies with some, but not all, of its requirements to provide a qualified statement of compliance, identifying the departures from the requirements and giving the reasons for those departures.

Objective of management commentary

An entity's management commentary should provide information that:

- enhances users' understanding of the entity's financial performance and financial position reported in its financial statements
- provides management's insight into factors, including sustainability-related factors, that could affect the entity's ability to create value and generate cash flows across all time horizons, including in the long term.

Material information and key matters

An entity provides information required by the objective of management commentary and the disclosure objectives for the areas of content if that information is material. Specified information is not required if the information is not material. In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors make on the basis of general purpose financial reports, which include management commentary and the related financial statements, and provide financial information about a specific entity. If the information needed to meet the disclosure objectives for the areas of content is insufficient to meet the objective of management commentary, management is required to identify additional information needed to meet that objective.

Observation

Information judged material for management commentary may differ from information judged material for financial statements because management commentary and financial statements have different objectives and provide different types of information about an entity in accordance with their respective reporting requirements.

Much of the material information needed to meet the overall objective of management commentary and the disclosure objectives for the areas of content will likely relate to key matters—i.e. matters fundamental to an entity's ability to create value and generate cash flows, including in the long term.

However, not all information that is material relates to a key matter. For example, material information might include an overview of an entity and its range of operations. Material information is included in management commentary even if it does not relate to a key matter.

Completeness, neutrality, freedom from error and other attributes

To help entities provide useful information, the revised practice statement specifies:

- required attributes of useful information:
 - completeness—management commentary should provide a complete depiction of the matters it addresses, i.e. it should provide all material information that is necessary for investors to understand the matter
 - neutrality—information in management commentary is neutral if it is balanced, i.e. not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that investors will receive that information favourably or unfavourably

- freedom from error—information in management commentary should be free from error, which does not mean that it needs to be perfectly precise or perfectly accurate in all respects. The degree of precision needed depends on the nature of the information and the matters addressed
- desired attributes of useful information:
 - understandability—information in management commentary is more useful if it is understandable, i.e. clear and concise
 - comparability—information in management commentary is more useful if it is comparable, both with information provided by the entity in the past and by other entities (particularly those in the same industry) and
 - verifiability—information in management commentary is more useful if it is verifiable, i.e. if it is possible to corroborate either the information itself or the inputs used to derive it.

Observation

The attributes are based on qualitative characteristics of useful financial information set out in the *Conceptual Framework for Financial Reporting*. However, because management commentary is often prepared by a larger group of individuals than those involved in preparing financial statements and they might not be familiar with the framework, the revised practice statement uses plain language to describe those attributes.

Coherence

The revised practice statement explains that the completeness, understandability and comparability of information in management commentary all rely on that information being presented as a well-integrated, coherent whole. Coherence requires that information makes clear the relationships between related matters and the relationships between related pieces of information. If a matter discussed for one area of content has implications for matters discussed for other areas of content, management commentary should include information necessary for investors to assess those implications.

The revised practice statement also focuses on coherence of information within management commentary, and across management commentary and an entity's other general purpose financial reports. In specified cases, the revised practice statement also requires management to consider coherence between management commentary and the entity's public communications—for example, presentations to investors or press releases.

Metrics

Material information is likely to include metrics that management uses to monitor key matters and to measure progress in managing those matters. Metrics are measures that management uses to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position. These measures are specific to the entity and typically depend on the entity's activities and the industry in which it operates.

The revised practice statement provides requirements and guidance for metrics included in management commentary.

Observation

The revised practice statement does not require management commentary to include forecasts or targets. However, it contains requirements and guidance that apply if management determines that a forecast or target needs to be provided in management commentary.

Areas of Content

Overview

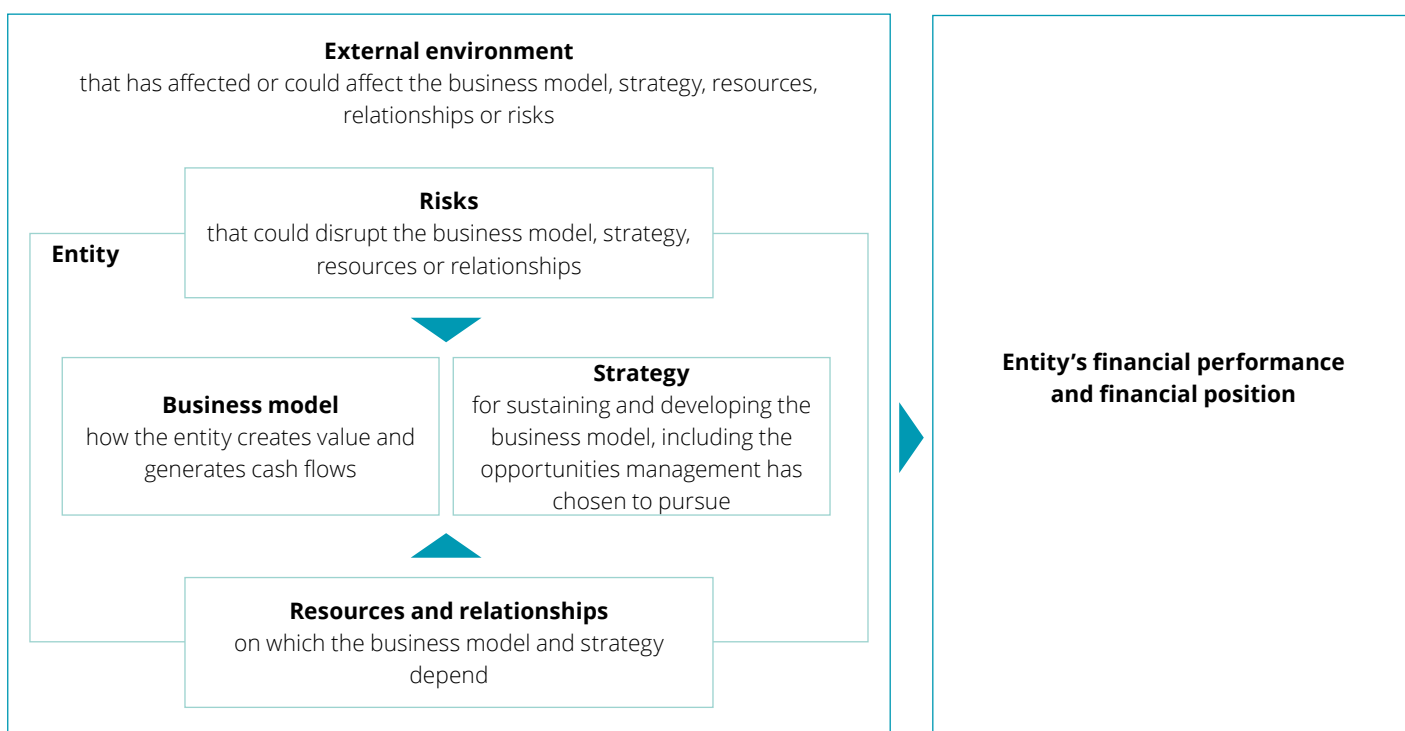
The revised practice statement specifies six areas of content to be included in management commentary:

- the entity's business model—how the entity creates value and generates cash flows
- management's strategy for sustaining and developing that business model, including the opportunities management has chosen to pursue
- the resources and relationships on which the business model and strategy depend, including resources not recognised as assets in the entity's financial statements
- risks that could disrupt the business model, strategy, resources or relationships

- factors and trends in the external environment that have affected or could affect the business model, strategy, resources, relationships or risks
- the entity's financial performance and financial position—including how they have been affected or could be affected in the future by the matters discussed for the other areas of content.

For each area, the revised practice statement sets out a headline disclosure objective, which establishes the investors' overall information needs and specific disclosure objectives, which establish the investors' detailed information needs. The disclosure objectives for each area of content are accompanied by descriptions of the assessments investors make using the information provided for that area of content, together with examples of key matters, metrics and information that might be material.

The following diagram illustrates the relationship between the six areas of content :



Business model

The disclosure objective about an entity's business model is to provide information that enables investors to understand how the entity's business model creates value and generates cash flows.

Specifically, the information disclosed about the business model should enable investors to understand:

- the range, nature and scale of the entity's operations
- the entity's cycle of creating value and generating cash flows
- the environmental and social impacts of the entity's activities if those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term
- progress in managing the entity's business model

The information is intended to help users assess:

- how effective is the entity's business model at creating value and generating cash flows?
- how scalable and adaptable is the entity's business model?
- how resilient and durable is the entity's business model?

Strategy

The disclosure objective about an entity's strategy is to provide information that enables investors to understand management's strategy for sustaining and developing the entity's business model.

Specifically, the information disclosed about the entity's strategy should enable investors to understand:

- the drivers of the strategy, including the opportunities management has chosen to pursue
- the aims of the strategy milestones on the path towards those aims
- plans for reaching the milestones and achieving the aims
- the financial resources required to implement the strategy, and management's approach to allocating financial resources
- progress in implementing the strategy

The information is intended to help users assess:

- how effective is the strategy likely to be in developing the entity's ability to create value and generate cash flows?
- what is the management's ability to implement the strategy?

Resources and relationships

The disclosure objective about an entity's resources and relationships is to provide information that enables investors to understand how the resources and relationships on which the entity's business model and management's strategy for sustaining and developing that model depend.

Specifically, the information disclosed about the entity's resources and relationships should enable investors to understand:

- the nature of the entity's resources and relationships and how the entity deploys them
- how the entity obtains and maintains its resources and relationships
- factors that could affect the availability or the quality of the resources and relationships in the future, including in the long term
- progress in managing the resources and relationships.

The information is intended to help users assess:

- what is the extent to which the business model and management's strategy depend on particular resources and relationships?
- what is the entity's ability to obtain the resources and maintain the relationships on which its business model and management's strategy depend?

Risks

The disclosure objective about an entity's risk is to provide information that enables investors to understand how the risks of events or circumstances that could disrupt the entity's business model, management's strategy for sustaining or developing that business model, or the entity's resources or relationships.

Specifically, the information disclosed about the entity's risk should enable investors to understand:

- the nature of the risks to which the entity is exposed
- the entity's exposure to those risks
- how management monitors and manages the risks
- how management will mitigate disruption if it occurs
- progress in managing risks.

The information is intended to help users assess:

- what is the extent of the entity's exposure to risks?
- how effectively does management monitor and manage the entity's exposure to risks?

External environment

The disclosure objective about an entity's external environment is to provide information that enables investors to understand how the entity's external environment has affected or could affect the entity's business model, management's strategy for sustaining and developing that business model, the entity's resources or relationships, or risks to which the entity is exposed.

Specifically, the information disclosed about the entity's external environment should enable investors to understand:

- the nature of factors and trends in the entity's external environment
- how those factors and trends have affected or could affect the entity
- how management monitors and plans to respond to those factors and trends
- progress in responding to those factors and trends.

The information is intended to help users assess:

- how have factors and trends in the entity's external environment affected or could affect the entity?
- how effectively does management monitor and respond or can respond to those factors and trends?

Financial performance and financial position

The disclosure objective about an entity's financial performance and financial position is to provide information that enables investors to better understand the entity's financial performance and financial position reported in the entity's financial statements.

Specifically, the information disclosed about the entity's financial performance and financial position should enable investors to understand:

- what factors have affected the entity's financial performance and financial position in the reporting period or could affect them in the future, including in the long term
- how management has allocated financial resources in the reporting period
- how the entity's financial performance and financial position compare with forecasts or targets previously published by the entity, if any.

The information is intended to help users assess:

- what are drivers of the entity's financial performance and financial position?
- how does the entity's financial performance and financial position compare with investors' previous expectations?
- what is the extent to which the financial performance and financial position reported in the entity's financial statements are indicative of the entity's ability to create value and generate cash flows in the future, including in the long term?
- how is the entity's financial resilience?

Long-term prospects, intangible resources and relationships, and environmental, social and governance matters

An appendix to the revised practice statement provides an overview of requirements and guidance that management is likely to need to consider in deciding what information to provide in its management commentary about matters that could affect the entity's long-term prospects, its intangible resources and relationships, and environmental, social and governance matters.

Observation

Many respondents to the exposure draft suggested that the revised practice statement should provide guidance on reporting on governance-related matters in management commentary. Some respondents suggested adding governance as an area of content and some others suggested including requirements for disclosure of governance-related information throughout the areas of content.

In response to that feedback, the IASB decided to acknowledge in the main body of the revised practice statement that management commentary provides material information about governance-related matters as necessary to meet its objective and to meet the disclosure objectives for the areas of content.

Effective date

The revised practice statement is effective for annual reporting periods beginning on or after 23 June 2025. Earlier application is permitted. If an entity applies the revised practice statement for an earlier period, it is required to disclose that fact.

No transition requirements are provided.

Further information

If you have any questions about the revised practice statement, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature.

iGAAP on DART allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards
- Model financial statements for entities reporting under IFRS Standards

In addition, our **sustainability reporting** volume of iGAAP provides guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

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