

IFRS Developments

The IFRS Practice Statement 1 Management Commentary (Revised)

What you need to know

- The IASB issued the revised IFRS Practice Statement 1 Management Commentary which is effective for annual reporting periods beginning on or after 23 June 2025 with earlier application permitted.
- It will replace the previous version issued in December 2010.
- The revised Practice Statement includes more extensive and comprehensive guidance on management commentary.
- The revised Practice Statement can be applied in conjunction with ISSB standards.

Highlights

On 23 June 2025, the International Accounting Standards Board (the IASB) issued IFRS Practice Statement 1 *Management Commentary* (the revised Practice Statement). It supersedes the previous version issued in December 2010.

Management commentary is a form of general purpose financial reports that provides information on the entity's financial position and financial performance as reported in its financial statements. It also provides management's insight into factors that could affect the entity's ability to create value and generate future cash flows. It is prepared with the aim to enhance the users' understanding of an entity's prospects.

The IASB's research indicated that since the previous version was issued in 2010, the information needs of users have developed and have not always been adequately met in practice. The IASB has issued the revised Practice Statement to assist entities in presenting information that meets users' needs and to assist regulators in updating or developing national requirements and guidance on management commentary. In developing the revised version, the IASB worked closely with the International Sustainability Standards Board (the ISSB).

Application of the revised Practice Statement is not mandatory for an entity to claim compliance with IFRS accounting standards.



Key changes

Identifying management commentary and other related general purpose financial reports

The IASB decided to update and clarify some procedural requirements for entities that are required or choose to prepare management commentary by applying the revised Practice Statement.

Similar to the previous version, the revised Practice Statement requires an entity to distinguish information contained in its management commentary from other information provided in the same larger report or in other reports published by the entity and identify the financial statements to which the management commentary relates. However, the revised Practice Statement requires an entity to explain in the management commentary, how to access those financial statements if they are not part of the same report. Furthermore, the revised Practice Statement requires an entity to identify the reporting period that the management commentary and the related financial statements cover and to identify and explain how to access sustainability-related financial disclosures, if the entity prepares such disclosures but are not part of the same larger report as the management commentary.

The revised Practice Statement requires an entity to state the date on which management commentary was authorised for issue, and identify the bodies or individuals who authorised management commentary for issue.

In addition, an entity is required to include an explicit and unqualified statement of compliance if its management commentary complies with all requirements in the revised Practice Statement. An entity is also required to disclose in its management commentary the basis on which its financial statements are prepared if they do not comply with IFRS accounting standards.

The objective of management commentary

The IASB has clarified that the objective of management commentary is to improve users' understanding of the entity's financial performance and financial position as presented in the financial statements, as well as to present management's perspective of the factors that affect the entity's ability to create value and generate cash flows. A more detailed explanation of what is meant by 'management's perspective' has been added to the management commentary, together with guidance on providing balanced information. In addition, the IASB has included guidance on the notion of 'value creation' to help prepares to better provide information that supports users in assessing an entity's prospects for future cash flows.

Material information and key matters and areas of content

The IASB's survey indicated that management commentaries sometimes fail to reflect matters that are important to an entity's prospects and contain information that is too generic to meet users' needs. The IASB decided to provide guidance that will assist management in identifying information that is material in the context of management commentary. As a result, a definition of 'material information' in the context of management commentary, together with guidance on how to make materiality judgments, has been included. The IASB has also clarified that the objective of management commentary is focused on a clearly defined set of primary users of general purpose financial reports. The notion of an explicit link between the objective of management commentary and assessments made by users is introduced.

In order to assist management in making materiality judgments about information to be provided in the management commentary, the IASB decided to require management commentary to focus on key matters, i.e., matters that are fundamental to the entity's ability to create value and generate cash flows, including in the long term. Whereas the previous version included five areas of content, the IASB decided to identify six areas of content in the revised Practice Statement. The scope of information of new areas of content does not necessarily correspond to the information required for the previously specified areas of content.

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The six areas of content in the revised Practice Statement are:

- 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; and
- 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.

The six areas of content are interrelated and the revised Practice Statement specifies disclosure objectives for each area.

Attributes of useful information in management commentary

To help avoid situations in which the information provided in management commentary is less useful as a result of preparers not clearly recognising what the key attributes of useful information is, the revised Practice Statement includes a description of each attribute of useful information.

The inclusion of information in management commentary by cross-references to other reports is permitted.

Coherence

In order to avoid fragmented or insufficient information being provided, the IASB decided to require that information in management commentary is coherent. As such, the revised Practice Statement requires information to be provided in the management commentary in a way that makes clear the relationships between related matters and the relationships between related pieces of information.

The revised Practice Statement also requires that the management commentary provides information in such a way that it enables users to relate that information to information presented in an entity's financial statements or another general purposes financial reports.

Metrics

The revised Practice Statement includes requirements and guidance on providing metrics in management commentary. However, the IASB decided not to specify a list of metrics that an entity would be required to provide in management commentary because metrics that are specific to an entity and reflect the industry in which it operates, and its other circumstances, are likely to be more useful to users. Instead, the revised Practice Statement provides guidance for management to identify entity-specific material information, including metrics, related to matters discussed in management commentary.

The revised Practice Statement does not require entities to include forecasts or targets in management commentary. Instead, the requirements in the revised Practice Statement clarify that inclusion of forecasts or targets may be needed to enable users to assess an entity's prospects for future cash flows.

Status of the revised Practice Statement

The revised Practice Statement is not an IFRS accounting standard, and an entity can prepare IFRS compliant financial statements without preparing management commentary that complies with the revised Practice Statement. Management commentary is compliant with the revised Practice Statement even when it is accompanied by financial statements that have been prepared on a basis other than IFRS accounting standards.

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Interaction with IFRS Sustainability Disclosure Standards

The IASB considered the interaction between the revised Practice Statement and the ISSB's IFRS Sustainability Disclosure Standards (ISSB Standards) as entities could apply the revised Practice Statement together with ISSB Standards. For example, those standards could help management to identify material information needed to meet the requirements in the revised Practice Statement.

As a result, the revised Practice Statement has been updated to aid connectivity with ISSB Standards. For example, when stating that management commentary's objective is to provide management's perspective on the factors affecting the entity, the revised Practice Statement indicates that sustainability-related factors are included in the factors to be considered. It also aligns the definition of 'material information' more closely with the definitions used in IFRS accounting standards and ISSB Standards.

Effective date and transition

The revised Practice Statement would supersede the previous version for annual reporting periods beginning on or after the date of its issue, i.e., 23 June 2025.

Early application of the revised Practice Statement is permitted and should be disclosed.

There are no specific transitional provisions as it is expected that any information in management commentary is derived from information already used by management in managing the business, so an entity would not need to produce the information specifically for management commentary.

How we see it

We believe that the revised Practice Statement will improve the quality of entities' management commentaries as it provides a comprehensive set of requirements and guidance that will assist entities to provide concise and coherent information about financial, sustainability-related and other factors that are fundamental to their ability to create value and generate cash flows, including in the long term.

All in to shape the future with confidence

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A global set of accounting and sustainability disclosure standards provides the global economy with one measure to assess and compare the financial position and performance of entities, and the sustainability-related factors affecting them. For entities applying or transitioning to International Financial Reporting Standards (IFRS) – which includes IFRS Accounting Standards and IFRS Sustainability Disclosure Standards (collectively, IFRS Standards) – authoritative and timely guidance is essential to navigating IFRS Standards that continue to develop and evolve. The EY Global Corporate Reporting Services Group has helped develop international resources – people and knowledge – to support the application and interpretation of IFRS accounting and sustainability disclosure standards. In doing so, the EY Global Corporate Reporting Services Group provides deep subject matter knowledge and broad sector experience to the market, including the latest insights from the global EY network.

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