

Management Commentary

Overview of the Exposure Draft

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Welcome



Nick Anderson
IASB Member



Yulia Feygina
IASB Technical Staff



Matt Chapman
IASB Technical Staff



Jelena Voilo
IASB Technical Staff

Before we start

Housekeeping

The Exposure Draft, its accompanying documents and the slides used in this presentation are available for download on the Management Commentary project webpage at <https://www.ifrs.org/projects/work-plan/management-commentary/>

The views expressed are those of the presenters, not necessarily those of the International Accounting Standard Board or the IFRS Foundation

To ask a question during the webinar, type it into the designated text box on your screen and click 'submit'. You can submit questions at any time during the presentation. We'll try to answer them as we go along and at the end of the presentation

Agenda

Introduction

Proposals in the Exposure Draft

Q&A

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are several dotted lines that form a grid-like pattern across the map, intersecting the curved lines.

Introduction

What is management commentary?



A financial report

- Complements financial statements
- Provides insights into a company's ability to create value and generate cash flows
- Aimed at investors and creditors
- May be useful for a wider range of stakeholders but is not aimed at them

IFRS Practice Statement 1
Management Commentary

Management commentary



Why is the IASB doing the project?



Developments in narrative reporting

- Notions of ‘enterprise value’ and ‘value creation’
- Focus on resources and relationships, including intangibles
- Developments in sustainability reporting



Changing information needs

- Increased demand for information about:
- Long-term prospects
 - Intangibles
 - Environmental, social and governance (ESG) matters



Gaps in current reporting practice

- Too much generic information
- Lack of focus on matters important to the company’s prospects
- Short-term focus
- Fragmentation
- Lack of balance

What is the IASB aiming to achieve?

Comprehensive framework focused on investors and creditors' information needs

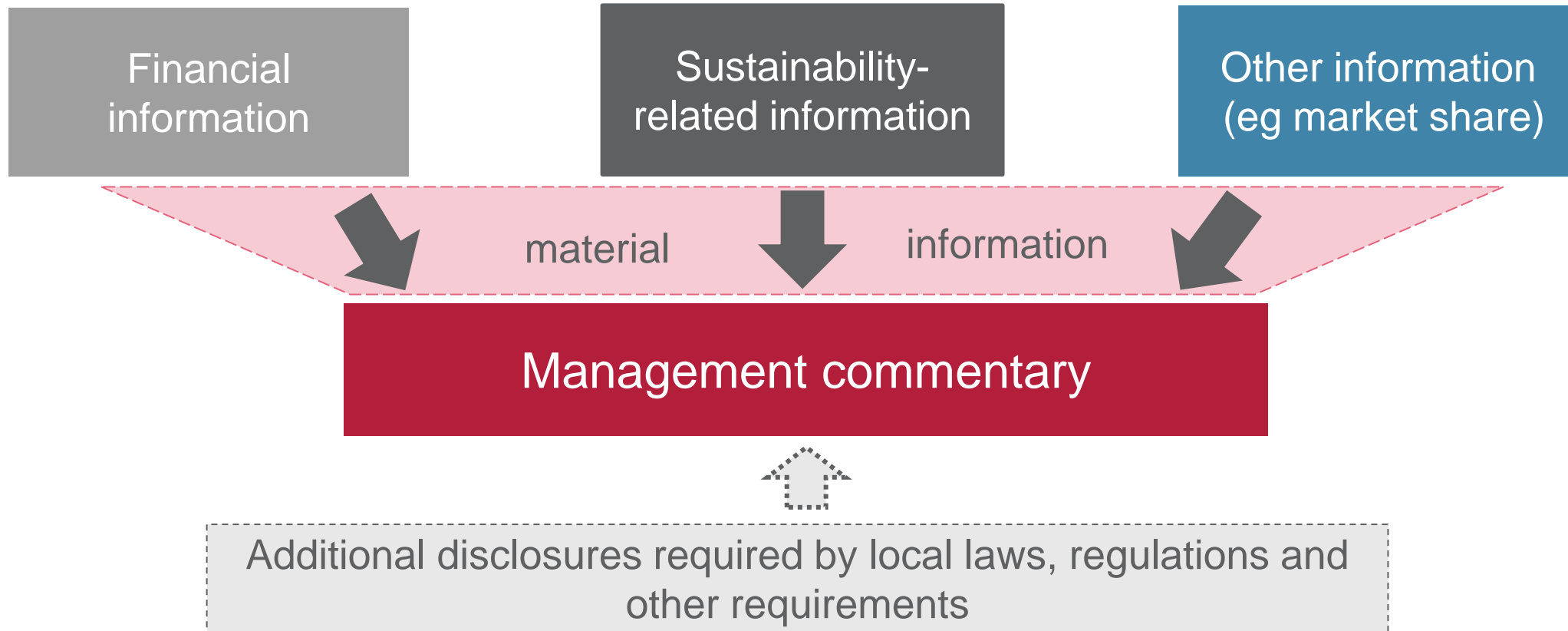
Provides an effective basis for preparing useful management commentary:

- **flexibility** to tell a story focusing on matters fundamental to the company's long-term prospects
- **rigour** to assess compliance

Incorporates innovations in narrative reporting and **addresses gaps** in reporting practice

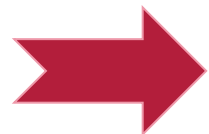
Can be applied alongside local laws and regulations and other narrative reporting requirements

Focal point for connectivity

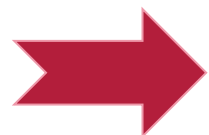


Can provide a reporting channel for information to be required by the proposed new International Sustainability Standards Board

Who would apply the new framework?



Local **lawmakers or regulators** may decide to require compliance



Companies may choose to comply even if not required



A company's financial statements can comply with IFRS Standards even if:

- they are not accompanied by management commentary
- management commentary does not comply with the Practice Statement



Statement of compliance

Unqualified

- Complies with all requirements

Qualified

- Complies with some, but not all, requirements
 - must identify departures and reasons for them

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Polling question

Q&A



Proposals in the Exposure Draft

Objectives-based approach

The objective of management commentary

Disclosure objectives for areas of content

Headline objective

Assessment objectives

Specific objectives

Selecting and presenting information

Long-term prospects, intangibles and ESG

Areas of content

- Business model
- Strategy
- Resources and relationships
- Risks
- External environment
- Financial performance and financial position

Focus on key matters

Disclosure objectives: Business model example

Disclosure objectives

Business model

A headline objective

Enable investors and creditors to understand:

- How the company's business model creates value and generates cash flows

Assessment objectives

why?

Provide a sufficient basis for investors and creditors to assess:

- How effective the company's business model is
- How scalable and adaptable it is
- How resilient and durable it is

Specific objectives

what?

Enable investors and creditors to understand:

- The range, nature and scale of the company's operations
- The cycle of creating value and generating cash flows
- Environmental and social impacts of the company's activities
- Progress in managing the company's business model



Chapter 11 of the Exposure Draft summarises disclosure objectives for all areas of content

Materiality and focus on key matters

Proposed tools to help preparers identify material information

Key matters

Fundamental to the company's ability to create value and generate cash flows, including in the long term

Likely to be **monitored and managed** by management

Likely to be **pervasive** and relate to more than one area of content



Much (but not all) of the information material to investors and creditors will relate to key matters

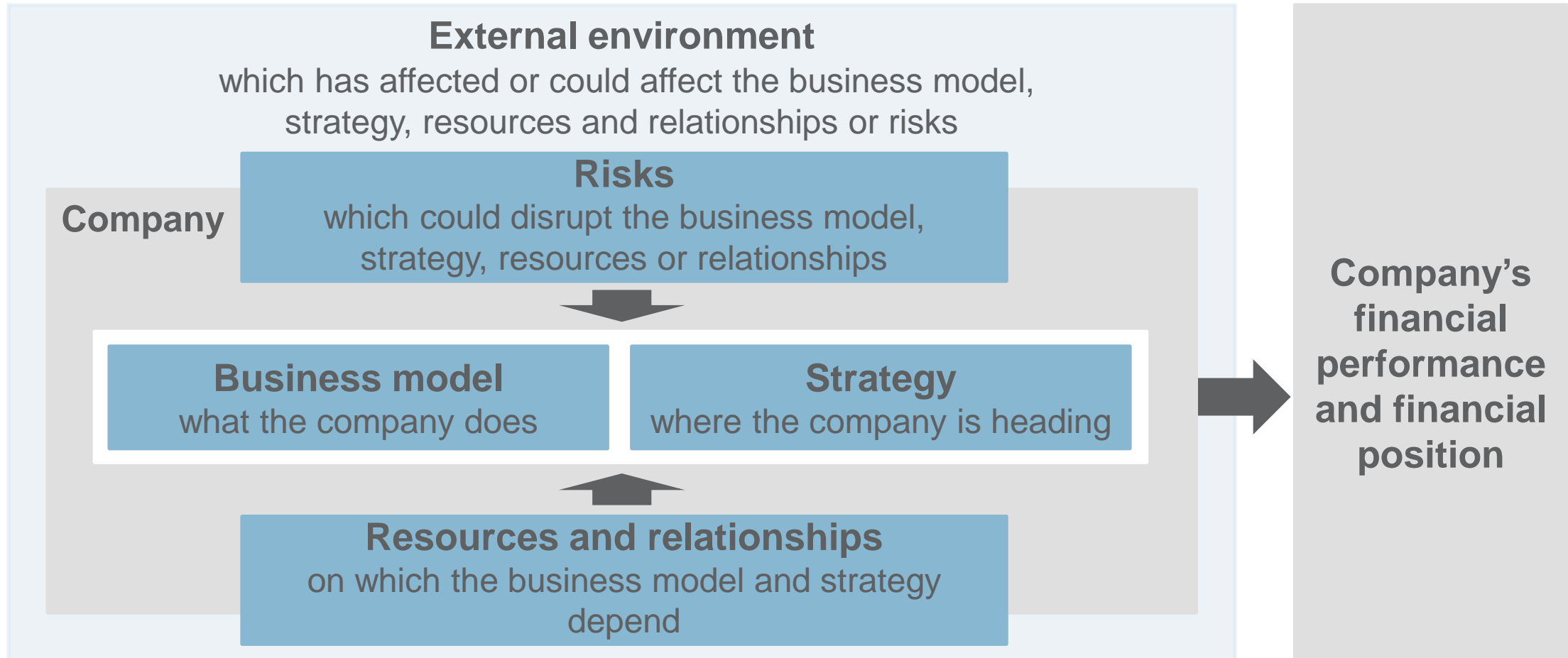
Other

- disclosure objectives and examples of information that might be material
- indications that information might be material
- guidance on aggregation
- guidance on uncertain future events

Relationships between areas of content



Financial, sustainability and other material information about the company



Long-term prospects, intangibles and ESG

Affect companies differently → need to be discussed across management commentary



Dedicated appendix

- **Overview** of requirements and guidance to consider in providing information about:
 - matters that could affect the company's long-term prospects
 - intangible resources and relationships
 - environmental and social matters
- **Examples of application** in described fact patterns

Information is reported if **material** to investors and creditors



Other sustainability frameworks:

- can help identify information that might be material
- other information specified by those frameworks can be also included if it does not obscure material information

A grayscale world map is the background, showing continents and a grid of latitude and longitude lines. Overlaid on the left side of the map are several concentric, semi-transparent curved lines that sweep across the frame from the bottom left towards the top right. The text 'Polling question' is positioned on the right side of the map.

Polling question

An abstract graphic on the left side of the slide. It features a central red circle surrounded by several concentric rings. The rings are composed of different styles: a solid blue ring, a solid orange ring, a dashed white ring, and a dotted white ring. There are also several thin, light gray lines radiating from the center, some of which are solid and some are dashed. The background of the slide is a solid dark gray.

Q&A

Attributes of useful information

Completeness

Balance

Accuracy

**Clarity and
conciseness**

Comparability

Verifiability



Coherence

Based on the *Conceptual Framework*

Simplified terminology

Some additional guidance

- Within management commentary
- Across the company's reports

Metrics

Company-specific

- Material information likely to include metrics that management uses to:
 - **monitor key matters**
 - **measure progress** in managing those matters
- Depend on the company's activities and the industry in which it operates

The Exposure Draft proposes

Examples of metrics for each area of content

For business model metrics may relate to:

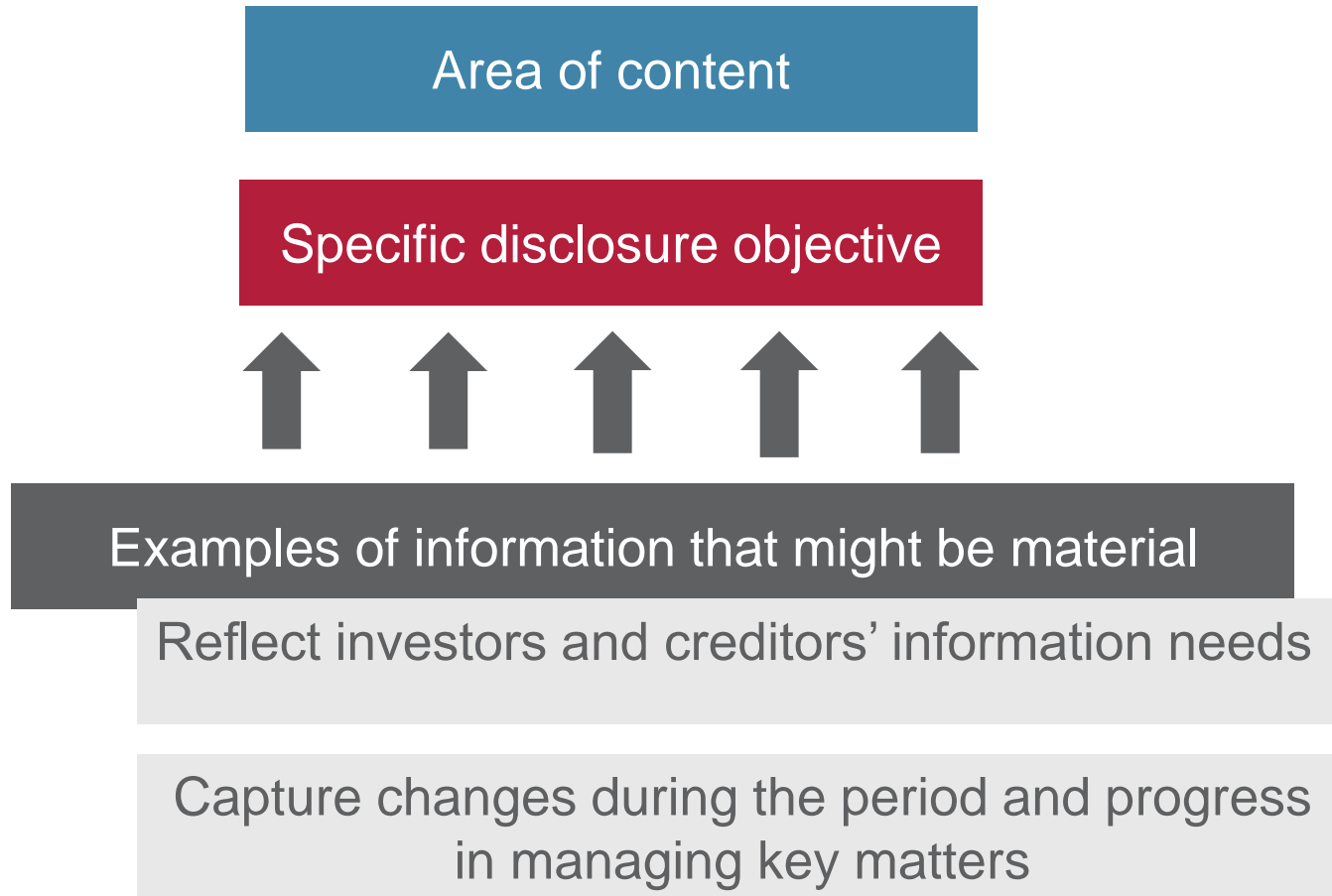
- the scale of the company's operations
- the inputs involved in those operations
- environmental or social impacts of the company's activities
- effects of impacts on the company

Requirements for metrics

Relate to:

- clarity and accuracy
- comparability
- coherence

Examples of material information



Management needs to apply judgement:

- is the information material in the company's circumstances?
- is other information needed to meet the disclosure objective?

Next steps



We invite you to participate in the outreach and to submit your comments on the proposals by **23 November 2021**



- Project information <https://www.ifrs.org/projects/work-plan/management-commentary/>
- The Exposure Draft can be found [here](#)
- The snapshot summarising the proposals in the Exposure Draft can be found [here](#)



Polling question

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Q&A

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