STAFF PAPER

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IASB Meeting

Project	**Wider corporate reporting**
Paper topic	Agenda proposal to revise and update the Management Commentary Practice Statement

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Purpose of this paper

1. The purpose of this paper is to seek the Board's views on, and agreement to, a staff recommendation that the Board should add a project to its agenda to revise and update the December 2010 *Management Commentary* Practice Statement (MCPS).

Structure and summary of the paper

2. This paper is structured as follows:
    a. the background is set out in paragraph 3;
    b. clarification of terminology and scope, including the aspects of Wider Corporate Reporting (WCR) that we believe are relevant to the Board's remit (paragraphs 4-11);
    c. a summary of the case for revising and updating the MCPS (paragraphs 12-14)
    d. further analysis on the wide and confusing landscape of WCR frameworks, standards, goals and codes, including reference to a growing number of calls from a number of organisations for the Board to show leadership in the WCR arena and to update the MCPS (paragraphs 15-19), and developments in the consumption of financial and non-financial information (paragraphs 20-21);

e. the further analysis requested by the Board on the use and influence of the existing MCPS (paragraphs 22-25) – this highlights that whilst the direct use of the MCPS has been limited, it has been influential in the development of a number of key frameworks and pronouncements, both globally and in individual jurisdictions;
f. a summary of the discussions at the IFRS Advisory Council, the Accounting Standards Advisory Forum (ASAF) and the International Forum of Accounting Standard-Setters (IFASS) (paragraph 26) – this highlights a range of views expressed, from the Board taking no action to calls for the Board to do more than just update the MCPS;
g. an outline of how the development of the MCPS could be approached in order to support improvements in practice while still retaining its principles-based approach (paragraphs 27-29, and Appendix D);
h. the criteria used for assessing the proposal to add a project to revise and update the MCPS (paragraphs 30-41) – this section sets out the staff's view that the proposal to revise and update the MCPS meets the criteria for the Board to add a project to its active research agenda;
i. the agenda criteria as set out in the IFRS Foundation's *Due Process Handbook* (paragraphs 42-47) – as with the above, this section sets out the staff's view that the criteria are met, in particular that this is an urgent and pervasive issues that is important to users of financial reports;
j. staff recommendation and potential next steps (paragraphs 48-49); and
k. questions for the Board to consider.

Background

3. The Board discussed the role that it should play in the area of WCR at its meeting in March 2017 (Agenda Paper (AP) 28A for that meeting refers), together with implications for the Board and options for its Work Plan (AP 28B for that meeting refers). At that meeting, the Board tentatively decided to consider a project to revise and update its MCPS. The Board commissioned the staff to do further analysis,

including consulting with the IFRS Advisory Council, before preparing a formal proposal to add a project to the active research agenda.

Terminology and scope

4. As reported to the Board in March (AP 28A for that meeting), terminology in this area remains a challenge. As that paper noted, in their last review of the structure and effectiveness of the IFRS Foundation, the Trustees used the generic term 'Wider Corporate Reporting' as shorthand for any reporting by companies that falls outside the financial reporting published in the financial statements (which comprise primary financial statements and the notes). The staff note that WCR encompasses a very wide range of reporting perspectives, including those that focus on the contribution of companies to society at large and are therefore intended for a much broader range of stakeholders than the primary users as specified in the Board's *Conceptual Framework for Financial Reporting* (ie existing and potential investors, lenders and other creditors[1] - we use 'investors' for short in this paper).
5. That wider reporting can encompass sustainability, Environmental, Social and Governance (ESG), public policy disclosures and other non-financial information to meet the needs of a wider range of stakeholders, which goes further than the information that would be material to investors. The Global Reporting Initiative (GRI) is probably the major example of guidance developed for such reporting, with GRI Standards developed to meet the needs of stakeholders, who are defined as:

> "entities or individuals that can reasonably be expected to be significantly affected by the reporting organization's activities, products, or services; or whose actions can reasonably be expected to affect the ability of the organization to implement its strategies or achieve its objectives…Stakeholders can include employees and other workers,

[1] Paragraph OB2 of the *Conceptual Framework for Financial Reporting.*

shareholders, suppliers, vulnerable groups, local communities, and NGOs or other civil society organizations, among others"[2]).

6. The staff view is that seeking to meet wider stakeholder reporting demands for information to support particular public policy objectives and/or wider stakeholder information needs would constitute a significant extension of the scope of the Board's work and would require a much broader range of expertise than the Board and the staff currently possess. While the broader societal and stakeholder perspectives can be very useful, they go well beyond the Board's remit and our assumption is that the Board would not seek to meet the needs of those users who have these perspectives. Hans Hoogervorst made this point very clearly in his speech to the Accountancy Europe conference *Shaping the Future of Corporate Reporting* on 18 September 2017, in particular when he commented that:

   "I do not think the IASB is equipped to enter the field of sustainability reporting directly. Our focus on financial reporting for capital market participants is deeply embedded in our DNA; widening the audience and scope of our work would most likely lead to loss of focus and identity. Moreover, our main area of competence is economics. ESG reporting to wider stakeholder groups requires expertise that we simply do not have[3]".

7. It follows from the above that the scope of the Board's work should continue to focus on financial reporting. But we note that 'financial reporting' is not limited to the financial statements. In its *Preface to International Financial Reporting Standards* (the Preface) (paragraph 7), the Board stated that:

   "The IASB achieves its objectives primarily by developing and publishing IFRSs and promoting the use of those standards in general purpose financial statements and *other financial reporting* (our emphasis). Other financial reporting comprises information provided outside financial statements that

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[2] GRI 101 *Foundation* (2016), Section 1.1, available at: https://www.globalreporting.org/standards/gri-standards-download-center/.

[3] IASB Chairman's speech *The times, they are a-changin'*, available at: http://www.ifrs.org/news-and-events/2017/09/iasb-chairmans-speech-the-times-the-are-achangin/.

assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions".

8. The Board has not, to date, specified what constitutes that 'other' (or 'broader') financial reporting, other than to confirm that – in publishing the MCPS - management commentary lies within the boundaries of financial reporting. For the purposes of this paper, we view other financial reporting as encompassing information that is material[4] to investors on issues such as:
   a. a company's *business model, strategy* and *operating environment* for long-term value creation;
   b. *non-GAAP financial performance* measures;
   c. '*pre-financial' information* – which we see as a subset of Non-Financial Reporting, NFR), being non-financial information that addresses matters relevant to an understanding of the future financial performance and position of the company, including – for example – information on the development of intangible business resources, and other information which may not be recognised in the current period's financial statements, but which will ultimately affect the financial returns to the company (including, where relevant, environmental, social and governance – ESG - information); and
   d. *forward-looking information* (as already specified in the MCPS, paragraphs 17-19).

9. Collectively, this other financial information complements the financial statements by providing insight into the company's strategy for creating shareholder value over time, its progress in implementing it, and the potential impact on future financial performance not yet captured by the financial statements.

10. Without a precise definition of what might constitute 'other' financial reporting, the staff note that – should the Board decide to take any further action in this area – then there would be a need to consider how such action would fit with other existing frameworks/standards developed by other bodies. This would be the case with – for

[4] Using the definition in paragraph QC11 of the *Conceptual Framework for Financial Reporting*. However, the Exposure Draft ED/2017/6 Definition of Material (Proposed amendments to IAS 1 and IAS 8) (Definition of Material ED) proposes to refine the definition of material to '[i]nformation is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements'.

example - the International Integrated Reporting Council's (IIRC) *Integrated Reporting (<IR>) Framework* and the pronouncements of bodies such the Climate Disclosure Standards Board (CDSB) and the Sustainability Accounting Standards Board (SASB). Why should this be so? The short answer is that the pronouncements of all three bodies have been developed to meet the information needs of investors[5] in mainstream company reports and filings, and could be viewed, at least in part, as coming within the scope of other financial reporting. At this stage, we are flagging the fit with other reporting regimes as an issue that would need to be addressed, but we offer below some initial thoughts on how alignment might be achieved.

11. For the purpose of this paper, staff have assumed that, if the Board does take action, it would want to retain the principles-based 'framework' approach of the original MCPS, focusing on those matters that are important to the specific circumstances of the business, rather than detailed prescription of either subject-matter specific disclosures (as in the CDSB *Framework*) or industry-specific metrics and disclosures (as in the SASB's Standards). This approach would still see companies disclosing more detailed subject-matter or industry-specific information that they deem material. The staff believe that there is a fit between the *<IR> Framework* (and also certain national principles-based WCR regimes) and the MCPS, with the latter providing "users of financial statements with integrated information that provides a context for the related financial statements" (MCPS, paragraph 9). We view the Board as being the most appropriate body to address the fit between the 'narrow' reporting in the financial statements and other financial reporting.

Summary of the case for revising and updating the MCPS

12. In summary, the research and analysis set out in this paper highlight a number of factors that the staff believe would support the case for action by the Board:

    a. calls for the Board to take leadership in the area of other financial reporting to address the proliferation of WCR standards that do not necessarily align

[5] The <IR> Frameowrk uses the term 'providers of financial capital'.

with the investor/financial reporting focus of the MCPS. Such calls reflect a market expectation that the Board is the body that is best placed to address the link between ‘narrow’ and ‘other’ financial reporting (paragraph 15-19);

b. developments in the consumption of financial and non-financial information that may be expected to result in increased focus being placed on management commentaries (paragraph 20-21);

c. the important influence of the 2010 MCPS on developments in WCR at a national and global level, and the opportunity to incorporate relevant subsequent developments back into the MCPS, whilst also addressing identified gaps and implementation challenges (such as those identified by the IIRC) (paragraphs 22-25, also 27-29).

13. However, the views outlined above are not universally shared. Our discussions with the IFRS Advisory Council, ASAF, and IFASS elicited a range of views, from those in favour of the Board taking no action, to calls for the Board to go beyond updating the MCPS (paragraph 26).

14. Not all parties whose literature we have reviewed and/or we have consulted support the Board taking on a project to revise and update the MCPS, and we recognise that the Board will have to reach a decision taking account of the differing views and in the light of the analysis set out in this paper. In headline terms, the staff view is that the Board should take on such a project, in support of which we would emphasise the following:

a. the Board has an existing pronouncement, the MCPS, which has been influential, but which – in order to remain relevant – needs to be updated to reflect the many developments that have taken place since 2010, in particular to refer to and emphasise the importance of value creation over time;

b. updating the MCPS would answer the calls from those for the Board to play a more active role in WCR, in particular to further articulate what is covered in other financial reporting, to create a good fit between ‘narrow’ and other financial reporting, and to stress its importance;

c. continuing to take a principles-based, framework approach to the MCPS will allow it to be used in conjunction with other frameworks and codes and to build on the best practices currently available;

d. continuing the MCPS as a non-mandatory pronouncement reduces the risk of creating conflicts with other frameworks and codes and can give the Board scope to work with others (such as securities regulators and/or National Standard-Setters) to encourage more formal adoption at jurisdictional levels.

Further analysis: what is the issue/problem to be solved?

15. One of the issues Board members raised at the March 2017 meeting was to get a clearer understanding of what were the problems that it would be seeking to solve by playing a greater role in WCR, in particular by revising and updating the MCPS. AP28A for that meeting outlined the current wide and confusing landscape of WCR frameworks, standards, goals and codes, together with the challenges faced by investors (and others) through the lack of a standardised overall framework such as IFRS Standards that underpin financial reporting. That paper referred to the views of Blackrock, which has called publicly for standardised ESG disclosure within a consistent global reporting framework, "similar to international accounting standards"[6].

16. In fact it is not just Blackrock who have raised this issue. It is a recurrent theme that comes through regularly in reports, submissions and other public commentary (Appendix A provides details of the staff's review to date of the literature that has commented on this theme[7]). In summary, the main aspects of the problem that are referred to are as follows:

[6] See Blackrock Viewpoint *Exploring ESG: A Practitioner's Perspective* (June 2016), at: https://www.blackrock.com/corporate/en-gb/literature/whitepaper/viewpoint-exploring-esg-a-practitioners-perspective-june-2016.pdf.

[7] The literature on this subject is extensive and the staff do not claim that the review undertaken has been comprehensive.

a. the lack of a generally accepted framework and standards for wider corporate reporting (the terminology in the reports differs, with many using the term ‘NFR’);

b. the lack of alignment and integration between NFR and financial reporting.

17. A number of the reports reviewed specifically call on the Board to play an active role in this area, with some of them encouraging the Board to work with the IIRC (or the IIRC with the Board) to help identify links between financial reporting and the reporting on a broader range of capitals (as set out in the <IR>, Framework). The details are again in Appendix A, but the calls come from bodies such as: the Institute of Chartered Accountants in England and Wales (ICAEW) (see Appendix A, A1 and A26), the United Nations Environment Programme (UNEP) (A4 and A19), Accountancy Europe (formerly FEE) (A5 and A29), the Association of Chartered Certified Accountants (ACCA) (A24), the European Union (EU) High-Level Experts Group on Sustainable Finance (HLEG) (A28), as well as the majority of participants at a recent Australian Accounting Standards Board (AASB) Forum (A30). The IIRC is on the record as supporting the suggestion that the Board might take on a project to revise and update the MCPS[8].

18. As noted in AP 28B, the IIRC has itself also recently consulted on how the use of the <IR> Framework (published in 2013) is working out in practice and the challenges that preparers and other stakeholders have faced in preparing and using integrated reports. As the October 2017 *International <IR> Framework Implementation Feedback: Summary Report*[9] highlighted, among other things, the feedback received called for better articulation of the links between financial and non-financial/pre-financial capitals and disclosures, the need for better communication on how other corporate reporting developments can connect to or support the preparation of an integrated report, and the need for guidance to help

[8] IIRC Newsletter April 2017, available at: http://us4.campaign-archive2.com/?u=b36f6aeef75cea67e62812844&id=ee153576a1.

[9] The IIRC feedback report report can be accessed at: http://integratedreporting.org/wp-content/uploads/2017/10/Framework_feedback_Sum2017.pdf.

report preparers better understand how the pieces of the corporate reporting landscape fit together.

19. The IIRC report referred to above also highlighted the need to continue to emphasise the importance of longer-term thinking and value creation, reflecting another underlying concern about short-termism, as expressed by bodies such as the G20 and the Organisation for Economic Co-operation and Development (OECD)[10]. As a specific example, a September 2017 report by the Principles for Responsible Investment (PRI) and the UN Global Compact (UNGC)[11] argues that market short-termism is an obstacle to creating a global financial system that supports long-term value creation. We see this as reflecting a need for better disclosure to address issues such as:

    a. the risk that management may prioritise short-term financial targets over aspects of long-term value creation that are not recognised in the financial statements;

    b. the need for broader performance information in order to support the alignment of a company's business model and strategy with longer-term aspects of corporate performance, as well as to address the effects of short-termism in areas such as reducing expenditure on research and development and devising remuneration structures that reward short-term, rather than long-term, performance; and

    c. the risk that investment capital is diverted from those companies pursuing a longer-term strategy in favour of those prioritising short-term earnings.

[10] See, for example, the G20-OECD work on long-term financing website at: http://www.oecd.org/daf/fin/private-pensions/g20-oecd-long-term-financing.htm.

[11] PRI/UNGC (22 Septermber 2017) *Coping, Shifting, Chamging 2.0: Corporate and investor strategies for managing market short-termism*, available at: https://www.unpri.org/news/coping-shifting-changing-pri-ungc-launch-report-on-market-short-termism.

Further analysis: Developments in the consumption of financial and non-financial information

20. Investment analysts have traditionally played a significant role in collating and interpreting financial and operational/non-financial information, filling gaps in the scope and clarity of information provided through formal corporate reporting channels. However, this aspect of the investment chain is subject to change, as illustrated by the introduction of the 2014 Markets in Financial Instruments Directive (MiFID II)[12] in Europe. Amongst other matters, this prohibits the recovery of sell-side research costs through brokerage commissions[13]. Commentators have highlighted a potential tightening of research available to retail investors and smaller funds, and a potential reduction in coverage of mid and smaller cap companies.

21. If the availability of sell-side investment analysis is disrupted, the transmission between the raw company-provided data and the investor may be undermined, leading to a greater focus on the quality and relevance of management commentaries (or equivalent) to fulfil this role.

Use and influence of the MCPS

22. At the March 2017, Board members also questioned the extent of the use and influence of the existing MCPS. The staff have sought to review this.

23. With regard to individual companies explicitly using the MCPS, we have only found three:

    a. HSBC Holdings – which states that: ”The management commentary included in the Strategic Report, the Report of the Directors: ‘Financial

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12 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU European Markets and Financial Instruments Second Directive, effective 2018, available at: https://ec.europa.eu/info/law/markets-financial-instruments-mifid-ii-directive-2014-65-eu/law-details_en.

13 See, for example, Final call for the research a nalyst?: Financial Times, February 7, 2017

Review', together with the 'Employees' and 'Corporate sustainability' sections of 'Corporate Governance' and the 'Directors' Remuneration Report' is presented in compliance" with the MCPS[14];

b. SAP - which states that its combined group management report is a management commentary complying with the MCPS[15]; and

c. KazTransOil – which states that: "The description of the results in the area of the financial and economic activities of the Company is prepared in accordance with the recommendations" of the MCPS[16].

24. Other than that, references to the use of the MCPS only appear to be made in a range of academic papers that take the provisions of the Practice Statement as a benchmark to assess the quality of companies' narrative reporting, even in cases where there are domestic jurisdictional requirements covering the same territory. Appendix B gives details of the papers reviewed to date by the staff. Taken as a whole, the papers reveal what might be regarded as modest levels of compliance with the provisions of the MCPS, but from the staff point of view, the main point to note is the general acceptance in the literature reviewed of the MCPS as the benchmark to use. In that respect, we would highlight the comment made in the 2016 paper by Joshi *et al* that the MCPS "provides an excellent guidance in improving narrative reporting in the management commentary".

25. While the direct use of the MCPS might have been limited, one should not underestimate the influence that the MCPS has had in the development of other frameworks, codes, etc. The details are at Appendix C, with the most notable being:

a. the IIRC's development of the <IR> Framework;

[14] See, for example, HSBC'a Annual Report and Accounts 2016, available via: http://www.hsbc.com/investor-relations/group-results-and-reporting/group-reporting-archive/annual-results-2016-quick-read, Financial Summary, page 30.

[15] See, for example, SAP's Integrated Report 2016 *Impact Through Innovation*, available at: https://www.sap.com/docs/download/investors/2016/sap-2016-integrated-report.pdf, Basis of Presentation on page 4.

[16] See, for example, KazTransOil's Annual Report and Accounts 2016, available at: http://www.kaztransoil.kz/doc/en/1157.pdf, About the Report page 138.

b. the Accounting Standards Committee of Germany (ASCG) in its development of German Accounting Standard (GAS) 20 on the Group Management Report; and

c. the UK Financial Reporting Council (FRC) in its guidance on the Strategic Report.

Discussions with the IFRS Advisory Council, ASAF and IFASS

26. In line with the requirements of the IFRS Foundation's *Due Process Handbook* (DPH) (paragraph 5.6), discussions have been held with the IFRS Advisory Council, ASAF and IFASS. Those discussions have highlighted a range of views expressed, from those in favour of the Board taking no action to calls for the Board to do more than just update the MCPS:

a. a presentation on WCR was made to the IFRS Advisory Council at its meeting in April 2017. At that meeting, the IFRS Advisory Council acknowledged that WCR is becoming more important and that there is a role for the Board; although that role is not yet clear. There was broad support and encouragement for the Board to both undertake further research to obtain more information and to work with another body to consider further the role that the Board can play. The IFRS Advisory Council was, however, clear that the Board should not be writing its own integrated reporting standards[17];

b. a presentation was also made to the July 2017 meeting of the ASAF. At the meeting, ASAF members generally agreed with the staff conclusion that WCR was growing in prominence and importance. ASAF members also generally supported the Board playing a role in this area, although they expressed mixed views as to how far that role should extend beyond the Board's current approach of co-ordination and co-operation with other bodies active in the

[17] As set out in the IFRS Advisory Council Chair's report of the April 2017 meeting, available at: http://www.ifrs.org/-/media/feature/meetings/2017/april/advisory-council/report-ifrs-advisory-council-april-2017.pdf.

WCR arena and in continuing to monitor developments. On the one hand, some members felt the Board should consider the needs of stakeholders other than investors, whilst on the other, some ASAF members took the view that the Board should continue to focus its limited resources on 'narrow' financial reporting and give priority to items in the Research Pipeline rather than expanding its work in this area. A number of other ASAF members felt that the Board could consider thinking about wider reporting issues in the context of developing IFRS Standards (ie not just thinking about the accounting). Some members saw merit in linking work on WCR with other related projects, such as the disclosure initiative[18];

c. WCR was discussed at the IFASS meeting held in September 2017. A range of views was expressed by members, including that the Board would need to 'offer something' in order to progress the area, and that any assessment of the MCPS should be undertaken at a strategic level. Concern was also expressed that the Board should stay within the field of financially relevant information, and should adopt a principles-based approach to the area[19].

Key areas that an update to the MCPS could focus on

27. Staff consider that the research to date is sufficient to form a preliminary view of the priority areas for updating the MCPS. In developing this view, staff have been able to build on:

   a. developments from other narrative reporting initiatives – for example, the focus in Integrated Reporting on business-critical resources and longer-term value creation – that could be incorporated into the MCPS to catch-up and reflect lessons from leading practice. It should be noted that the scope of *other financial information* as discussed above is in practice very close to the

[18] As set out in the Summary Note of the July 2017 ASAF meeting, available at: http://www.ifrs.org/-/media/feature/meetings/2017/july/asaf/asaf-meeting-summary-july-2017.pdf.

[19] The *IASPlus* summary of the discussion can be accessed at: https://www.iasplus.com/en/news/2017/09/ifass

objective of reporting on a company's value creation over time set out in the <IR> Framework. Staff would look to incorporate relevant developments from this and other national reporting frameworks that meet the Board's objectives for the MCPS, whilst – as noted above - emphasising the fit between the 'narrow' financial statements and this other financial information;

b. acknowledged gaps in narrative reporting practice that indicate that the ambition of the MCPS and other developments such as the <IR> Framework is not being met. For example, the IIRC in its recent review has acknowledged the need to revisit its existing guidance on the multiple (six) capitals approach[20]. Other areas include continuing challenges in reporting forward-looking information, inconsistent reporting on business models, and some companies still focusing on the short-term in their reporting on strategy[21]. Stronger guidance, whilst still maintaining the principles-based approach of the original MCPS could help to address this.

28. The staff's more detailed preliminary and illustrative analysis of what could be covered in looking to update the MCPS is provided at Appendix D. In so doing, we have focused on aspects of the existing principles-based approach to support more rigorous application of the principles in practice while avoiding the detail of individual disclosures that would, in our view, be less likely to deliver the most business-relevant information. In overview, the staff consider that the main aspects of the MCPS that would need to be reviewed are as summarised in AP 28B (paragraph 11) for the March 2017 meeting:

a. *Purpose* – the MCPS specifies that the purpose of Management Commentary is to provide a context within which to interpret the financial statements prepared in accordance with IFRS Standards. In contrast, the purpose of an integrated report, for example, is focussed on value creation over the short, medium and long-term. Moreover, as reported in AP 28B,

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[20] See the IIRC report as referenced in footnote 9, in particular page 5 (feedback on Q1 – Multiple Capitals) and pages 17-18 (Proposed Actions – Multiple Capitals).

[21] These and other challenges are highlighted in reports such as PwC (November 2016) *A foot in the past and an eye to the future: The importance of forward-looking information in company reporting* and Black Sun (July 2017) *The Real Drivers of Value: Lost &Found?*

the UK Financial Reporting Council (FRC) has recently consulted on revising its Guidance on the Strategic Report. As part of its proposed amendments, the FRC is placing greater emphasis on the notion of value creation;

b. Emphasis on the *Business Model* – this is an important content element of the <IR> Framework (and some other developments, such as the UK Strategic Report requirements), but is not referred in the MCPS;

c. *Integration* – the <IR> Framework, inevitably, is focussed on integration, connectivity and linkage in reporting, whereas the MCPS has only two passing references to “integrated information”;

d. Explicit reference to the *broader range of resources* that companies depend on for their future performance – i.e. pre-financial information that whilst non-financial in nature, provides insight into a company’s future financial performance and position. The <IR> Framework incorporates this concept as the six capitals (not as a requirement but more as a guideline to ensure that organisations consider all of the capitals they use or affect). In constrast, the MCPS refers in a generic way to resources, risks and relationships. It includes a paragraph on relationships (social and relationship capital in <IR> terminology), with a passing reference to human and intellectual capital resources, but with no specific reference to other issues, notably the environment (natural capital); and

e. *Materiality* – the <IR> Framework contains much more explicit guidance on materiality, including guidance on the materiality determination process. The MCPS would also need to be reviewed to take account of the work the Board has subsequently carried out on materiality in the context of the project on the *Conceptual Framework* and the recent Practice Statement 2 *Making Materiality Judgments* in order to address both when a matter should be reported on and what information should be reported in relation to that matter.

29. As we see it, one of the main challenges, and where the complexity will come in, is in revising and updating the MCPS in a way which results in greater clarity and co-ordination with other developments and in a way that could be used by companies reporting under a range of frameworks (whether it be the <IR> Framework or any other national framework or code).

Criteria for adding a project on WCR to the active research agenda

30. As noted in the Board's *Feedback Statement on the 2015 Agenda Consultation* (the Feedback Statement), when the Board considers when to add a research project from the pipeline to its research programme of active research projects, it will need to consider various factors, including:

    a. the urgency of the problem;

    b. the extent and complexity of the research needed;

    c. the likely time commitment for stakeholders;

    d. the overall balance of the active work plan;

    e. interactions with other current or future projects;

    f. the availability of appropriate staff and sufficient Board time to carry out the research project over an appropriate timescale, without diverting resources from other projects; and

    g. the most efficient time to carry out the work[22].

31. The following paragraphs outline the staff's assessment of each of the above criteria in relation to the proposal to revise and update the MCPS.

The urgency of the problem

[22] See page 33 of the *IASB® Work Plan 2017–2021: Feedback Statement on the 2015 Agenda Consultation* (November 2016), available at: http://www.ifrs.org/-/media/project/2015-agenda-consultation/educational-materials/2016-feedback-statement.pdf?la=en&hash=8E3B5A4747D9FD001427E1275573600075521C0A.

32. Paragraphs 15-19 above set out the problems faced by stakeholders due to the lack of a standardised framework for WCR. Whilst there is a counter-argument that the current myriad of reporting frameworks, standards, goals and codes could be viewed as an example of "healthy" innovation in action, the staff view is that such innovation is only healthy if the all the differing pronouncements seek the same objective. However, as the examples in Appendix A demonstrate, our view is that there is sufficient evidence that the lack of a generally accepted framework, standards or codes is a problem that needs to be sorted. With the continuing growth in the numbers of such pronouncements we believe that the need for some standardisation, or at the very least some guidance that might assist greater standardisation, is urgent. The questions then are whether (a) the Board is the right body to take on this issue, and, if so, (b) whether the Board can produce something that adds clarity and value (even if remaining as a non-mandatory Practice Statement) rather than simply adding to the confusion.

33. On (a), the staff believe that the Board is an appropriate body to look at this issue, reflecting the view taken by the Board when issuing the MCPS in 2010 that MC lies within the boundaries of financial reporting, in particular in the light of the calls highlighted for better alignment and integration between financial reporting and NFR. There is also the fact that – as noted above – we believe that the Board is the most appropriate body to articulate guidance on the fit between 'narrow' reporting in the financial statements and other financial reporting. The growing number of pronouncements in this area shows the level of market and regulatory interest in WCR, and in our view reinforces the importance of the Board playing a role to ensure the continued relevance and integrity of financial reporting within that wider landscape. All of this should help to ensure that (b) in paragraph 32 above is achieved. As Hans Hoogervorst has emphasised at a number of recent conferences and events, any revised MCPS the Board might produce would have to remain non-mandatory, as it cannot overrule the varying requirements, frameworks and standards that already exist.

The extent and complexity of the research needed

34. In our view, a good deal of the underlying research has already been undertaken, as summarised in the initial survey of the WCR landscape presented to the Board in March 2017 (AP 28A for that meeting refers) and the update on developments in AP 28B at this meeting. The research to date has covered the major developments that have taken place since the MCPS was published in December 2010. That said, the literature in this area is extensive and, at a minimum, the staff would still propose to carry out a more comprehensive survey of national regulations and other pronouncements.

The likely time commitment for stakeholders

35. The staff view is that the likely time commitment for stakeholders would be relatively modest, in particular if the first output of a project would be an Exposure Draft (ED) of a revised and updated MCPS, rather than a Discussion Paper (DP), which – without prejudging the issue - the staff believe is feasible.

The overall balance of the active work plan

36. As set out in the Feedback Statement, the Board's Work Plan through to 2021 has been developed on the basis of four key themes, two of which are directly applicable to any project to revise and update the MCPS. Key Theme 2 in the Feedback Statement is *Better Communication in Financial Reporting.* Management commentary is all about better communication and in our view a project to revise and update the MCPS would help underpin the importance of that Key Theme. As noted below, we see the linkage to the Board's project *Disclosure Initiative – Principles of Disclosure* as being of particular relevance.

37. Key Theme 4 of the Work Plan is to have a more focused research programme and for the factors listed above to be considered when examining whether to add a project to the active research agenda. These factors are being considered as part of this paper.

Interactions with other current or future projects

38. The Board is in the process of finalising its update to the *Conceptual Framework for Financial Reporting* and, as noted above, has recently issued a new Practice

Statement *Making Materiality Judgements*. As noted above, the MCPS would need to be updated to take account of both these pronouncements.

39. On the better communication Work Plan theme referred to above, a project to revise and update the MCPS could dovetail neatly with the *Principles of Disclosure* project, in particularly the sections in the Board's March 2017 DP *Disclosure Initiative-Principles of Disclosure* that deal with principles of effective communication (Section 2 of the DP) and location of information (Section 4). The MCPS already includes a section on the principles of what to present in management commentary.

The availability of resources

40. On staff resources, the current work on WCR is being done by a Senior Technical Adviser (0.3 Full-Time Equivalent, FTE) and a seconded Practice Fellow (up to 0.5 FTE). At this stage, until the Board has taken a decision on whether or not it should add a project on the MCPS, the staff are not outlining in detail the resource implications, but our initial view is that having a project to revise and update the MCPS would require an increase in staff resources to at least 2.0 FTE. We believe this would provide sufficient resources for the establishment and servicing of a consultative group on MCPS (which we recommend) and for greater engagement and outreach with a number of key stakeholders and those we would see as important partners on such a project, including the IIRC, the other members of the Corporate Reporting Dialogue (CRD) and the International Organization of Securities Commissions (IOSCO). The staff believe that the Foundation has the capacity to recruit this level of staff resource and that the project can be taken forward without overburdening the Board in terms of its available time and resource.

The most efficient time to carry out the work

41. Given the continuing and increasing importance and prominence of WCR, which has been acknowledged by the Board as well as the Advisory Council and ASAF, the staff believe that now is the most efficient time to carry out the work. Staff believe that a number of recent important developments (as summarised in AP 28B) add weight to this view, including:

a. the recent review by the IIRC of its <IR> Framework;

b. the publication in June 2017 of the final report and recommendations of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD); and

c. the consultation by the UK FRC to revise and update its guidance on the Strategic Report.

Due Process Handbook requirements

42. The DPH notes (in paragraph 6.39) that the Board may produce non-mandatory practice guidance "if it considers that doing so would improve financial reporting". In producing such guidance, the Board "follows the same procedures used for the development of a Standard".

43. The DPH sets out (in paragraph 5.4) the criteria for the Board to consider when determining whether to add an item to its agenda for a new Standard or a major amendment (we would view a project to revise and update the MCPS as a "major amendment"). These are as follows:

    a. whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports;

    b. the importance of the matter to those who use financial reports;

    c. the types of entities likely to be affected by any proposals, including whether the matter is more prevalent in some jurisdictions than others; and

    d. how pervasive or acute a particular financial reporting issue is likely to be for entities.

Is there a deficiency in this aspect of financial reporting?

44. The staff view is that the myriad of WCR frameworks, standards, goals and codes and the challenges that this brings means that there is a deficiency in this aspect of financial reporting that needs to be addressed.

The importance of the matter to users of financial reports

45. AP 28A for the March 2017 meeting demonstrated the growing importance for investors of companies reporting on a wider range of issues. AP 28B for this meeting reflects latest developments, including the continuing growth of signatories to the PRI and the September 2017 statement made by 12 institutional investors in support of Integrated Reporting, including the following:

    "We recognise that businesses are under continuing regulatory pressure both in reporting to investors and others, and we support clarity and conciseness in reporting. Nevertheless, better reporting and effective communication of how the business works in the long-term, through Integrated Reporting or other approaches, is valued by us and is important in how we allocate capital"[23].

The types of entities likely to be affected

46. This affects all entities, in particular those whose securities are listed on capital markets.

How pervasive or acute is this issue?

47. As Hans made clear in his speech at the Accountancy Europe corporate reporting conference in September 2017, the Board's awareness of the limitations of financial reporting in the narrow sense was one of the reasons that it issued the MCPS in 2010. Management commentary is pervasive in that it provides additional contextual information that is useful for decision-making to all stakeholders, not just investors. The MCPS encourages management to report on the nature of the business, on its objectives and strategies, critical financial and non-financial resources, principal strategic, commercial, operational and financial risks, performance indicators and information about the company's prospects.

Staff recommendation

[23] IIRC (26 September 2017) *Investors support Integrated Reporting as a route to better understanding of performance*, available at: http://integratedreporting.org/wp-content/uploads/2017/09/Investor-statement_FinalS..pdf. See page 3.

48. On the basis of the above analysis, and taking into account our views summarised in paragraph 14 above, the staff recommendation is that the Board should agree to add a project to its agenda to revise and update the MCPS.

49. If the Board agrees with the staff recommendation, then we see the next steps as being to discuss this with ASAF (which next meets in December 2017) and the IFRS Advisory Council (which next meets in February 2018), not least given the range of views expressed as outlined in paragraph 26 above. In addition, there should be a discussion with the Trustees (whose first meeting in 2018 will be held in January), whose duties include "consideration, but not determination, of the Board's agenda" (IFRS Foundation *Constitution*, paragraph 15(d)).

Questions for the Board

1. **Involvement in Wider Corporate Reporting** – does the Board agree that the Foundation's interest in Wider Corporate Reporting should be limited to the provision of other financial reporting (using the outline as provided in paragraph 8 above as a starting point) to meet the needs of existing and potential investors, lenders and other creditors, as defined in the *Conceptual Framework*?

2. **MCPS project proposal**—does the Board agree with the staff recommendation that the Board should take on a project to revise and update the MCPS? If yes, are there any aspects of the above that Board members would like the staff to focus on in particular, or any aspects that you feel that have not been covered and should be? If no, is there anything else that you feel that the Board should be doing in the WCR arena?

Appendix A

EXAMPLES OF REPORTS REFERRING TO WHAT ARE THE ISSUES AND PROBLEMS WITH THE LACK OF STANDARDISATON IN WIDER CORPORATE REPORTING

A1. Institute of Chartered Accountants in England and Wales (ICAEW) (December 2009) – Developments in New Reporting Models (Information for Better Markets Initiative)
Available at: https://www.icaew.com/-/media/corporate/files/technical/financial-reporting/information-for-better-markets/ifbm/developments-in-new-reporting-models.ashx.

This report looks at calls for a new model in relation to both financial and non-financial reporting, and identifies underlying features of the development of business reporting.

Among other things, the report notes that although "there is now a mass of non-financial reporting by companies, it does not follow any single model" (Report, page 30). The authors note that may be no bad thing, but state that:

"While we are sceptical of the value of detailed general models for non-financial reporting, high-level principles may well be useful. In our view it is sensible to have high-level disclosure principles – such as requirements to disclose any information that would likely have a significant effect on the share price. It may also be sensible to have slightly more specific but still high-level guidance, such as in the IASB's *Management Commentary* proposals, or high-level rules such as the EU's requirement, which consists of a few sentences, for companies to prepare a business review." (Report, page 33).

A2. Eccles, R and Krzus, M (2010) – One Report: Integrated Reporting for a Sustainable Strategy (Wiley)

"Unlike financial information based on accounting standards, which ensure at least some degree of comparability across companies and over time, few standards exist for the measurement and reporting of nonfinancial information, making such comparisons difficult." (Book, page 81).

"One of the biggest barriers cited by the investment community to incorporating nonfinancial information into their fundamental analysis is the lack of standards…Here we only want to make two points. First, it would be a mistake to set these standards in isolation from those for financial reporting. Let us be clear. We are not suggesting that standards for nonfinancial information end up as part of U.S. GAAP or IFRS, although some may in time. What we *are* suggesting is that for there to be a paradigm shift to integrated reporting, we also need for there to be a paradigm shift in how measurement, reporting and assurance standards are developed…Our second point is that a process needs to be developed that will quickly lead to a convergence in standards for nonfinancial information, a process that must move more quickly than the convergence initiative between the FASB and the IASB". (Book, page 216).

A3. Eccles, R,; Serafeim, G.; Krzus, M. (Fall 2011) – Market Interest in Nonfinancial Information (Journal of Applied Corporate Finance, Vol.23, Issue 4, pps.113-127)
Available at: http://onlinelibrary.wiley.com/doi/10.1111/j.1745-6622.2011.00357.x/full.

In this paper, the authors examine the growing market interest in non-financial information. Using data from Bloomberg, they analyse the interest in both the categories of non-financial information and across asset classes and firm types.

But they note that: "One barrier to widespread acceptance and use of nonfinancial information by investors and other stakeholders is the lack of a generally accepted information framework and reporting standards. Standards would bring consistency to reporting and permit comparison of company performance, at least within sectors. In addition, a standard would provide a benchmark against which reports could be assessed and assurance could be provided." (Paper, page 116).

"Since 2008, at least 18 organizations have issued frameworks and guidance for reporting nonfinancial information. This proliferation of guidance raises another issue. The large number of frameworks creates a perception of "competing frameworks" and causes confusion in the marketplace about framework a company should use." (Paper, page 116).

A4. United Nations Environmental Programme (UNEP) (September 2015) – Financial Reform, Institutional Investors and Sustainable Development: A review of current policy initiatives and proposals for further progress (Inquiry into the Design of a Sustainable Financial System Working Paper 15/07)
Available at: http://unepinquiry.org/wp-content/uploads/2015/04/Financial_Reform_Institutional_Investors_and_Sustainable_Development.pdf.

This paper explores the wide range of regulations and other policy and market-based interventions that have emerged in recent years with the objective of strengthening the congruence between institutional investors and the goals of sustainable development.

"Investors operating globally need reliable, comparable information on the level of exposure that companies face and their responsiveness to sustainability risks. Yet corporate sustainability disclosure remains inconsistent and fragmented across markets. The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) should adopt harmonized standards for corporate reporting on material sustainability issues, drawing on the work of bodies such as the International Integrated Reporting Council (IIRC)." (Report, page 7).

"Information on the exposure and response of companies and other assets to sustainable development issues is essential if investors are to price risks and opportunities appropriately. The profusion of voluntary sustainability reporting initiatives and the patchwork of inconsistent and uncoordinated regulatory interventions have not delivered the flow of reliable, comparable information that would allow investors to maximize the congruence financial and sustainability development goals…Governments, securities regulators, accounting standard-setters and international organizations including IOSCO can play a vital part in accelerating progress by working with investors to identify the most effective ways to secure this information flow for all types of assets – equities, bonds and private market asset classes." (Report, page 43).

A5. Federation of European Accountants (FEE) (October 2015) – The Future of Corporate Reporting – creating the dynamics for change (Cogito Series)
Available at: https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-_TheFutureofCorporateReporting.pdf.

This paper surveys developments in corporate reporting and identifies that the audience for such reporting is continually growing and diversifying and it is envisioned that, at some point, corporate reporting needs to properly address the needs of this ever wider audience – potentially being society at large. The paper suggests some ideas for debate and focuses on those areas that the authors believe are likely to drive future developments in corporate reporting. It explores different ways of addressing the main challenges in these areas in order to stimulate discussion among different constituents.

"It is confusing for stakeholders that there is no universal nonfinancial information reporting framework yet…Regarding the content of NFI (Non-Financial Information), currently there are no international standards or guidance that can be applied across the board. While NFI reporting is still at an early stage, the debate on its content needs to start, as well as on how any requirement should be introduced, i.e. through international standards applicable across the board, industry practices and guidelines, or through legal requirements as applied in the EU. Some believe that the IASB, as an already well-established international standard setter, should expand its scope to include some aspects of NFI reporting despite the challenges that come with this proposal, such as competencies, resources, and dilution of focus on financial reporting." (Paper, page 49).

"Furthermore, international convergence to the fullest extent possible in terms of standard setting and practices could provide better guidance on how to communicate NFI to constituents. Having a single reporting framework would promote consistency among preparers and give users access to comparable information across different entities and even across different industries. Having said that, prescribing rules would not increase comparability. On the contrary, it impairs the usefulness of information if the sole purpose of the reporting framework is compliance with a predetermined set of rules, and therefore it is believed that a principles-based framework would best enable comparable information." (Paper, page 49)

"Finally the main challenge is that, today, different organisations are developing different standards or frameworks and are claiming ownership of different areas of NFI, which only adds to the complexity of the problem. Decisive leadership is needed to establish an international standard setter for NFI reporting." (Paper, page 50).

A6. Deloitte/MVO Nederland (November? 2015) – Integrated Reporting as a driver for Integrated Thinking? Maturity of <IR> in the Netherlands 2015
Available at: https://www2.deloitte.com/content/dam/Deloitte/nl/Documents/risk/deloitte-nl-risk-integrated-reporting-a-driver-for-integrated-thinking.pdf.

This report is one of an annual series that looks at the maturity of <IR> among a sample of Dutch companies, most of whom are listed on the Amsterdam Stock Exchange.

"The many different reporting frameworks and ranking schemes are not encouraging the use of yet another framework. For many companies, the landscape is unfortunately confusing. Royal BAM Group responds by stating, *"It is a valid question to ask whether making <IR> mandatory does indeed help to improve the quality of integrated reports. (Too many) guidelines can also make you lose focus."*" (Report, page 43).

A7. Caldecott, B,; Kruitwagen, L.; Dericks, G.; Tulloch, D.; Kok, I.; Mitchell, J. (January 2016) – Stranded Assets and Thermal Coal: An analysis of environmental-related risk exposure (Oxford University Smith of Enterprise and the Environment)
Available at: http://www.smithschool.ox.ac.uk/research-programmes/stranded-assets/satc.pdf.

The authors state that the principal aim of this report is to turn the latest research on environment-related risk factors facing thermal coal assets into actionable investment hypotheses for investors.

Section 9 of the report identifies some implications for disclosure and reporting. In that section, the authors comment that: "As accounting standards have become more globally aligned under the International Financial Reporting Standards, an opportunity has emerged to align accounting standards with sustainability risk disclosure. Organisations like the Sustainability Accounting Standards Board and the Climate Disclosure Standards Board (CDSB) are helping to align sustainability reporting with financial rigor. The challenge for investors remains that the multitude of standards produces insufficient 'decision-ready' information, and preparing and interpreting the reporting is burdensome for both companies and investors." (Report, page 150).

A8. KPMG (April 2016) – Room for Improvement: The KPMG Survey of Business Reporting, second edition
Available at: https://home.kpmg.com/xx/en/home/insights/2016/04/kpmg-survey-business-reporting-second-edition.html.

This report presents the main findings from KPMG's global analysis of the content of the annual reports of 270 larger listed companies.

"Capital markets rely on relevant information presented clearly and accurately, so that the clarity and usefulness of corporate reports have an important role in ensuring they function efficiently and help support a healthy economy. Our view is that financial reporting plays a central role in this communication, but it cannot present a complete picture of business performance and prospects on its own…Addressing this will require something greater than merely tweaking financial reporting standards; indeed, this could undermine their conceptual integrity. Instead, the answer lies in the presentation of a broader range of business-focused information that addresses the operational performance of the company, allowing investors to form their own assessments of business prospects." (Report, page 3).

A9. Institute of Chartered Accountants of Scotland (ICAS) (May 2016) – What is Performance? An ICAS discussion paper and call for research
Available at: https://www.icas.com/__data/assets/pdf_file/0004/243967/ICAS-What-is-performance.pdf.

This Discussion Paper (DP) addresses the concept of corporate performance and how it is reported, raising questions for debate and future research. Among the questions raised are whether corporate performance can be improved to better reflect a holistic rather than financial view of performance, and whether financial and non-financial performance measures can and should be encapsulated in the corporate report.

"There seems to be growing support for the idea that..[a]…more holistic view of an entity's activities is relevant to assessing its performance (particularly in the context of thinking about the viability or longevity of its business model). But the various elements are still rather disparate and lacking consistency. Without a recognised framework such as IFRS, there is a lack of clarity as to the process for recording, measuring and presenting these non-financial items." (DP, pages 9-10).

"Whilst the information currently provided is useful in terms of providing context about an entity and its financial results, it could be argued that this 'non-financial' information could be linked more directly and robustly to financial performance. This information should certainly be relevant for investors, particularly as they may have a financial impact in the future, and therefore an impact on the value of the business." (DP, page 10).

In terms of who defines performance, the authors note that: "As investors and other stakeholders use such a variety of sources to assess an entity's performance, it would be difficult to identify a single party to be responsible for defining it.

However, the lack of consistency in 'non-financial' reporting seems to be a natural consequence of the sheer number of international and national bodies issuing guidance on a wide range of topics in this area. The result is that no single global body has jurisdiction for non-financial reporting, in the way that the IASB has for financial reporting, and no single body has jurisdiction for corporate reporting overall.

Whilst in many ways a market-led solution, without the requirement for mandatory guidance, is desirable, the involvement of so many different groupings with different perspectives creates a risk that the debate does not progress, and that the two strands of financial and non-financial reporting diverge further." (DP, page 10).

A10. Unruh, G.; Kiron, D.; Kruschwitz, N.; Reeves, M.; Rubel, H.; and zum Felde, A. (May 2016) – Investing for a Sustainable Future (MIT Sloan Management Review)
Available at: http://sloanreview.mit.edu/projects/investing-for-a-sustainable-future/.

This report sets out the results of a global survey of managers about corporate sustainability conducted by the MIT Sloan Management Review, in partnership with The Boston Consulting Group (BCG). The survey response set included 7,011 respondents from 113 countries, although the report is based on a smaller subsample of 3,057 respondents from commercial enterprises (579 of whom self-identified as investors).

"…the sheer number of reporting frameworks and sustainability indices that now exist is raising questions about whether the time and resources spent filling out sustainability questionnaires is worth the corporate effort and cost. Fifty thousand companies are annually subject to ESG evaluations by 150 ratings systems on approximately 10,000 performance metrics. The diversity of organizations and systems, ratings, and metrics has led many sustainability managers to the verge of "survey fatigue"…The materiality movement – an effort to promote corporate reporting that integrates both financial and nonfinancial material issues – is driving efforts to focus and simplify matters." (Report, page 11).

A11. ACCA/Climate Disclosure Standards Board (CDSB) (May 2016) - Mapping the sustainability reporting landscape: Lost in the right direction

Available at:
http://www.accaglobal.com/content/dam/ACCA_Global/Technical/sus/ACCA_CDSB%20Mapping%20the%20sustainability%20landscape_Lost%20in%20the%20right%20direction.pdf.

This report explores the changing corporate sustainability reporting landscape, outlines its components, addresses current challenges and proposes development opportunities.

"In practice, however, and in the absence of a universally accepted approach to categorising all the components of the landscape, reporting organisations do not necessarily see order. They see confusion that results in the receipt of multiple requests for information about the same subject matter from multiple sources. This leads to duplication of effort, increased administrative burdens and uncertainty about what should be reported, how and to whom. Organisations find it hard to map the relationships between requirement developers or to understand what the multiplicity of reporting requirements is designed to achieve. Users of information complain that corporate reports containing 'immaterial clutter' that obscures important information about the organisation's performance." (Report, page 26).

"In the same way that financial reporting approaches have been standardised as IFRS through the work of the IASB, we believe that an equivalent mechanism should be identified for the development of international sustainability reporting standards that are designed to support sustainability reporting through mainstream channels. The standards would explain what and how information should be reported to complement financial statements, in order to inform a more complete assessment of corporate performance." (Report, page 40).

A12. Blackrock (June 2016) - Viewpoint - Exploring ESG: A Practitioner's Perspective (June 2016)

Available at: https://www.blackrock.com/corporate/en-gb/literature/whitepaper/viewpoint-exploring-esg-a-practitioners-perspective-june-2016.pdf.

"There is a need for comprehensive, standardized, and comparable data to accurately measure how companies are managing relevant ESG issues. We note that although setting international reporting standards can be a generations-long process, the results can be meaningful and lasting for the investment industry. For example, efforts to drive convergence of international accounting standards that first arose in the late 1950s involved numerous standard-setting bodies that continue to this day. However, now, if an investor wants to compare the financial performance of, for example, the telecom companies in Singapore, the US and Spain, they can rely on a set of those widely understood international accounting standards. This is not the case if they want to compare the carbon dependency, employee turnover levels, or the number of independent directors of those companies. Accordingly, it is necessary to coordinate and consolidate a standardized ESG factor reporting framework." (Paper, page 8).

"Consistent, comparable, high quality data and information are key to ensure sound decision-making by investors, companies, regulators, and policy makers. To that end, we recommend that policy makers:

1. Encourage standard ESG factor disclosure by companies within a consistent global reporting framework (e.g. comparable to international accounting standards). ESG reporting should be relevant to operational and financial performance and their management to achieve long-term financial sustainability." (Paper, page 9).

A13. UN Conference on Trade and Development (UNCTAD) Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) (August 2016) - Enhancing the role of reporting in attaining the Sustainable Development Goals: Integration of environmental, social and governance information into company reporting.
Available at: http://unctad.org/meetings/en/SessionalDocuments/ciiisard78_en.pdf.

"The increasing diversity of sustainability reporting requirements, the volumes of reported information and their lack of comparability and reliability pose significant difficulties to both users and preparers of such reports" (Paper, page 4).

The UNCTAD secretariat also believes that there is a need for consistent integration of sustainability information into a reporting cycle and consistency of sustainability and SDGs-related reporting with existing financial reporting frameworks.

A14. PwC (August 2016) – It's not just about the financials: The widening variety of factors used in investment decision making
Available at: https://www.pwc.com/gx/en/services/audit-assurance/assets/the-widening-variety-of-factors-used-in-investment-decision-making-pwc.pdf.

This report sets out what was said in a number of interviews that PwC held with investment professionals. One of the interviews was conducted with Will Oulton, Head of Responsible Investment at First State Investments. Among the comments made by Will Oulton is the following:

"The challenger with the ESG information is that there is no internationally accepted standardisation. That makes it difficult to compare, but also difficult to assure. I think there will be an emerging field of extra financial performance assurance in the future, but I don't think we are anywhere near that point today. A regulatory framework for reporting standards is perhaps the part that is missing." (Report, page 17).

A15. International Federation of Accountants (IFAC) (January 2017) – Enhancing Organizational Reporting: Integrated Reporting Key (IFAC Policy Position 8)

Available at: https://www.ifac.org/system/files/publications/files/PPP8-Enhancing-Organizational-Reporting-Jan-2017.pdf.

This Policy Position paper (building on an earlier version issued in October 2013) sets out IFAC's strong support for the IIRC and the <IR> Framework and believe that integrated reporting is the way to achieve more (a) coherent corporate reporting system.

In the paper, IFAC notes the growing number of differing requirements and frameworks: "While these other organizational reporting frameworks are not as developed as financial reporting, there is a risk that having numerous frameworks, whether they are topic or country focused, will potentially present significant problems in coming years, especially for organizations that operate across borders and in numerous jurisdictions. It potentially diminishes the ability of stakeholders to make proper assessments and resource allocation decisions about multinational organizations, and creates potential regulatory arbitrage opportunities when such reporting is mandated." (Paper, page 5).

"Consequently, IFAC considers it vital that regulators, standard setters, and others involved in the development of reporting frameworks recognize and promote not just the need for enhancing organizational reporting but also the need for globally consistent and convergent practices and arrangements. The challenges associated with convergence of financial reporting arrangements in the last decade provide a sound reason for all parties to aim for a consensus, or at least the identification of the relationships and consistency between the different frameworks, at the earliest possible time…Having one globally-accepted framework also helps provide the basis for a more coherent corporate reporting system." (Paper, page 6).

"In some jurisdictions, there is the potential to apply integrated reporting to existing regulatory arrangements for management commentary." (Paper, page 6).

A16. Business and Sustainable Development Commission (BSDC) (January 2017) - Better Business, Better World

Available at: http://report.businesscommission.org/.

The BSDC believes that sustainability is good business for companies and that the reporting of ESG performance to stakeholders is important. The BSDC believes that the current profusion of frameworks for such reporting is a "headache for investors" (Report, page 71) and would like to see agreed standards for measuring sustainability performance equivalent to international accounting standards. (Report, page 70).

A17. Big Innovation Centre (February 2017) – The Purposeful Company – Policy Report

Available at: http://biginnovationcentre.com/media/uploads/pdf/TPC_Policy%20Report.pdf.

Launched in September 2011, the Big Innovation Centre (BIC) is a UK hub of companies and organisations, thought leaders, universities and 'what works' open innovators. The BIC convened The Purposeful Company Task Force in 2015, comprising some FTSE companies, investment houses, business schools, business consultancy firms and policy makers. It has been examining how the governance and capital markets environment in the UK could be enhanced to support the development of value generating companies, acting with purpose to the long-term benefit of all stakeholders.

“Traditional methods of reporting are now no longer enough for many leading companies if they are effectively to communicate their strategic intent and value to key stakeholders. In 1975, when the principles of modern corporate accounting were established, physical and financially accountable assets were the primary balance sheet components. In the past 30 years, tangible assets have reduced to comprise less than 50% of the true value of the average company, reflecting the new importance of knowledge, IP and data in company business models. Against the backdrop of these fundamental shifts in value creation, the IFRS has focused extensively on global standardisation but failed to address the changing shape of value. The absence of a pro-active intervention has resulted in multiple confusing initiatives in company law, sustainability reporting and strategic reporting. This has left many long-term investors with a series of proxies but little trusted information beyond the financial information. However, investors still rely on this value as a proxy for total value, driving increasingly short term behaviour. Investors, stakeholders and companies need a common language to articulate how both tangible and intangible assets are being used to create value.” (Report, page 34).

A18. Amel-Zadeh, A.; Serafeim, G. (February 2017) – Why and How Investors Use ESG information: Evidence from a Global Survey
Available from: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2925310.

The authors use data from a survey of a sample of senior investment professionals (413 responses used in the analysis) from mainstream investment organisations to provide insights into why and how investors use ESG information. The primary reason survey respondents consider ESG information in investment decisions is because they consider it financially material to investment performance.

One key finding relates to barriers in ESG data integration in the investment decision process. Citing the qualitative characteristics of comparability, timeliness and reliability of financial information identified in both US GAAP and IFRS Standards, the authors note that: “The biggest challenge to using ESG information for investment decision making relates to the lack of comparability of reported information across firms. Respondents identify the lack of reporting standards as a major source inhibiting the comparability of reporting information.” (Paper, page 5).

A19. UNEP (February 2017) – A Review of International Financial Standards As They Relate to Sustainable Development (Inquiry into the Design of a Sustainable Financial System)
Available at: http://unepinquiry.org/wp-content/uploads/2017/02/A_Review_of_International_Financial_Standards_as_They_Relate_to_Sustainable_Development.pdf.

This report examines how the international financial standards currently relate to the goals of sustainable development and explores opportunities for better alignment as a way to promote greater stability, resilience and fairness to the financial system. The report focuses on the 15 sets of international standards (including IFRS Standards) that are widely adopted and referenced by major bodies such as the Financial Stability Board (FSB) and the International Monetary Fund (IMF) and regulators across the developed and developing world.

Among the key messages of the report are that financial standards have a significant impact on achieving sustainable development, but that those standards currently relate to sustainable development issues in a fragmented way (Report, pages 4-5).

The report notes that sustainability issues are not explicitly referenced within the IFRS Standards or within the Board's proposed revised *Conceptual Framework*, despite the Board's "apparent" support and cooperation with the IIRC and the growing momentum across the accounting profession. "This lack of standardization on environmental and social issues has resulted in the emergence of a range of sustainability reporting groups to close the existing information gap, potentially resulting in confusion about what should be measured and reported and what might be material, likely resulting in higher reporting and price discovery costs and lower efficiency". (Report, page 55).

Among the possible actions recommended are for the Board to consider: (1) "IASB-backed guidance for the preparation of corporate reporting in relation to the treatment of sustainability metrics and the SDGs"; and (2) to continue to work with other agencies to develop, agree and endorse a 'minimum' best practice disclosure requirement on industry specific sustainability information (including guidance on metrics and narrative). (Report, pages 61-62).

A20. EY (March 2017) – Is your nonfinancial performance revealing the true value of your business to investors?
Available at: http://www.ey.com/gl/en/services/assurance/climate-change-and-sustainability-services/ey-nonfinancial-performance-may-influence-investors.

This paper reports on the results of a survey of 320 institutional investors carried out in 2016 by EY and Institutional Investor (II). The survey sought to gather insights into investors' views on non-financial reporting and the role that ESG analysis plays in their investment decision-making. The survey was the 3rd in a series (previous surveys having been conducted in 2013 and 2015).

"The majority of investors surveyed are disappointed by today's disclosures. They often believe disclosures aren't adequately linked to material risks and opportunities, they don't reflect the full value of businesses, or clearly articulate environmental and social challenges and that reporting would benefit from being more integrated." (Report, page 1).

"Amid the growing appreciation for ESG information, there appears to be a troubling dissatisfaction among investors with the quality of information available from issuers. In years past, one third or fewer said they didn't use nonfinancial information because it was often of poor quality. Now, as investors come to see nonfinancial information as increasingly material, they reveal still higher expectations for it being timely, comparable and verifiable.

When asked about why they wouldn't consider ESG issues in their decision-making, 42% of respondents in 2016 indicated that nonfinancial information is often inconsistent, unavailable or not verified, up from 32% in 2015 and 20% in 2013. Similarly, a growing plurality of respondents say nonfinancial measurements are seldom available for comparison with those of other companies, which garnered a 42% response in the 2016 survey, up from 16% in 2015 and 20% in 2013." (Report, page 7).

A21. Eccles, R and Kastrapeli, M (March 2017) – The Investing Enlightenment: How Principle and Pragmatism Can Create Sustainable Value through ESG (State Street)
Available at:
http://www.statestreet.com/content/dam/statestreet/documents/Articles/The_Investing_Enlightenment.pdf.

This paper reports the findings of a global survey of 582 institutional investors, evenly split between asset owners and asset managers and equity and fixed income, all of whom were or were planning to practice some type of ESG investing, and 750 retail investors, including some who were not practicing ESG investing.

"Investors rely on a wide range of high-quality financial data to make their investment decisions. However, our research shows that the primary barrier to ESG integration is the lack of standardized, high-quality ESG data to incorporate in their investment decision-making process…Over 80% of respondents agree or strongly agree that there is a lack of standards around ESG integration." (Report, page 13).

"Even if a company is producing a sustainability report – and more and more are doing so – it's difficult for investors to find hard numbers on what ESG issues the company regards as important for shareholders versus stakeholders. Towards that end, a remarkable 92% of investors want companies to identify and report on the material ESG issues they believe affect financial performance." (Report, page 14).

A22. Accountancy Europe (28 March 2017) – Follow-up Paper: The Future of Corporate Reporting – creating the dynamics for change (Cogito series)
Available at: https://www.accountancyeurope.eu/wp-content/uploads/170322-Publication-Follow-up-paper-on-FoCR.pdf.

The paper follows-up an earlier (2015) paper (see FEE entry above) in the Cogito series on the future of corporate reporting. It notes that the 2015 paper, among other things "notes the proliferation of disclosure frameworks around non-financial information and calls for decisive leadership to develop a global principles-based framework." (Paper, page 1).

The Executive Summary notes that respondents to the 2015 paper and attendees at events held to discuss it emphasised that: "it is of the utmost importance that one party (or parties) take(s) firm ownership of a global principles-based non-financial information reporting framework to ensure a certain level of quality and discipline in non-financial information reporting." (Paper, page 2).

"This framework would ensure a certain level of quality and discipline in reporting non-financial information, which are already present today in the case of financial information reporting…The principles underpinning this non-financial information framework should be comparable to those currently existing regarding financial reporting." (Paper, page 5).

"In the discussion we had on non-financial information, the proliferation of disclosure frameworks and initiatives around non-financial information were highlighted as a concern. As such, we aim to support the coordination of the different initiatives to ultimately result in a single global principles-based non-financial information reporting framework, which takes the interconnectivity with financial information into account." (Paper, page 7).

A23. ACCA (13 April 2017) – Insights into Integrated Reporting: Challenges and best practice responses

Available at: http://www.accaglobal.com/content/dam/ACCA_Global/Technical/integrate/pi-insights-into-ir.pdf.

This paper reports the results of a review carried out by the ACCA with the IIRC of 41 corporate reports, covering accounting periods up to 31 March 2016, of participants in the IIRC's <IR> Business Network.

Among the challenges noted was the following: "Financial information must be reported in accordance with generally accepted accounting standards, and for larger entities is generally audited in accordance with international auditing standards. Companies are aware that the non-financial or pre-financial, information they include in an integrated report should be subject to similar levels of rigour if investors are to see it as useful. However, non-financial reporting is not yet mature. There remains a lack of coherence among the many non-financial reporting frameworks and standards that exist, and the widely recognised mechanisms that provide assurance over financial information are yet to emerge in non-financial reporting." (Paper, page 29).

A24. ACCA (29 April 2017) – Response to the IIRC's <IR> Framework Implementation Feedback – Invitation to Comment

Available at: http://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2017/april/ir-framework-implementation-feedback.html.

"ACCA would recommend that the IIRC seek stakeholder feedback on the role that integrated reporting should play within the reporting landscape. While the IIRC talk of the integrated report as an 'umbrella' report, the approach to integrated reporting is still fragmented…in ACCA's view, it is important for the IIRC not just to align <IR> with existing financial and non-financial reporting frameworks, the IIRC must more proactively cooperate with other standard-setters to achieve coherence in reporting." (Response, page 14).

"In addition, ACCA would encourage the IIRC to seek to cooperate not just with other non-financial reporting frameworks, but also with financial reporting standard-setters. 'Better communication' is a theme in the IASB's current work plan: the IASB's work streams, including the Disclosure Initiative and digital reporting, address issues relating to the quality and usefulness of reporting which the Framework also shares…Closer dialogues between the IIRC and the IASB will help to identify links between financial reporting and reporting on a broader range of capitals, and inform the technical outputs on integrated reporting." (Response, pages 14-15).

A25. Eumedion (April 2017) – Response to the IIRC's International <IR> Framework Implementation Feedback – Invitation to Comment
Available at: https://eumedion.nl/en/public/knowledgenetwork/consultations/2017/2017-04-response-to-iirc-consultation-integrated-reporting.pdf.

Eumedion state that: "We are in favour of organisations applying the Framework to the management commentary of the statutory annual report: Issuing a separate integrated report, as suggested by Framework paragraph 1.15, reduces the connectivity with the financial statements, also from an audit perspective. Having both a stand-alone integrated report and a management report in the statutory annual report significantly increases the duplication of information, which generally is not helpful for investors." (Response, page 2). But Eumedion also suggest that publishing a stand-alone integrated report should remain an option.

"The better the Framework can be applied to the management commentary as a whole, the more reports will be meeting all the requirements in the Framework". (Response, page 4).

A26. Institute of Chartered Accountants in England and Wales (ICAEW) (12 June 2017) – What's next for corporate reporting: Time to decide?
Available at: http://www.icaew.com/-/media/corporate/files/technical/financial-reporting/information-for-better-markets/whats-next-for-corporate-reporting.ashx.

This report takes stock of where corporate reporting stands at present and identifies the key decisions that the authors believe need to be taken before a step change in the quality and usefulness of reports can be achieved, with particular reference to non-financial reporting. The report captures some of the main features discussed with key stakeholders and includes a number of issues that enjoyed substantial support (in a number of sections titled 'What we heard').

One issue and challenge covered in the report related to the lack of standardisation of guidelines etc in relation to non-financial reporting and differing views on that. One view expressed is that this is a "necessary confusion in the evolution of ideas" and that "policymakers should actively promote experimentation". (Report, page 11).

"A contrary and common view expressed contrary and common view expressed about the confusion caused by the current and growing diversity of guidelines, frameworks, ideas and initiatives was that it is likely to undermine the usefulness and credibility of non-financial reporting. Proponents of this view recognised that there was little realistic possibility of a single reporting model emerging to provide a detailed blueprint for all non-financial reporting, accepting that the information that different businesses disclose is simply too diverse to be captured by such a model. They advocated instead the development of a new principles-based framework to provide direction on non-financial reporting. Such a framework would be used as a basis for a common language and consistent measurement bases, with perhaps detailed practical guidance on a sector-by-sector basis on common KPIs and their link to strategy and performance. The example of material produced by the Sustainability Accounting Standards Board (SASB) was referred to.

It was suggested that for companies choosing to publish, for example, employee survey results, a single method could be agreed for measuring employee satisfaction and how to best disclose the results to the user. This, it was felt, would represent a leap forward in non-financial reporting, providing guidance for the preparer on measurement and disclosure and improving comparability for users. It would draw on existing frameworks where appropriate and could perhaps also provide a template for the possible future development of non-financial reporting standards.

What we heard: 'The updating and effective promotion of the IASB's guidance on management commentary might be a key catalyst for improvement in non-financial reporting.'

Those advocating such an approach went on to argue that this proposal should encompass all forms of non-financial reporting and would necessitate the creation of an authoritative, independent, internationally-recognised umbrella body, supported by relevant organisations in each jurisdiction, to coordinate activities globally and help cement a common viewpoint on the desired direction of travel.

The International Organization of Securities Commissions (IOSCO) or the IFRS Foundation were seen as well placed to oversee the establishment and operation of this over-arching international body. It was recognised that this initiative would require continuous dialogue between preparers, investors, regulators and other stakeholders in the coming years. A role for the Corporate Reporting Dialogue convened by the IIRC was suggested." (Report, page 11).

"***What we heard: 'Reporting of intangibles is a key constraint on corporate reporting and raises questions about comparability and continued relevance. The inconsistent accounting treatment of intangibles needs to be looked at again. The IASB and other policy makers need to advance thinking and practice in this area, and sooner rather than later.'***

The view that we should look at incorporating fully the existing difference between market value and the present balance sheet net asset value of companies by recognising all those intangible factors was a minority one. Others suggested that, with far-reaching changes to IFRS unlikely, the focus should be firmly on ensuring that listed companies in the UK and internationally better address this gap through their front-half reporting, by providing clear, consistent and relevant information to investors seeking alternative means of understanding how the business creates value over time. It was noted that ICAEW's March 2017 letter had also called for the FRC 'to consider the wider debate surrounding the reporting of intangible assets, including better use of the front-half of the annual report and the use of narratives to describe expenditure on assets that are not recognised in the balance sheet'.

What we heard: 'The objective for the next few years should be to improve understanding about how value is created by the business and to highlight good disclosure practice, encouraging businesses to follow that practice in disclosing their drivers of value alongside the financial statements.'" (Report, page 12).

A27. Economist Intelligence Unit (EIU) – The Road to Action: Financial Regulation Addressing Climate Change
Available at: https://perspectives.eiu.com/financial-services/road-action-financial-regulation-addressing-climate-change.

This report reviews the issues relating to climate-related financial disclosure and investigates the mandates of ten different international, EU and UK financial institutions, all with very different focuses and mandates, to consider what role they play, or could play, in supporting climate-related financial risk reporting. The Board is not one of the ten institutions reviewed, but the report does mention the Board as having a potential role to play.

Among the report's key findings are the following:

"**Of the more than 400 disclosure standards currently in operation, almost all are voluntary and non-financial in nature.** Existing climate disclosure standards are fragmented, and none requires disclosure of the financial impacts of climate change. This may change, depending on the adoption of the TCFD's recommendations by businesses and by supervisory and standard-setting institutions.

There remains a lack of international consensus on what constitutes a material climate risk, particularly at the sector, subsector and asset-class level. Reporting on materiality is therefore ambiguous and unregulated. Without agreed international standards on materiality, there are opportunities for arbitrage.

Internationally accepted, integrated accounting standards which incorporate climate change-related risks would reduce investor and financial stability risks." (Report, page 4).

A28. EU High-Level Expert Group on Sustainable Finance (July 2017) – Financing a Sustainable European Economy (Interim Report)
Available at: https://ec.europa.eu/info/publications/170713-sustainable-finance-report_en.

The European Commission believes that a re-engineering of the financial system is necessary for it to become truly sustainable from an economic, social and environmental perspective. To develop the overall vision of sustainable finance that this requires, the Commission established a High-Level Expert Group (HLEG) to ensure that its approach to sustainable finance is ambitious and at the forefront of innovation. The Group's Interim Report sets out a set of recommendations for action as a basis for discussion. The Group plans to issue its final report in December 2017.

One section (III.7) of the report deals with accounting frameworks (Report, pages 28-30). The HLEG believes that:

“**Better integration of sustainability into accounting standards is critical.** Information about sustainability is increasingly relevant in the decisions of investors, lenders and managers. Integrating it will be essential to help them make proper investment decisions. There are two dimensions to this integration: one is whether standards should require a proper reflection of sustainability risks in accounting valuations; the other is whether standards should require more disclosure of relevant non-financial information on sustainability. With some exceptions, information on sustainability is not yet subject to the same standardisation and assurance of rigour as financial information, even though leading firms are starting to include such data in their reporting and have its quality assured.

While there are numerous initiatives on sustainability reporting, the ultimate ambition has to be the convergence of financial and sustainability information, supported by a more comprehensive set of accounting standards. Integrated reporting supports this convergence qualitatively through reporting that links sustainability factors with firms’ strategy. Accounting standards can help advance the quantitative element.

The IASB has partnered with the International Integrated Reporting Council (IIRC) and issued a Management Statement akin to an Integrated Report of financial and non-financial information. (note - this is an error, which has been pointed out to the HLEG.) Accounting for Sustainability (A4S), a CFO-network, has issued a guide to accounting for human capital. To make further progress in the convergence of financial and non-financial reporting, the European Commission could invite the European Financial Reporting Advisory Group (EFRAG) formally to ask the IIRC to work on how sustainability factors can be captured in dedicated accounting standards, in addition to those for financial reporting.” (Report, pages 28-29).

The HLEG questions whether certain IFRS Standards create barriers to long-term sustainable finance in certain sectors, such as energy and insurance, given requirements for ‘mark-to-market’ valuations and asks that further research be conducted on this.

In terms of recommendations, the report highlights the HLEG’s views on what might be done with regard to accounting frameworks as follows:

“Accounting frameworks have an important impact on investment decisions. There is a need to assess how to integrate sustainability more effectively into accounting standards and to ensure that they do not prevent the pursuit of sustainability and long-term investment. Ways to achieve such adjustments might include:

- An invitation from the Commission to the European Financial Reporting Advisory Group (EFRAG) to set up a working group with a mandate to review how sustainability factors are currently factored into accounting standards and how they could be further captured.
- The Commission could examine the impact of accounting standards on sectors such as energy, banking and insurance and how accounting standards affect their ability to lend long-term and invest sustainably across a range of equity instruments as well as infrastructure.
- A request from the Commission to EFRAG to examine how to foster integrated reporting, as well as the integration of financial and non-financial/sustainability issues into firms’ narrative reporting.” (Report, page 61).

A29. Accountancy Europe (18 September 2017) – Call for Action: Enhance the Coordination of Non-Financial Information Initiatives and Frameworks/Cogito Paper: Core and More: An opportunity for smarter corporate reporting

Call for Action available at: https://www.accountancyeurope.eu/wp-content/uploads/170918-Call-for-action-letter.pdf.

Cogito Paper available at: https://www.accountancyeurope.eu/wp-content/uploads/170918-Publication-Core-More.pdf.

In the *Call for Action*, Accountancy Europe observes the significant proliferation of initiatives and frameworks around non-financial information reporting, which makes it challenging for those involved to cope with this topic. Accountancy Europe calls for decisive leadership to achieve greater standardisation, and to eventually develop a robust global principles-based reporting framework. Part of the call seeks action from the Board:

"The IASB is a globally recognised standard setter which had credibility in capital markets around the globe resulting from high quality deliverables, strong governance, and a clear mandate. A more prominent role in broader corporate reporting would allow the IASB to stay at the forefront of corporate reporting developments and to maintain the relevance of its Standards. We therefore encourage the IASB to play a more active role in wider corporate reporting, as they are currently contemplating. A revision and update of the IFRS Practice Statement *Management Commentary*, reflecting recent evolutions, could in our view be a positive step in this direction".

This call on the Board is replicated in the Cogito paper, which also states that: "It would be valuable if regulators would express their support or would provide a mandate to the IASB, the Corporate Reporting Dialogue, or other bodies to develop a global corporate reporting framework" (Paper, page 11).

The **conclusions** of the event were published on 25 October 2017[24]. The conclusions include the following call to the Board:

"The IASB does currently not feel equipped to put the non-financial information reporting on its agenda. But if the IASB does not take this forward, who will? Feedback from the event indicated that stakeholders felt that the IASB was perhaps too prudent in its approach towards the corporate reporting agenda".

[24] Available at: https://www.accountancyeurope.eu/wp-content/uploads/170918-FoCR-event-Conclusions.pdf?_cldee=ZGxvd2V0aEBpZnJzLm9yZw%3d%3d&recipientid=contact-f96dd213b160e7118100c4346bad02e8-f17dca7c8acb43798c3726758ed71a63&utm_source=ClickDimensions&utm_medium=email&utm_campaign=170918%20-%20%E2%80%98Shaping%20the%20future%20of%20corporate%20reporting%E2%80%99%20-%20FoCR%20event&esid=cf84cbe7-67b5-e711-8&urlid=0.

A30. Australian Accounting Standards Board (AASB) Forum (10 October 2017) – The Future of Financial Reporting

Summary and presentation available at: http://www.aasb.gov.au/News/AASB-past-events/AASB-Forum-featuring-IASB-Chair-Hans-Hoogervorst.aspx.

This forum including a presentation by Hans Hoogervorst and a panel session that explored the future of financial reporting. During the forum, the audience at the forum was polled on a number of questions, including one on whether the Board should update its "management discussion and analysis" guidance (ie the MCPS). In response, 76% said yes.

Appendix B

ACADEMIC PAPERS ON THE USE OF THE MCPS

B1. Mertens, G; Meliefste, S; Blij, I (October 2011) – Transparency of Management Commentary: An empiral study of annual reports concerning economic analysis and strategy related information based on IFRS Statement: Management Commentary (Netherlands Institute of Chartered Accountants, NBA)

Available at: https://www.nba.nl/globalassets/over-de-nba/english/publications/transparency-of-management-commentary-okt2011.pdf.

This report provides a detailed descriptive analysis of the reporting practices on the subject of company strategy and economic analysis. The study focuses on the disclosures provided by a sample of 73 companies listed on the Euronext Amsterdam Stock Exchange (with an almost even mix between large, medium and small cap companies). Companies' disclosures were benchmarked against the Board's Practice Statement Management Commentary (MCPS). The MCPS was used because, as the authors state, it "provides the most comprehensive overviews of strategy related disclosures items and was specifically developed to enhance companies' (narrative) reporting practices" (report, page 17). This was in contrast to the more limited guidance and requirements provided in domestic pronouncements such the Dutch Corporate Governance Code, Civil Code and in Dutch Accounting Standard 400.

The results set out in the report reveal great diversity on strategy reporting in the Netherlands, with no one company providing all the relevant information items (Arcadia NV came closest, with 94%, against an average score of 72% for the sample as a whole). Reporting on economic analysis revealed higher disclosure scores, with all companies presenting a discussion and analysis of their financial position and 97% of their results in the annual report. The quality of those disclosures was scored on a 5-point Likert scale (with 5 being the maximum), revealing an average rating of 2.7.

The report also looked at disclosures as to whether the profit measures disclosed in the MC differed from those in the financial statements. In around 85% of cases the applied figure in the MC reconciled with the financial statements. Where there was a difference, only 55% of the companies provided a reconciliation between the figures in the MC and those in the financial statements.

The report (page 10) also notes that in 2010, the NBA "pleaded for the development of a framework of standards for non-financial information reporting. The main purpose of this framework is to enhance the integration of non-financial information into the overall reporting of organisations".

B2. Chatterjee, B; Tooley, S; Fatseas, V; and Brown, A (2011) – An Analysis of the Qualitative Characteristics of Management Commentary Reporting by New Zealand Companies (Australian Accounting, Business and Finance Journal, Vol.5, No.4, pps.43-64)

Available at: http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1247&context=aabfj.

This paper explores whether the required qualitative characteristics of MC as set out in the Board's 2005 Discussion Paper (DP) Management Commentary have been satisfied in the MC section of the annual reports of New Zealand companies. The DP proposed that MC should possess the qualitative characteristics of understandability, relevance, supportability, balance and comparability. The authors used the annual reports of a sample of 35 companies covering the five-year period 2002-06 and devised a scoring system based on four of the five qualitative characteristics set out in the DP (understandability was not investigated on the grounds that it is a broad concept involving some level of subjectivity), which were taken to be the requirements of the principal stakeholders, ie investors.

The authors found that the qualitative characteristics of relevance and supportability were satisfied in more annual reports than that of balance and comparability. In particular, the authors noted that – in relation to balance - the reports over-emphasised 'good news' in all the years with 'bad news' being sparingly reported (page 54). The authors also found a lack of comparable financial information in the MC sections.

B3. Menicucci, E (April 2013) – The Determinants of Forward-Looking Information in Management Commentary: Evidence from Italian Listed Companies (International Business Research, Vol.6, No.5, pps.30-44)

Available at: http://www.ccsenet.org/journal/index.php/ibr/article/viewFile/26653/16319.

The aim of this paper is to assess the level of forward-looking information in the MCs of Italian listed companies and to empirically explore the company characteristics that may affect the extent of forward-looking information disclosed. The study examined the MCs of the top 40 quoted companies included in the FTSE-MIB Index for the year 2010, all of which applied the Board's Standards in their financial statements. The year 2010 was chosen principally because it was the first year for which entities might apply the Board's MCPS.

The study devised a Disclosure Index by building a checklist of disclosure items from the MCPS, organised in four categories: (1) the nature of the business; (2) objectives and strategies; (3) resources, risks and relationships; and (4) results and prospects. The results revealed significant differences in disclosure across the companies in the sample and across the categories, with companies disclosing more about the nature of their business than in other three categories. Overall, the disclosure levels in all four categories were described as "low" (page 37), which the author states was "most likely" (page 37) related to the fact that such providing such disclosures was voluntary. The study also found that, of the company characteristics (profitability, firm size and leverage), profitability was the only determinant of forward-looking information.

B4. Macchioni, R; Sannino, G; Ginesti, G; and Drago, C (September 2013) – Firms' disclosure compliance with IASB's Management Commentary framework: an empirical investigation (Munich Personal RePEc Archive Paper No.59380)
Available at: https://mpra.ub.uni-muenchen.de/59380.

The aim of this study is to analyse the information in the MC sections for a sample of 65 non-financial companies listed on the Italian Stock Exchange at the end of 2010 (ie the first year in relation to which the MCPS could be applied). To undertake the analysis, the authors constructed an index of disclosure compliance using a self-constructed checklist designed on the MCPS. The authors also used a regression model to assess the relationship between the index of disclosure compliance and company characteristics.

The results suggested that company size and ownership diffusion were positively related to the extent of disclosure compliance with the MCPS, but that leverage and profitability were found to be unrelated to the index of disclosure compliance. The results also showed that the level of disclosure compliance with the MCPS "is low, ranging from 10% to 76%, averaging 39%" (Abstract, page 1), although the authors noted that "the low level of compliance could be due to the limited time elapsed from the release of IASB's MC guidelines and the publication of the firm's annual report for the fiscal year 2010" (page 17).

An earlier paper summarising the results of the study (albeit referring to a sample of 66, rather than 65, non-financial Italian companies) was published in March 2013. See **Ginesti, G; Macchioni, R; Sannino, G; and Spano, M (March 2013) – The Impact of International Accounting Standards Board (IASB)'s Guidelines for Preparing Management Commentary (MC)** (Journal of Modern Accounting and Auditing, Vol.9, No.3, pps.305-320).

Available at:
http://www.davidpublishing.com/davidpublishing/Upfile/4/23/2013/2013042373813465.pdf.

B5. Carini, C; Veneziani, M; Bendotti, G; Teodori, C (January 2014) – A Possible Narrative Section Harmonisation? The Role of the Practice Statement Management Commentary (Journal of Modern Accounting and Auditing, Vol.10, No.1, pps 1-19)
Available at: www.davidpublishing.com/DownLoad/?id=15458.

The aim of this paper is to analyse the level of disclosure provided with reference to the MCPS. The authors selected a sample of the annual reports of 40 companies, split evenly between Italy and the UK. The analysis was performed on the reports for 2008, which was the year prior to the publication of the Exposure Draft (ED) of the MCPS. The authors chose 2008 in order to (1) take account of the application of a number of EU Directives, including the EU Modernisation Directive (2003/51/EU) and its requirements for management discussion; (2) a view that analysing the year before publication of the ED might avoid bias due to adaptation of the information to the guideline indications; and (3) content analysis of the 2008 narrative section might help to evaluate the usefulness of the MC project in terms of meeting users' information needs.

The authors examined which themes were dealt with most extensively by the companies and which required greater attention to ensure that the narrative sections of their reports were at least consistent with the MCPS. On this, the authors found that the aspects dealt with the least were linked to two central themes in the MCPS: objectives and strategies, and performance measures.

The authors also sought to address the issue of the usefulness of the MCPS for companies in the presence of other forms of regulation (the EU Directives) and in the light of companies' behaviours in the period prior to the introduction of the MCPS. On this aspect, the authors concluded that the MCPS should be "evaluated as a further stimulus towards those aspects (i.e., objectives, strategies, performance measures, non-financial resources, intangibles) which are central for ensuring an adequate understanding of the company dynamics and future potential and in the wider strategy of effective communication towards the users of the financial report. For the information categories already adequately represented in the narrative section, in the light of the mix of behaviour identified, the Practice Statement could take on a central role in limiting the variability of behaviour and raising the mean quality of disclosure" (paper, page 17).

B6. Pisano, S; and Alvino, F (June 2015) – New European Union's Requirements and IFRS Practice Statement "Management Commentary": Does MD&A Disclosure Quality Affect Analysts' Forecasts? (Journal of Modern Accounting and Auditing, Vol.11, No.6, pps.283-301)
Available at: http://www.davidpublisher.com/Public/uploads/Contribute/55c42af343360.pdf.

The aim of this paper is to examine the relationship between Management Discussion and Analysis (MD&A) disclosure quality and properties of analysts' forecasts. To assess the quality of MD&A disclosures, the authors developed a multidimensional measure on the basis of the MD&A requirements set out in the EU Accounts Modernisation Directive (2003/51/EC, Article 46) and the Board's MCPS. The authors then regressed this variable on both forecast accuracy and dispersion. The findings show that the authors' measure of MD&A disclosure quality is "significantly and positively related to forecast accuracy" (page 283).

The authors conducted their analysis on a sample of 59 Italian non-financial listed companies for the years 2008 and 2009. The years were chosen to come after the implementation of the requirements of Directive 2003/51/EC, but they do predate the finalisation of the MCPS. That said, the authors stated that "it seems that the elements suggested by the IFRS Practice Statement to discuss in the MD&A are very similar to those required by Art.46" (page 286).

Among their conclusions, the authors noted that: "our finding that MD&A is an important determinant of the accuracy of analysts' forecasts suggests that the interest of both the EU and the IASB in MD&A is not misguided and needs to be increased" (page 299).

B7. Garefalakis, A; Dimitras, A; Floros, C; and Lemonakis, C (July 2016) – How Narrative Reporting changed the Business World: Providing a new measurement tool (Corporate Ownership and Control, Vol.13, No.4; pps.317-334)
Available at:
https://www.researchgate.net/publication/303851235_How_Narrative_Reporting_changed_the_Business_World_Providing_a_new_measurement_tool.

In this paper, the authors note that research on the quality of the narrative portion of the annual report has long been hampered by a lack of tools that permit an objective analysis of qualitative disclosure. The authors claim that this study is the first piece of accounting disclosure quality research which proposes a comprehensive index that uses Key Performance Indicators (KPIs) to enhance understanding of the quality of narrative information disclosure in a very important transitional period of 2002 to 2007, during which time there were what the authors label as the "Worst Corporate Accounting Scandals of all times".

To assess disclosure quality, the authors analysed the narrative reporting of 524 of the largest companies in Western and Northern Europe and the USA. They did so by developing a Management Commentary Index (Ma.Co.I), using the MCPS as a benchmark, with 37 constituent disclosure points within the five elements of MC set out in the MCPS (paragraph 24), from which they identified 70 KPIs.

The authors report that their results show that after the adoption of IFRS, the level of narrative disclosure compliance with the MCPS is medium, ranging from 8% to 75%, averaging 53% and this shows that there is much room for improvement with respect to the financial statements. What the authors do not mention is that the period chosen for analysis (2002-07) predates the publication of the MCPS. Despite the continued demand for better comparability in financial reporting practices, the authors conclude that in their sample, a large number of firms do not seem to converge toward a single set of standards for both the narrative and financial disclosure. On the other hand, the region forced to comply with mandatory requirements (e.g., the US) does not provide a greater amount of disclosure information in their narrative reporting than the regions that are not required to comply with these disclosure guidelines (e.g., Western Europe and Northern Europe).

B8. Garefalakis, A; and Dimitras, A (September 2016) – The Contribution of Management Commentary Index (Ma.Co.I) in Annual Banking Reports (ABR) and the Chronicle of the Great Greek Crisis (Theoretical Economics Letters, 6, pps.1060-1087)
Available at: http://www.scirp.org/journal/PaperInformation.aspx?paperID=70821.

This paper explores the extent to which the implementation of IFRS Standards in the Greek banking sector has affected its financial and narrative reporting between the periods prior (2002-2004) and after (2005-2010) the implementation of IFRS. In particular, the authors examined the relationship between Price per Share (P), Earnings per Share (EPS) and Book Value per Share (BV) using data from 11 commercial banks listed on the Athens Stock Exchange. The authors found a positive relationship between P, EPS and BV after the first period of IFRS adoption (ie 2005-2007).

The authors also studied the change in the narrative reporting quality of the Greek banks along with the key financial indicators trends between the two periods. The authors also investigated the disclosure quality of narrative information in annual reports for the period after the Greek financial crisis (ie 2008-2010) and assessed the relationship between the key financial indicators and MC. To do this, the authors employed the Management Commentary Index (Ma.Co.I), referred to in the Garefalakis et al July 2016 paper above, using the MCPS as the benchmark. The authors found that the MCs of the banks sampled were "considerably improved" (page 1060) over the period 2005-2007 (which, of course, was before the MCPS was finalised). The authors also observed a positive impact on the key financial indicators.

B9. Joshi, P.I.; Ling, L.C.; Yin, I.W.; and Deshmukh, A (2016) – Disclosure choices, corporate characteristics and compliance with IFRS Practice Statement Management Commentary: an empirical study of Malaysian listed companies (Global Business and Economics Review, Vol.18, No.6, pps 679-703)

Available (for purchase) at: http://www.inderscience.com/info/inarticle.php?artid=79411.

The purpose of this study is to investigate the extent to which the Management Commentary section in the annual reports of listed companies in the Bursa Malaysia fulfils the provisions of the Practice Statement Management Commentary. Using a sample of 100 largest companies, the authors constructed a disclosure index from the annual reports, and used multiple regression to analyse data. The results indicate that the compliance with the Practice Statement is low as the compliance levels range from the low of 22% to the high of 67% with an average disclosure of 47.4%. The compliance pattern suggests that most firms, on average, place greater emphasis on disclosures regarding the internal workings of the firm but less so on the external factors and influences. The authors also report that firm profitability, institutional ownership, age of the firm, and consumer industry are the main determinants of Management Commentary disclosures in the Malaysian context.

That said, the authors also state that: "The practice statement issued by the IFRS (sic) provides an excellent guidance in improving narrative reporting in management commentary" (page 698).

Appendix C

EXAMPLES OF THE INFLUENCE OF THE MCPS

C1. International Integrated Reporting Committee (IIRC) (September 2011) – Towards Integrated Reporting: Communicating Value in the 21st Century (Discussion Paper)

Available at: http://integratedreporting.org/wp-content/uploads/2011/09/IR-Discussion-Paper-2011_spreads.pdf.

This Discussion Paper (DP) considered the rationale behind the move towards Integrated Reporting (<IR>), offered initial proposals for the development of an International <IR> Framework and outlined the next steps towards its creation and adoption. In the section *Building on Developments to Date* (DP, page 7), the Board's Practice Statement *Management Commentary* (MCPS) is listed as one of those specific developments (with the then convergence agenda between the Board and the US Financial Accounting Standards Board being another).

C2. Climate Disclosure Standards Board (CDSB) (October 2012) - Climate Change Reporting Framework: Advancing and aligning disclosure of climate change-related information in mainstream reports (Edition 1.1)

Available at: http://www.cdsb.net/sites/cdsbnet/files/cdsb_climate_change_reporting_framework_edition_1.1.pdf.

The CDSB's *Framework* used the MCPS as an important reference source. As noted in footnote 7 of the *Framework* document, the CDSB noted that, in so far as the principles of management commentary are relevant to its development, the *Framework* relies on the MCPS. A number of other footnotes in the *Framework* provide specific references to paragraphs in the MCPS.

C3. Accounting Standards Committee of Germany (ASCG) (4 December 2012) – German Accounting Standard No.20 (GAS 20): Group Management Report

Available (for purchase) via: https://www.drsc.de/en/pronouncements/.

GAS 20 governs management reporting for all parent entities that are required by German law to prepare a group management report in accordance with the German Commercial Code or do so voluntarily. In the Basis for Conclusions accompanying GAS 20, the ASCG stated that it was "pursuing its objective of building on the practical experience gained in the application of the GASs governing group management reporting" (previous standards GAS 5 and GAS 15), "as well as international trends (such as the IFRS PS MC issued by the IASB) and reflecting them in GAS 20". (Basis, paragraph B2, page 51).

C4. Malaysian Accounting Standards Board (MASB) (28 February 2013) – Statement of Principles 3: Management Commentary – A framework for presentation
Available at:
http://www.masb.org.my/pdf.php?pdf=SOP3_28February2013.pdf&file_path=pdf.

The MASB's Statement of Principles (SOP) 3 reproduces the MCPS. SOP 3, like the MCPS, is designed to complement the Malaysian Financial Reporting Standards (MFRS) and FRS Frameworks, although it is not part of those Frameworks. In its announcement on the publication of SOP 3, the MASB noted that an entity is encouraged to comply with the requirements in this SOP.

C5. Australian Securities and Investments Commission (ASIC) (March 2013) – Regulatory Guide (RG) 247: Effective disclosure in an operating and financial review
Available at: http://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-247-effective-disclosure-in-an-operating-and-financial-review/.

RG 247 sets out ASIC's guidance for directors on providing useful and meaningful information to shareholders or unit holders when preparing an operating and financial review (OFR) in a directors' report. RG 247 is set within the context of the legal and regulatory situation in Australia, but notes (in RG 247.36) that: "Other guidance may also be relevant in providing information to assist an entity in fulfilling the OFR requirements. For example, a discussion about an entity's operations and financial position may benefit from consideration of the *Guide to review of operations and financial condition*, issued by the Group of 100 Incorporated in 2003, and IASB's IFRS practice statement *Management commentary*, available from the AASB's website".

C6. UK Financial Reporting Council (FRC) (June 2014) – Guidance on the Strategic Report
Available at: https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Guidance-on-the-Strategic-Report.pdf.

Appendix II of the document (The Accounting Council's advice to the FRC to issue *Guidance on the Strategic Report*) notes, in paragraph 6, that: "The *Guidance on the Strategic Report* is also broadly consistent with the guidance in the International Accounting Standards Board's (IASB) IFRS Practice Statement *Management Commentary*".

C7. CFA Institute (14 July 2015) – Response to FEE Discussion Paper: Future of Corporate Reporting
Available at: https://www.accountancyeurope.eu/wp-content/uploads/24_CFA_Institute_Comment_Letter_to_FEE-_14th_July.pdf.

"Management's commentary in the corporate reports is also of great importance as it can contextualize the financial statement information. These discussions may well include non-financial information including ESG metrics. ESG information is certainly important and integral to the analysis of long-term value creation of companies. Nevertheless, management commentary should first and foremost focus on providing insight on a company's trading over the reported period, market developments, risks, progress of the business plan or strategy and the trading outlook.” (Response, page 7).

C8. International Corporate Governance Network (ICGN) (December 2015) – Guidance on Integrated Business Reporting

Available at:
https://www.icgn.org/sites/default/files/Integrated%20Business%20Reporting.pdf.

The aim of the Guidance is to emphasise the importance of companies providing a holistic account of how they create and sustain value by bringing together information that is not normally disclosed in the financial statements.

The Guidance includes the following: “Disclosure should be strengthened by independent assurance that is carried out having regard to established disclosure standards applicable to non-financial business reporting, such as the IASB’s Practice Statement on Management Commentary.” (Guidance, 2.7, page 13).

C9. Association of Chartered Certified Accountants (ACCA) (August 2016) – Factors affecting preparers’ and auditors’ judgements about materiality and conciseness in Integrated Reporting

Available at: http://www.accaglobal.com/content/dam/ACCA_Global/Technical/integrate/pi-materiality-conciseness-ir-.pdf.

In this paper, the authors note that: “For many companies, the process of issuing or developing an integrated report has occurred over time, usually involving management and staff throughout the company and reflecting the influence of a large number of reporting frameworks.” (Paper, page 24). The MCPS is referred to specifically as one of the frameworks influencing the evolution of <IR>.

Appendix D

ILLUSTRATIVE VIEWS ON THE ASPECTS OF THE MCPS FOR REVIEW

This Appendix presents Staff's illustrative views on the main areas that development of the MCPS would need to address.

Higher level areas:

Area	***Why is change needed?***	***How could change be approached?***
Update and clarify the purpose of the management commentary (MC)	To help address common deficiencies in current narrative reporting practice by clarifying and updating the purpose of MC.	• **Build on the current MC purpose (*context for the financial statements)* by emphasising the role of the MC in addressing the 'pre-financial' factors that are expected to be relevant to future periods' financial statements** The staff view is that the purpose of MC could be clarified and enhanced to make clear that MC should focus on reporting matters relevant to an understanding of a company's strategy in order to provide clearer direction on what to include in a management commentary, in order to meet the needs of the primary users, and explain how the company seeks to generate value over the short, medium and long term.
	To support a longer term view of strategy / corporate sustainability by incorporating Integrated Reporting's (<IR's>) focus on the management of key business resources.	• **Emphasise the role of key resources, risks, and relationships in providing a longer term view of strategy** Staff believe a stronger focus on explaining longer term aspects of strategy and value creation over time could be supported by greater emphasis on the company's resources and relationships (the 'six capitals' in <IR> terminology).
User focus	To support an increased focus by preparers on meeting the information	• **Maintain the investor focus of the MC whilst acknowledging its relevance to other users**

	needs of investors. (Whilst recognising the potential relevance to other stakeholders).	The staff view is that the Board would want to maintain the focus on investors whilst acknowledging the relevance of MC to other users. This would enable report preparers to focus on applying the MCPS principles to the needs of a single audience, whilst acknowledging that the matters covered in an investor-focused report would be of interest to other stakeholders. Additional stakeholder-specific information could be provided outside the annual report as part of the wider reporting suite (as set out in, for example, the 'CORE and MORE' concept proposed by Accountancy Europe).
Materiality	To reflect developments in the Materiality Practice Statement, and to support its consistent application in a management commentary.	• **Build on the Materiality practice statement, including to provide specific guidance based on relevance to an understanding of future prospects** The text in the MCPS would need to be reviewed to reflect the publication in September 2017 of Practice Statement 2 *Making Materiality Judgements* and to support its consistent application in a management commentary. Staff would also examine materiality information produced by other organisations (such as the Corporate Reporting Dialogue's Statement of Common Principles of Materiality). Whilst the application of materiality to narrative reports is sometimes considered problematic (due to subjectivity), staff highlight that this might be addressed by emphasising the relevance of a matter to assessing the value of long term future cash flows and stewardship thereof. Staff also consider that it may be desirable to emphasise that disclosure of a matter outside of the management commentary (for example through investor presentations) does not render its disclosure immaterial for the MC

Linkage principle / Business focus	To incorporate the linkage principle used in integrated reporting / UK strategic reports as a means for building a concise, business-focused report using a principles based framework.	• **Emphasise the role of linkage in building the MC around the specific circumstances of the business, rather than by prescribing specific subject matter disclosures.** The staff view is that consideration could be given to make linkage explicit as a principle for developing content in MC. A *linkage* principle could provide a basis for developing report content by requiring content elements in each part of the report to address matters raised in other content elements. This could be achieved by emphasising the role of linkage in building report content across the report chain. In this way the linkage concept could support a completeness test for matters covered in the report. Staff highlight that this approach to determining report content contrasts with the more detailed, industry level approach adopted by SASB and the subject-matter focus of GRI and others. *(Note: linkage is sometimes referred to as 'connectivity' – e.g. in <IR> terminology).*
Forward looking information	To enhance the value of forward-looking financial information (where provided).	• **Maintain existing approach to forward-looking financial information, but with greater emphasis on explaining assumptions if provided.** The staff view is that the emphasis on forward-looking information is appropriate, but that the provision of such information by companies in their narrative reporting remains one of the most challenging areas. Staff note that there are practical issues in mandating prospective financial information in certain jurisdictions. However, where this information is provided, its value could be enhanced if it is supplemented by analysis of supporting assumptions, and variances to past forecasts. The DRSC's GAS20 provides a potential model for addressing this.

	To ensure preparers place more focus on providing historical information that has forward looking value.	• **Emphasise role of past performance information that is relevant to an assessment of future prospects.** Whilst the MCPS already requires historical non-financial and financial performance information, clarification over the roles of different types of information (e.g. the distinction between leading and lagging indicators of performance) could help preparers enhance the relevance of information provided in the MC.
Principles	To address common challenges in applying narrative reporting principles.	• **Introduce ‘balance’ as a principle.** The staff view is that the principles as stated remain appropriate, but could be reviewed to see if reference to other principles would also be appropriate. For example, should there be a reference to ‘balance’ as a principle? Looking at developments elsewhere, GAS 20 is one example that requires the separate presentation of both ‘positive and negative aspects’, and that their presentation ‘may not be presented from a biased perspective’; and the <IR> Framework refers to the inclusion of ‘all material matters, both positive and negative, in a balanced way’. • **Address tension between relevance and comparability** The staff view is that the management perspective remains paramount, but are aware that there can be tensions between focusing on the disclosure of information that is relevant to an assessment of the strategic circumstances of the business as against comparability with sector reporting practice (given that comparability is listed in paragraph 20 of the existing MCPS as a qualitative characteristic of MC).

Specific Content Areas

Business model description completeness	To make explicit the role of the business model in defining content in all aspects of MC.	• **Clarify the basis for determining the components of the business model to be reported on.** Staff consider that applying the resources concept to the business model description could ensure those resources essential to the long term health of the business are not omitted from the discussion of strategy and performance. This might be supplemented by identifying key categories of resource that would ordinarily need to be addressed. Further, encouragement could be given for business model elements that have different characteristics to be described separately, whilst focus may be enhanced by emphasising the relevance of processes important to the generation, preservation, or capture of value • **Clarify the basis for determining the descriptive content for each business model element.** Focusing on relevance to an understanding of business-critical dependencies and competitive advantage could provide a basis for determining the features that need to be described for each element of the business model. Characteristics and scale of key asset / relationship groups could be encouraged to be provided in sufficient detail so that their relative importance to the value of the business can be assessed.
Strategy	Incorporate the strategic focus of other reporting developments (I*ntegrated Reporting*, *Strategic Report*), recognising that additional detail is	• **Support broader strategy discussions by emphasising matters relevant to the short, medium, and long term** In the staff view, any review of the MCPS could examine whether it should explicitly encourage the discussion on strategy to cover matters relevant to the

	needed to address common disclosure gaps.	short, medium, and long term, as well as emphasising the importance of linkage in that strategy discussion. Staff anticipate that more complete strategy discussions could be supported by defining short/medium/long term aspects of strategy in relation to their role in an assessment of shareholder value, and emphasising the role of strategy in providing insights into future prospects. Further, the role of key business resources could be made explicit as a basis for explaining the entity's strategy for sustaining the long-term commercial health of the business.
Performance – Non-Financial	To recognise the range of uses non-financial performance measures should address in order to meet capital markets' decision needs.	• **Build on the principles-based approach to determining performance disclosures by specifying the reporting objectives that quantitative information needs to address** Staff consider that the focus and relevance of quantitative information could be improved by identifying the different aspects of performance that should be reported on, for example by referring to *leading indicators* (progress in implementing strategy; operational performance outcomes), *current indicators* (indicators of current base-line performance); and *lagging indicators* (commercial drivers of historical financial performance). In addition, the completeness of quantitative information could be addressed by encouraging performance in relation to each aspect of the business model and strategy to be addressed, and consideration of indicators or analysis used by the board or in investor engagement when determining what performance indicators to disclose. Other areas that might be considered would include analysis of variance to forecast / target performance where previously published, and quantification (but not impact) of trends and factors affecting performance where relevant

Performance Measures	To address the wide range of different information types and sources applicable to a management commentary by providing a principles-based basis for presentation (i.e. without prescribing subject-matter specific disclosures)	• **Provide a set of principles for reporting different types of performance measure staff based on the revised Conceptual Framework for Financial Reporting.** Staff highlight a number of information types that would need to be considered to support a principles-based approach to the presentation of performance measures, including system-based data analysis (for example a company may report on customer churn); non-system generated data (such as revenue per square foot); market-based analysis (such as market share data); survey-based data (such as net promoter score); estimates (such as the potential impact of commodity price changes).
Performance - Financial	The current MCPS provides limited guidance on the role of management commentary in explaining the financial statements.	• **Extend guidance on the use of adjustments to GAAP financial information in MC.** The staff view is that emphasising the application of key MC principles (including balance) to Non-GAAP Financial Information disclosures may be desirable, considering recent developments relating to the use of such information in MC. For example, this could include calling for tabular reconciliations and cross-referencing, and economic justification for adjustments in the context of business strategy, also, basis of calculation / estimates and any related consequential adjustments. This might extend to the use of analysed financial statement balances in MC.
Risks, resources & relationships	Address diversity in interpretation over what constitutes a significant risk for disclosure and support a stronger connection to business strategy in the description of risks.	• **Clarify the focus for risk disclosures** The staff view is that the MCPS could better emphasise the role of key resources, risks and relationships in providing a longer term view of strategy. Key areas that could enhance the relevance and focus of risk disclosures in particular include (i) supporting a longer-term perspective – for example, by

		elevating resources to a key principle; (ii) supporting a more outward focus – for example by introducing a business environment heading to capture external trends and factors; and (iii) clarifying what constitutes a principal risk in the context of enterprise value. This might be enhanced by emphasising the broad categories of risk that may be relevant (risk to business model operation, risk to strategy implementation etc.) A stronger focus on explaining longer term aspects of strategy would need to be supported by greater emphasis on the company's resources and relationships (as reflected in other frameworks and codes, for example the 'six capitals' in <IR> terminology). • **Enhance the relevance of the risk discussion by addressing practical implications of matters raised** Consider risk follow-through – i.e. linkage between risk discussion and business model, performance, and governance, and risk mitigation and monitoring.
Other content elements		• **Link to governance discussion** Leave governance disclosures out of scope, but link to governance and other wider reporting package discussion where relevant.