IFRS

STAFF PAPER

November 2018

IASB® meeting

Project	**Management Commentary**
Paper topic	The objective of management commentary

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Purpose of this paper

1. This paper presents the staff's recommendations on how the objective for a management commentary, and guidance supporting the objective, should be specified.

Structure of this paper

2. This paper is structured as follows:
   - (a) Background to the project (paragraphs 3–5)
   - (b) Evidence of issues that a revised management commentary objective would seek to address (paragraphs 6–17)
     - (i) concerns over the narrow focus of management commentaries (paragraphs 7–13)
     - (ii) gaps in management commentary practice (paragraphs 14–17)
   - (c) Analysis of current statements related to the objective of management commentary (paragraphs 18–36)
   - (d) Feedback from the Management Commentary Consultative Group on the staff's recommended approach (paragraphs 37–38)
   - (e) Summary of staff considerations for revising the objective (paragraphs 39–4)

(f) Staff recommendations (paragraphs 44–61)

(g) Questions to the Board

(h) Appendix A: Illustrative draft wording

(i) Appendix B: Comparison of statements of objective

Background to the project

3. In November 2017, the International Accounting Standard Board (Board) added to its agenda a project to update IFRS Practice Statement 1 *Management Commentary* (Practice Statement). As explained in AP15 of the July 2018 Board meeting, the staff anticipate the following work streams for this project:

   (a) objectives and principles of management commentary reporting (Stream 1);

   (b) current-year financial analysis and forward-looking information (Stream 2); and

   (c) business model, strategy, risks, and operating environment and information about operational performance (Stream 3).

4. The Board established the Management Commentary Consultative Group (Consultative Group). The Consultative Group held its first meeting on 28 September 2018 and discussed Stream 1. The staff provided an oral update about the key messages from this meeting to the Board at its October 2018 Board meeting.

5. At this meeting, the staff are presenting their recommendations on the objective of management commentary. The staff plan to present recommendations on the remaining aspects of Stream 1—the application of materiality to management commentary and the principles for preparing management commentary—at subsequent Board meetings.

Evidence of issues that a revised management commentary objective would seek to address

6. A detailed review of evidence was presented in the November 2017 Board Paper, AP28A. That paper outlined some of the problems and issues encountered by both users and preparers that updating the Practice Statement would seek to resolve. In particular, it referred to 'acknowledged gaps in narrative reporting practice that indicate that the ambition of the MCPS [the Practice Statement] and other developments such as the <IR> Framework is not being met'[1]. In this section, we include a summary of those issues as well as more recent research since November 2017. We also include evidence from discussions with the Management Commentary Consultative Group, the Capital Markets Advisory Council (CMAC) and the Global Preparers Forum (GPF). These indicate that the Practice Statement could be updated with a more specific objective and additional guidance to address these issues and concerns.

Concerns over the narrow focus of management commentaries

7. Staff highlight concerns noted in that paper over the perceived narrow focus of management commentaries as being particularly pertinent in considering the objective of a management commentary. Calls for improvement in this area relate to:

    (a) discussion of the potential implications for the entity of *external trends*, including systemic matters such as those identified by the Financial Stability Board's Task Force on Climate Change[2] irrespective of whether they are expected to crystallise in the financial statements in the short-term;

    (b) the importance of *key resources and relationships* to the entity's sustainable success, and the impact of the entity's behaviour on the

[1] AP28A, November 2017, §27b

[2] TCFD Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)

strength of those relationships (sometimes discussed under the heading of so called 'stakeholder relevance'); and

(c) frustration over the *focus* of narrative discussion and of operational performance disclosures that do not address the entity's strategic challenges, particularly those that relate to its long-term success.

8. These issues collectively indicate that a narrow focus is being applied to the time horizons of management commentaries, even though the objective for the management commentary in the existing Practice Statement and other reporting frameworks do not place a limit on the time horizon of users' assessments that the information in the management commentary is intended to provide input for.

9. Related issues were also noted during the joint meeting in June 2018 of CMAC and the GPF where members identified the following areas for management commentary improvement:

(a) better descriptions of the entity's business model, value creation and its competitive environment;

(b) better discussion of key risks and mitigation of those risks; and

(c) insights into progress towards longer-term goals.

10. The staff will provide an oral update on any further feedback in relation to the objective of management commentary from CMAC's meeting on 1 November 2018 and GPF's meeting on 6 November 2018.

11. The staff recognise the importance of management commentary addressing material matters irrespective of the time horizon over which they are expected to crystallise. However, care is needed in addressing longer-term horizons as emphasising them could result in a loss of clarity over the objective of management commentary, leading to questions such as:

(a) 'what period does the long term/medium term cover?';

(b) 'how do I balance the relative importance of different time horizons?'; and

(c) 'should discussion of a matter be omitted if management believe they can address it in the long term?'

12. One concern that arises is that an explicit focus on the long term might appear to permit non-disclosure of otherwise material matters that management anticipates they can resolve before they impact long-term prospects.

13. The staff think these issues can be avoided by simply referring to the entity's future cash flows in the Practice Statement, whilst establishing principles and content requirements intended to drive disclosures that support users' assessments across the whole time horizon of the entity's future cash flows. Nevertheless, an explicit statement that future cash flows include those arising in the long term may be desirable.

Gaps in management commentary practice

14. Staff consider that gaps in narrative reporting practice discussed in the November 2017 paper may in part be attributable to a lack of clarity over what a management commentary should address and the information required to address it.

15. In particular, staff highlight that investors' need for management commentaries to address the entity's strategic priorities is not being consistently met. For example:

(a) A CFA Institute survey[3] of its members in 2018, showed that the three categories within corporate narrative reporting most commonly used by investors are '(1) operational metrics; (2) contextualizing strategy and business model descriptions; and (3) supplemental financial information'. However, respondents noted that the quality of reporting, particularly for operating measures, ranged from moderate to poor. Reasons for this perceived level of quality were 'lack of comparable reporting of these performance measures across similar business models; period-to-period inconsistencies in management definitions; [and] misleading positive bias'.

[3] CFA Institute: Usefulness of Key Performance Indicators and Other Information Reported Outside Financial Statements, 2018.

(b) In a global survey on corporate reporting[4] of 554 investment professionals, of which 301 were buy-side investors, only 45% of respondents thought that companies explain their business models and how they make money well, and just 37% agreed that companies are sufficiently linking strategic goals, risks, key performance indicators and financial statements.

16. During their first meeting, users within the Management Commentary Consultative Group raised the following issues that they come across in some examples of management commentary:

(a) inconsistencies with the financial statements and notes, for example in segment reporting;

(b) lack of balance or neutrality, with too much emphasis on positive results and omission of negative results or factors;

(c) tendency towards boilerplate language and a related lack of conciseness; and

(d) inappropriate use of aggregation which results in a lack of clarity.

17. Additionally, staff note the 'wide and confusing landscape of WCR [wider corporate reporting] frameworks, standards, goals, and codes'[5] described in the November 2017 Board Paper. In this context staff think it is particularly important that the Practice Statement addresses areas of potential confusion, including who the user of the management commentary is and what user decisions it is intended to support.

[4] PwC: Global Investor Survey on Corporate Reporting, 2017.

[5] AP28A, November 2017, §2

Analysis of current statements related to the objective of management commentary

IFRS Practice Statement 1 Management Commentary

18. The introduction of the existing Practice Statement describes management commentary as follows in IN3:

> Management commentary is a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives. Users routinely use the type of information provided in management commentary to help them evaluate an entity's prospects and its general risks, as well as the success of management's strategies for achieving its stated objectives. For many entities, management commentary is already an important element of their communication with the capital markets, supplementing as well as complementing the financial statements.

19. The existing Practice Statement describes the 'purpose' of management commentary, emphasising context for the financial statements in paragraph 9:

> Management commentary should provide users of financial statements with integrated information that provides a context for the related financial statements. Such information explains management's view not only about what has happened, including both positive and negative circumstances, but also why it has happened and what the implications are for the entity's future.

20. Paragraph 10 covers its role in supplementing the financial statements:

> Management commentary complements and supplements the financial statements by communicating integrated information about the entity's resources and the claims against the entity and its resources, and the transactions and other events that change them.

21. Paragraph 11 of the Practice Statement also sets out a forward-looking direction for the management commentary, and states that information on the prospects of the entity is disclosed:

> Management commentary should also explain the main trends and factors that are likely to affect the entity's future performance, position and progress. Consequently, management commentary looks not only at the present, but also at the past and the future.

22. Although not included in the 'purpose' section of the Practice Statement, the Practice Statement does emphasise the need for management commentary to provide information that is useful to users of financial reporting. This is described in

Paragraph 14, which also includes high level guidance on the type of information that would be useful:

> Management commentary should provide information to help users of the financial reports to assess the performance of the entity and the actions of its management relative to stated strategies and plans for progress. That type of commentary will help users of the financial reports to understand, for example:
>
> (a) the entity's risk exposures, its strategies for managing risks and the effectiveness of those strategies;
>
> (b) how resources that are not presented in the financial statements could affect the entity's operations; and
>
> (c) how non-financial factors have influenced the information presented in the financial statements.

23. Although the staff think these features remain relevant, they see three issues with the existing approach:

    (a) it may not provide a sufficiently clear 'test of success' that could be applied by preparers, regulators, and assurance providers to assess whether a management commentary covers the information and matters envisaged by the Practice Statement and meets users' needs;

    (b) whether it would be interpreted consistently, bearing in mind that those seeking to apply the Practice Statement may not have complete familiarity with the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) to apply it to the practical considerations involved in preparing a management commentary; and

    (c) discussion of the objective of management commentary is currently spread out across different sections of the Practice Statement, which may make application more difficult and less consistent.

24. Further, staff think that clarity could be improved by separating those features that define the objective of management commentary from those that are closer in nature to principles or content elements. Principles and content elements are discussed in other sections of the Practice Statement (currently paragraphs 12–19 and 24–40). Specifically, staff think:

    (a) the following features remain appropriate in setting the overall objective:

(i) provides context for / complements and supplements the financial statements;

(ii) prepared for users of financial statements;

(iii) presents management's view; and

(iv) provides integrated information (but described as *financial and operational information*);

(b) the following features are better approached as guidance to support the objective:

(i) trends and factors likely to affect the entity's future performance, position, or progress;

(ii) the entity's risk exposures and the actions of management to mitigate them;

(iii) the resources that could affect the entity's operations; and

(iv) the assessment of performance relative to stated strategies and plans for progress, including the reasons (the 'why') for performance and the 'implications' of the above; and

(c) the following features are better addressed in the detail of the Practice Statement:

(i) 'positive and negative circumstances' would be covered in the discussion on the principle of neutrality;

(ii) 'how non-financial factors have influenced the (…) financial statements' is indirectly covered in the features described in (b) above, but can be covered in more detail as a content element in the discussion and analysis of current year performance; and

(iii) 'information on claims [and potential claims] against the entity' will be included in the analysis of current position.

25. The existing Practice Statement uses the phrase 'future performance, position and progress' to support a forward-looking perspective. Staff think the emphasis in the *Conceptual Framework* on prospects for future cash flows provides a better means of achieving this.

26. Additionally, the staff note that the language in the existing Practice Statement uses the term ‘purpose’, whereas the *Conceptual Framework* uses the term ‘Objective’. The staff suggest aligning with the *Conceptual Framework*

The Conceptual Framework

27. Paragraphs 1.2 to 1.4 of the *Conceptual Framework* describe the objective of financial reporting in terms of the usefulness to primary users of financial reporting in helping them make assessments of future net cash flows and of management’s stewardship of the entity’s economic resources:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.
>
> Those decisions (…) depend on the returns that existing and potential investors, lenders and other creditors expect (…) Investors’, lenders’ and other creditors’ expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity and on their assessment of management’s stewardship of the entity’s economic resources. Existing and potential investors, lenders and other creditors need information to help them make those assessments.
>
> To make [those] assessments (…), existing and potential investors, lenders and other creditors need information about:
>
> (a) the economic resources of the entity, claims against the entity and changes in those resources and claims; and
>
> (b) how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s economic resources.

28. The *Conceptual Framework* also establishes the objective of financial statements, as more specific than that for financial reporting, and includes direct reference to the assessments of future net cash inflows and management’s stewardship of the entity’s economic resources. The objective is described as follows:

> The objective of financial statements is to provide financial information about the reporting entity’s assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management’s stewardship of the entity’s economic resources.

29. Staff note that wider corporate reporting frameworks are sometimes approached from the perspective of a different (or undefined) set of users. Paragraph 8 of the existing Practice Statement already includes a description of the users of management commentary, referring to them as the primary users of financial reports, namely ‘existing and potential investors, lenders and other creditors’. We think that this reference should be maintained but moved to the section of the Practice Statement on the objective of management commentary. This will reflect the approach taken in the *Conceptual Framework*.

30. Staff think that emphasising the role of the management commentary in supporting users’ assessments of the entity’s future net cash inflows would provide valuable clarity in specifying the objective for the management commentary. In particular, this could:

    (a) underpin the application of materiality (which will be covered in more detail in a future paper);

    (b) support a forward-looking orientation; and

    (c) make it clearer that management is responsible for the inputs necessary for users’ assessments of the entity’s future net cash inflows, and not for the assessments themselves.

31. A further consideration is the reference to *stewardship of the entity’s economic resources* that is now incorporated in the *Conceptual Framework.* Stewardship has been an area of focus in wider corporate reporting (albeit with a variety of different emphasis), therefore staff think that spelling this out clearly in the stated objective of a management commentary will provide clarity.

Feedback from the survey of National Standard Setters

32. In July 2018, the staff surveyed National Standard Setters to gather information about the requirements or commonly applied non-mandatory guidance on management commentary (or its equivalent) for listed entities in their jurisdictions. We received 24 responses. Additionally, analysis of other potentially relevant frameworks was undertaken by the staff. Further detail can be found in AP 15B.

33. From this analysis, the staff identified common features of the *objective for a management commentary*. It should be noted that the determination of what constitutes an objective (rather than a content element or principle) can be subjective. The common features identified by the staff are as follows:

(a) *Context for the financial statements:* Some jurisdictions' objectives include providing context within which financial information should be analysed, or to complement or supplement the financial statements, as is the case in the existing Practice Statement.

(b) *Management perspective*: Some requirements and guidelines state that management commentary should be prepared from management's perspective.

(c) *Development, performance and position*: Many jurisdictions' requirements (notably in the EU) include providing information on an entity's performance and position, as well as the development of the entity. This terminology is used in the EU's Non-Financial Reporting Directive.

(d) *Prospects:* The objective of management commentary in some jurisdictions includes providing insight into prospects (though few countries go as far as requiring forecast information).

(e) *Quality of earnings*: Some countries (notably in North America) include insight into the extent to which reported financial information may not be necessarily indicative of future operating results or of future financial condition.

(f) *Strategy and risks:* A small number of countries specifically address insight into the entity's strategy and risks in their objectives.

(g) *Resource stewardship* is identified as a feature in only a few jurisdictions, though it should be noted that the requirement to report on the entity's *impact* on its stakeholders is incorporated in the EU's Non-Financial Reporting Directive.

(h) *Value creation* is included only by those which use or refer to the Integrated Reporting <IR> Framework as their requirements or guidelines for management commentary.

34. Staff note that none of these objectives are inconsistent with the Practice Statement, although this does depend on how the objective is applied–where applied to meet the needs of a different or broader user base, as may sometimes be the case, they would not be consistent with the Practice Statement. The staff's proposed approach to the objective of management commentary (as illustrated in Appendix A) for each of the above features is summarised as follows:

Feature	***How they are addressed in the proposed approach***
Context for the financial statements	Included in the objective of the management commentary
Management perspective	Included in guidance supporting the objective, requiring coverage of matters that management considers could reasonably be expected to influence decisions by the primary users
Development, performance, position	Included in the guidance supporting the objective, which requires identification of trends and factors affecting the entity’s financial and operational performance for the reporting period and its position at the end of the reporting period; also covered in the detailed content elements of the Practice Statement
Prospects	Covered in the objective of management commentary: ‘assessing the prospects for the entity’s future net cash inflows’
Quality of earnings	Covered by the guidance supporting the objective, which requires identification of trends and factors affecting the entity’s financial and operational performance for the reporting period and its position at the end of the reporting period; additionally, it is anticipated that quality of earnings considerations will feature in the detailed content elements of the Practice Statement
Strategy and risks	Covered by the guidance on objective, which requires information on the entity’s strategy and progress in relation to its strategy, and the risks the entity is exposed to
Resource stewardship	Included in the objective of management commentary by specifying the need for information useful to the assessment of stewardship
Impacts	Covered by the guidance to support the objective discussion of resources, relationships, and impacts that affecting the entity’s long-term success
Value creation	No specific reference to value creation, but guidance supporting the objective includes reference to the entity’s ability to develop and sustain its cash flows in the long term (see comment in paragraph 35)

35. Although the staff note that the term ‘value creation’ may be used to describe an important aspect of the objective of management commentary, they are concerned that the term may be misunderstood (‘value creation for whom?’). This concern is illustrated by the need for further ‘concreteness’ recognised in the Integrated Reporting Implementation Review: Key observations (Q4):

> Based on the feedback, materiality and value creation appear to be among the most important issues, if only because of their central importance to Integrated Reporting.
>
> While many responses called for further guidance, clarification and ‘concreteness’, there was also a sense that experimentation, evolution and innovation should continue.

36. As practice has shown that the term ‘value creation’ is subject to a variety of different interpretations, the staff think the emphasis on prospects for future net cash inflows provides a clearer base for the Practice Statement, and would capture all value created accruing to the entity, including value created over the long term.

Feedback from the Management Commentary Consultative Group on the staff’s recommended approach

37. An approach to redrafting the objective of a management commentary was discussed with the Consultative Group on 28 September 2018. The discussion identified broad support for making the drafting of the objective more consistent with language in the *Conceptual Framework* , and for including guidance to make clear that the management commentary should address the matters that management considers to be important to the future success of the entity, and provide information that supports users’ assessments of the entity’s future net cash inflows and management’s stewardship of the entity’s resources and strategy to support this.

38. Group members highlighted a number of additional points that the staff have sought to address in the proposed drafting approach:

    (a) some members felt that the objective of the management commentary should link to the entity’s purpose (and also that there should be a specific content element requirement to describe the entity’s purpose);

(b) most members felt that the objective should include explicit reference either to reporting on long-term factors, or to long-term value creation; and

(c) some members were concerned that setting an objective based on providing insight into the entity's future net cash flows could create an expectation that the management commentary should include management's prediction or forecast of future events and outcomes.

Summary of staff considerations for revising the objective

39. Based on the above, the staff identify two key considerations for revising the objective in the Practice Statement:

(a) the detailed requirements for a management commentary are being interpreted too narrowly, over too short a time horizon, indicating that the objective for the management commentary itself are not sufficiently clear; and

(b) gaps in management commentary content suggest that preparers are finding it difficult to operationalise the objective set for a management commentary.

40. Staff also think including the explicit reference to the assessment of stewardship introduced in the revised *Conceptual Framework* would provide important clarity.

41. Further, in setting the objective for management commentary, staff think two factors merit particular attention:

(a) there is a range of perspectives from which the preparation of management commentaries may be approached. Some of those involved in preparing the management commentary may not have an accountancy background or be familiar with the *Conceptual Framework*. Others may assume that objectives from other wider corporate reporting frameworks (such as those designed to meet needs of stakeholders other than the primary users identified in the *Conceptual Framework* and in the existing Practice Statement) should be applied to the management commentary.

(b) because each management commentary needs to address the specific circumstances of the entity preparing it, it is not possible for the Practice Statement to prescribe a detailed list of content disclosures. The objective for a management commentary therefore needs to provide direction to preparers in terms of both what matters to cover, and what information to provide in relation to each matter.

42. To address these challenges, the staff recommend providing both an overarching objective for the management commentary and additional guidance that covers the matters and information that a management commentary is expected to cover.

43. The approach set out below is intended to set the objective and provide related guidance in a manner that

(a) places the detailed requirements of the Practice Statement in context; and

(b) can be readily understood by preparers, users, regulators and others, collectively providing a ‘test of success’ that that could be applied by preparers, regulators, and assurance providers to assess whether a management commentary covers the information and matters envisaged by the Practice Statement and meets users’ needs.

Staff recommendations

Overarching objective

44. The staff recommend that the Practice Statement should include a concise (one paragraph) statement of the objective of management commentary, at about the same level of detail as the existing statements in the *Conceptual Framework* of general purpose financial reporting and of general purpose financial statements.

45. The staff recommend that the overarching objective of management commentary is defined in terms of context for the financial statements (consistent with the existing Practice Statement), but that it should make explicit reference to the discussion in the *Conceptual Framework* of providing information to assess the entity’s future net cash flows and management’s stewardship of the entity’s economic resources.

46. The staff recommend that the overarching objective also clarifies that:

    (a) the management commentary is based on *historical* financial and operational information – to address potential confusion arising from the reference to ‘future cashflows’; and

    (b) that the management commentary is prepared for the primary users of financial statement users—because many wider corporate reporting frameworks have been developed to support a different or broader user base.

47. Illustrative drafting is provided in Appendix A paragraphs A1-A2.

Guidance supporting the objective – matters to be covered in the management commentary

48. The staff think the overarching objective should be supported by a clear and concise statement of the matters that should be addressed in a management commentary, building on the overarching objective of supporting assessments of future net cash flows and management’s stewardship of the entity’s economic resources.

49. The staff recommend that this statement should:

    (a) adopt the ‘management’s view’ approach used in the existing Practice Statement, placing the onus on management to identify what it considers to be reasonably capable of affecting users’ assessments of prospects for the entity’s future cash flows and of management’s stewardship of the entity’s economic resources.

    (b) address the common perception that narrative reporting tends to focus too much on the short term. The statement would specify the range of matters that a management commentary should cover in a manner that addresses the full time horizon of the entity’s future cash flows. Although the Practice Statement, would not mention the different time horizons specifically, they would be addressed as follows:

        (i) *short term* (matters that are already affecting the entity’s performance): These are covered by addressing trends and factors affecting performance for the period and what is expected for the next year.

(ii) *medium term (known* matters identified by management as potentially affecting the entity's success, but which have not yet crystallised in the entity's current period performance): These are covered by addressing trends and factors affecting the development of the entity's performance.

(iii) *long term (unknown)*: Other matters may arise in the future as a result of exposures and opportunities inherent in the entity's business model(s). These are covered by addressing the features of the entity's business model(s) it depends on for success. This approach recognises business dependence on its key resources and relationships for success, a key feature of Integrated Reporting <IR> and some other management commentary frameworks.

(iv) opportunities and risks in relation to the above items would need to be included in the management commentary.

50. An approach which we referred to as 'narrative coherence' was discussed with the Consultative Group as a means for building a narrative that addresses these matters across the various content elements of the management commentary. The staff expect to take this to the Board in a future paper.

51. Although the approach above is intended to cover the full time horizon over which an entity's cash flows arise, the illustrative draft language avoids reference to 'short' 'medium' and 'long' term as such wording might lead preparers to seek arbitrary distinctions between, say 'medium' and 'long' term. However, we made one reference to long term in the context of 'the ability to develop and sustain [cash flows] into the long term' which we think addresses value creation. Staff also think it is important to be clear that the management commentary provides management's view of the matters that could reasonably be expected to influence the amount, timing and uncertainty of the entity's future cash flows, rather than management's *prediction* of what will happen to the entity.

52. It is expected that management will take account of the likelihood and time value of the effect of matters crystallising in the entity's future cash flows. Consideration was given as to whether this should be explicit in the Practice Statement. However, staff think that adding this as a clarification could actually create confusion by giving the impression that the management commentary should model or otherwise predict the entity's future cash flows. Illustrative drafting is provided in Appendix A paragraph A3.

Guidance supporting the objective–information to be covered in the management commentary

53. Management commentaries are ordinarily structured and drafted in terms of 'content elements'—business model, principal risks, financial performance analysis etc. The staff do not expect to recommend proposing a change to this approach and expect to cover the detailed content elements in papers for future Board meetings.

54. Collectively these content elements should provide the information needed to support the overarching objective of management commentary. However, given the gaps in reporting practice noted earlier in this paper, the staff think it is helpful to set out additional guidance on, so that preparers do not lose sight of the overall purpose of the detailed information provided in each of the content elements.

55. The staff think this can be achieved by recognising that the content elements collectively ask the entity to set out its strategy in the context of the matters affecting its future success, report on its progress in implementing the strategy and provide information to allow users to assess the potential implications.

56. The staff suggest further emphasis on the need to support assessments of the entity's ability to develop and sustain its cash flows in the long term, and the uncertainty of its cash flows.

57. We think that referring again to primary users when describing management's stewardship of economic resources is desirable to address potential misunderstandings over the scope of the 'stewardship' reference, which might otherwise be interpreted to be stewardship for the benefit of a wider group of stakeholders.

58. Illustrative drafting is provided in Appendix A paragraphs A4-A5.

Other considerations

59. The staff propose further clarification that the management commentary does not require management to forecast or otherwise predict the entity's future cash flows (though it does require them to provide information to support user's own assessments of those cash flows). Note that the existing Practice Statement does address the use of forecast information in a management commentary where that information *has already been published* by the entity. The staff plan to cover this in a future paper.

60. The staff anticipate that terms such as 'operational' (sometimes referred to as 'non-financial' or 'pre-financial') will be included in a glossary to the Practice Statement.

61. Illustrative drafting is provided in Appendix A paragraph A6.

Questions to the Board

Question 1
The staff recommend that the objective of management commentary should be to give context for the financial statements by providing primary users of the management commentary with historical financial and operational information and analysis that is useful in assessing the prospects for the entity's future net cash inflows, and management's stewardship of the entity's economic resources. Do you agree?

Question 2
Do you agree that the objective should be supported by guidance along the lines of the illustrative approach in Appendix A?

Appendix A—Illustrative draft wording

This appendix is provided for illustration only.

The objective of management commentary

A1. The objective of management commentary is to give context for the financial statements by providing primary users of the management commentary with the historical financial and operational information and analysis that is useful in assessing the prospects for the entity's future net cash inflows, and management's stewardship of the entity's economic resources.

A2. The primary users of management commentary are the same as the primary users of financial statements, that is existing and potential investors, lenders and other creditors, as defined in the *Conceptual Framework for Financial Reporting*.

A3. The management commentary addresses those matters that management considers could reasonably be expected to influence assessments by primary users of the amount, timing and uncertainty of the entity's future net cash inflows, and their assessments of management's stewardship of economic resources, including:

(a) the trends and factors that affected the entity's financial and operational performance for the reporting period and its position at the end of the reporting period;

(b) the trends and factors that could affect the future development of the entity's financial and operational performance;

(c) the features of the entity's business model that it depends on for future success, including:

(i) the tangible and intangible economic resources needed to achieve the entity's purpose and strategy, irrespective of whether it is appropriate to recognise them in the entity's financial statements;

(ii) the relationships that affect the entity's ability to achieve its purpose and strategy, together with the impact of the entity's activities on those relationships; and

(d) the opportunities and risks in relation to the matters identified in (a)-(c).

A4. To meet its objective, management commentary sets out management's strategy for the developing and sustaining of the entity's future net cash inflows in the context of the matters identified in paragraph A3, the entity's progress in implementing that strategy; and the potential implications for the entity's prospects of future net cash inflows.

A5. The decision on what information to include in management commentary takes account of the primary users' need to assess the uncertainty of the entity's net cash inflows, its ability to develop and sustain them in the long term, and management's stewardship of the entity's economic resources to support this.

A6. Although management commentary includes information that could be reasonably be expected to be capable of influencing users' assessment of the amount, timing and uncertainty of (the prospects for) the entity's future net cash inflows, compliance with the Practice Statement does not require management to prepare forecast or projected performance information for inclusion in the management commentary.

Appendix B—Comparison of statements of objective

We have added emphasis on the common wording on assessments of future cash flows and stewardship of economic resources for ease of comparison.

Objective of general purpose financial reporting as per the *Conceptual Framework*	**Objective of financial statements as per the *Conceptual Framework***	**Recommended objective of management commentary in the revised Practice Statement**
1.2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions (…) 1.3 (…) depend on the returns that existing and potential investors, lenders and other creditors expect, for example, dividends, principal and interest payments or market price increases. Investors', lenders' and other creditors' expectations about returns depend on their **assessment of** the	3.2 The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in **assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources**.	A1 The objective of management commentary is to give context for the financial statements by providing primary users of the management commentary with historical financial and operational information and analysis that is useful in **assessing the prospects for the entity's future net cash inflows, and management's stewardship of the entity's economic resources**.

amount, timing and uncertainty of **(the prospects for) future net cash inflows to the entity and on their assessment of management's stewardship of the entity's economic resources**. Existing and potential investors, lenders and other creditors need information to help them make those assessments. 1.4 To make the assessments described in paragraph 1.3, existing and potential investors, lenders and other creditors need information about: (a) the economic resources of the entity, claims against the entity and changes in those resources and claims; and (b) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's economic resources.		