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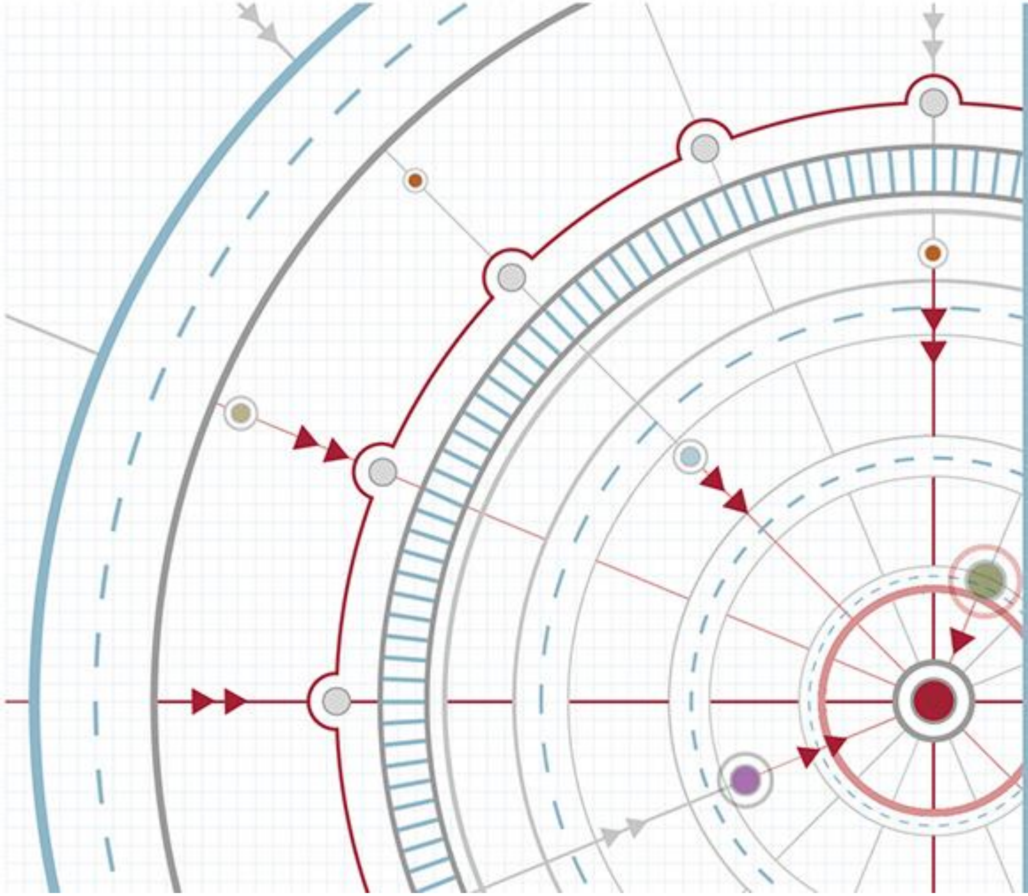

Management Commentary

Slide Deck 4 *Principles*

IFRS Management Commentary

Consultative Group 28 September 2018

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Agenda for the session

- Introduction — Slide 3
- The need for coherence to support completeness — Slides 4–12
- Neutrality in management commentary — Slides 13–18
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Introduction

The Practice Statement

- The IFRS Practice Statement 1 *Management Commentary* (Practice Statement) sets out the following principles for preparing management commentary:
  - provide management's view of the entity's performance, position and progress; and
  - supplement and complement information in the financial statements.
- It further states that to align with those principles, management commentary should include:
  - forward-looking information; and
  - information that possesses the qualitative characteristics of **useful** financial information described in the *Conceptual Framework for Financial Reporting* (Conceptual Framework).
- However, the Practice Statement does not elaborate on how to achieve those characteristics in management commentary.

The *Conceptual Framework*

- As set out in Slide Deck 1 *Introduction* (slide 11), the *Conceptual Framework* states that to be **useful** information in financial reports must both:
  - be relevant.
  - provide faithful representation of the economic phenomenon. To provide faithful representation of the phenomenon, its depiction must be complete, neutral and free from error.

- In preparing IFRS financial statements, an entity applies IFRS Standards that set out recognition, measurement, presentation and disclosure requirements.
- It follows that in preparing management commentary, an entity must determine what information to include and how that information should be provided. In practice, achieving completeness and neutrality in management commentary can often be challenging.

The need for coherence to support completeness

Where we are today—why revision is needed

Existing guidance

- The *Conceptual Framework* describes completeness by reference to **all information necessary for a user** to understand the phenomenon.

> ***Conceptual Framework*** **§2.14: Complete depiction**
> A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.

- The 2010 Practice Statement does not address completeness explicitly and does not provide application guidance.

Calls for better information

- Concerns about information gaps (eg in relation to long-term matters) in management commentary were discussed in the November 2017 IASB Board Agenda Paper 28A *Agenda proposal to revise and update the Management Commentary Practice Statement*

> **AP28A, November 2017 §19b**
> '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'

- It is not just long-term performance information where concerns about gaps in management commentary are being raised. For example, a recent survey by the Chartered Financial Analyst (CFA) Institute raised concerns about availability of relevant Key Performance Indicator (KPI) information:

> **CFA Institute: Usefulness of Key Performance Indicators and Other Information Reported Outside Financial Statements, 2018**
> 'Inadequate reporting influences extent of use of information '

- The issue has also been highlighted by preparer bodies:

> **Institut Français des Administrateurs, 2017: The Board of Directors and integrated reporting:**
> 'It is clear that the information disseminated by companies is insufficient or only partially meets investors' needs.'

- The staff think these concerns are illustrative of challenges in supporting completeness across all areas of the management commentary
- Therefore, whilst the 2010 Practice Statement in principle supports the preparation of a broad range of information, the staff believe that practical guidance for preparers is desirable to support complete disclosure.

How others are supporting completeness

Other narrative reporting frameworks that refer to completeness (or a similar characteristic such as comprehensiveness) tend to highlight its importance without providing guidance on how it is achieved. However, we have identified the following broad approaches supporting completeness:

1. lists of minimum disclosures, for example in relation to environmental, social and governance (ESG) matters;
2. reference to information required to meet users' needs;

> **Canada: Management's Discussion and Analysis — Guidance on preparation and disclosure § 2.3**
> …Completeness calls for management to identify, address and communicate the qualitative and quantitative information necessary for users to understand and evaluate the company's strategy, business, results, financial condition, risks and prospects.…

3. reference to information used to manage the business;

> **Germany: GAS20 § 102: Reference to internal information**
> Those financial key performance indicators that are also used for the internal management of the group shall be included.

4. reference to the reporting content of industry peers (further discussed in the context of comparability); and
5. approaches referred to as 'linkage' or 'connectivity' designed to provide the basis for building up a coherent narrative across the content areas of management commentary.

> **Integrated Reporting Framework §3.8: Connectivity**
> [Connectivity of] The Content Elements. The integrated report connects the Content Elements into a total picture that reflects the dynamic and systemic interactions of the organization's activities as a whole. For example:
> - an analysis of existing resource allocation, and how the organization will combine resources or make further investment to achieve its targeted performance
> - information about how the organization's strategy is tailored when, for instance, new risks and opportunities are identified or past performance is not as expected
> - linking the organization's strategy and business model with changes in its external environment, such as increases or decreases in the pace of technological change, evolving societal expectations, and resource shortages as planetary limits are approached.

> **FRC Guidance on the Strategic Report §6.18, 7.13: Linkage**
> Linkages are relationships or interdependencies between, or the causes and effects of, facts and circumstances disclosed in the annual report…
> Where relevant, linkage to and discussion of key performance indicators (KPIs) should be included in any descriptions to allow an assessment of the entity's progress against its strategy and objectives. Similarly, emphasising the relationship between an entity's principal risks and its ability to meet its objectives may provide relevant information.

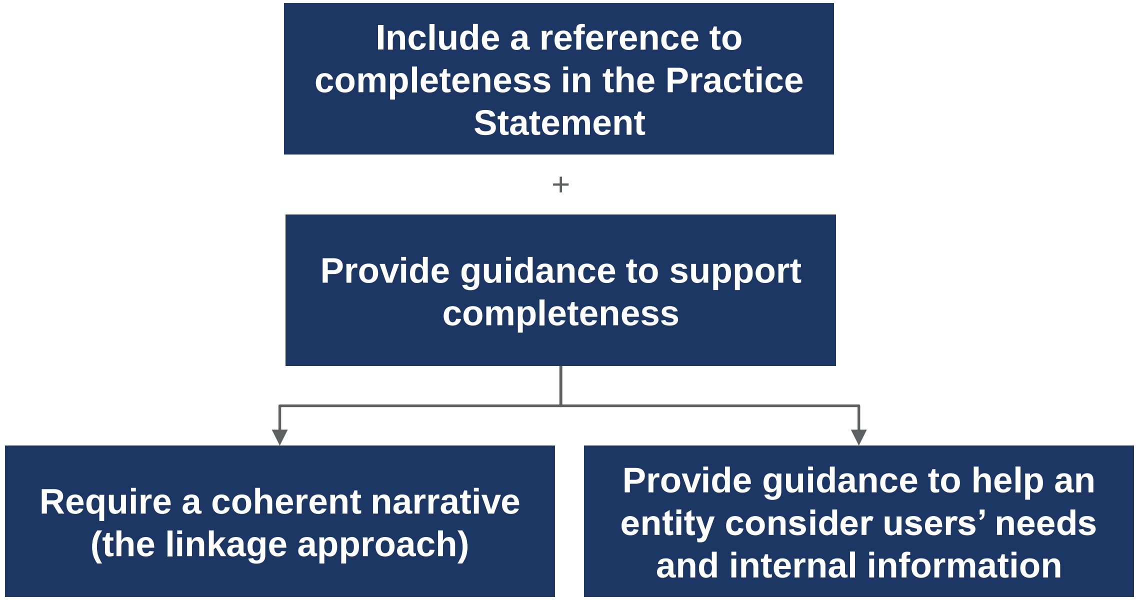
The staff's proposed approach (1/5)—An overview

- To support rigorous application of the Practice Statement and to address the calls for better information, the staff propose to leverage the approaches in other narrative reporting frameworks as follows:

1. Include in the revised Practice Statement a reference to the qualitative characteristic of completeness;
2. Require an entity to build a coherent narrative of significant matters affecting the business across the content elements of management commentary (referred to as the 'linkage approach' in this slide deck); and
3. Provide guidance to help an entity consider:
   (i) information that is necessary to meet users' needs; and
   (ii) internal information used to manage the business.

- The staff do not propose including in the revised Practice Statement minimum disclosure lists. This is because:
  – the use of disclosure lists would represent a step away from a principles-based approach that would be inconsistent with the 'eyes of management' approach and would potentially undermine conciseness of management commentary.
  – the range of potentially relevant disclosures is extremely broad (for example, customer indicators, intellectual property, ESG metrics), and the aspects of a business to which they might apply even broader. Hence it is not practical to provide a comprehensive list.
  – information in the management commentary should be relevant to the specific circumstances of the entity. Disclosure lists would potentially encourage the provision of less relevant information.

Proposed revisions to support completeness



The staff's proposed approach (2/5)—Linkage

- The essence of the proposed linkage approach is requiring an entity to build the content of a management commentary in a methodical manner that supports the characteristic of completeness. This approach is illustrated opposite, and further described overleaf.
- The linkage approach is built around management's view of what is important to the future of the business and provides a test for whether the report leaves unanswered questions.
- The staff think this approach will support rigorous discussion of the most important issues, with less focus on other areas.

Illustrative examples of the linkage approach

Risks: An entity identifies loss of its reputation for quality as a key risk	➡	*Operational Performance:* The entity provides trend information on product failure rates
Strategy An entity identifies expansion in a new region as a key part of its growth strategy	➡	*Business model* The entity describes the key features / differences in business model for the region even though it is currently small
Business model An entity identifies its R&D capability as a key competitive advantage	➡	*Strategy* The entity explains how it is managing R&D staff retention and development
Financial performance An entity reports declining revenues in a segment	➡	*Strategy* The entity explains its strategy for addressing the trend

The staff’s proposed approach (3/5)—Linkage

Applying the linkage approach across the content elements in management commentary:

Linkage thought process	Simplified illustration	Staff’s observations
What’s important to the future of the business?	*We make red widgets. The market is maturing so we are increasingly exposed to low cost offerings.*	• Business model discussion describes the entity’s dependence on the red widget market. • Discussion of external trends addresses red widget market trends as a key factor affecting the business.
What’s the strategy for managing it?	*We plan to sell an improved ‘blue widget’ design to our red widget customer base to meet this challenge*	• The strategy discussion explains how the business is dealing with the challenge identified in the external trends discussion.
What progress is being made? **Are the potential implications clear to the report user?**	*Of our red widget customers ordering a replacement, 70% have upgraded to a blue widget* *During the year the retail price of blue widgets averaged 1.6 times that of red widgets* *We are targeting a 70:30 blue : red widget sales mix. The average during this year was 40:60*	• Performance discussion provides KPIs that show the entity’s progress in implementing its strategy. • Performance data is provided to help users assess the potential impact of implementing the strategy on financial returns.

The staff's proposed approach (4/5)—Other indicators

- Completeness could be further supported by requiring an entity to consider specific indicators to identify the matters and information that may need to be included in management commentary (see point 3 on slide 7), specifically:
  1. Consider information used to manage the business:
     – Consider whether the entity's internal reporting indicates there is a matter that should be addressed or information that should be provided in the management commentary;
     – Consider whether the entity's understanding of internal and external factors, including from engagement with its key stakeholders (e.g. customers, employees etc.) indicates there is a matter that should be addressed or information that should be provided in the management commentary;
  2. Consider users' information needs:
     – Consider whether the entity's capital market communications indicate that the matter or information being communicated should be addressed in management commentary.
- In addition to the above, the staff think that the inclusion of both a user perspective and a 'through the eyes of management' perspective within the guidance on the objective will also support completeness in the management commentary.

The staff's proposed approach (5/5)—Other indicators

Further guidance to support completeness in management commentary

Internal information

- The entity considers information used internally in setting strategy and monitoring the financial and operational performance of the business—eg management information packs; operating reviews.
- This perspective is consistent with the approach of reporting 'through the eyes of management'.

External factors

- The entity considers factors it is aware of in the external environment or from its routine engagement with stakeholders.
- It is not suggested that the entity should undertake additional engagement with stakeholders in order to support the preparation of the management commentary.

Capital markets communication

- The entity considers information it has or intends to communicate directly to capital markets participants (eg investor presentations)
- Information provided through investor relations channels will ordinarily be relevant to users' decision making. In practice this information is typically much richer than that provided in a management commentary and incorporates, for example, additional analysis of strategy, disaggregated information about performance, and operational measures that relate to the entity's strategy.

Questions for the Consultative Group

The staff's illustrative drafting on supporting completeness in management commentary is provided in Appendix A to this slide deck. We seek your views on the main features of the staff's proposed approach, in particular:

1. Do you agree that the proposed linkage approach (see slides 8–9) that requires an entity to build a coherent narrative of significant matters affecting the business across the content elements of management commentary will support entities in providing all necessary information for users about a particular matter? If not, what do you propose instead and why?
2. Do you agree that the proposed additional indicators (see slides 10–11) will help entities to identify significant matters that should be discussed and useful information that should be included in management commentary? Are there any other indicators that you think should be included in the revised Practice Statement?

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Neutrality

Where we are today and why revision is needed

- Neutrality is commonly identified as a key challenge in implementation of management commentary frameworks, eg:

> **International Integrated Reporting Council (IIRC) – Integrated Reporting Implementation Review: Balance (8.3)**
>
> 'Quite a few respondents were concerned about an apparent lack of balance in integrated reports in terms of placing undue emphasis on positive performance and outcomes.'

The Practice Statement

- The Practice Statement includes a requirement that 'information in the management commentary should possess the fundamental qualitative characteristics of relevance and faithful representation'.
- However, it does not address neutrality in detail other than to specify that management commentary should address both positive and negative circumstances.

> **Extract from the Practice Statement § 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.

The *Conceptual Framework*

- The *Conceptual Framework*:
  - identifies neutrality as a characteristic of information that provides a faithful representation of an economic phenomenon; and
  - describes neutrality in terms of **influence on decisions made by users**.

> ***Conceptual Framework*: § 2.15**
> A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users. Neutral information does not mean information with no purpose or no influence on behaviour. On the contrary, relevant financial information is, by definition, capable of making a difference in users' decisions.

How others have approached neutrality

- Neutrality or balance is a feature of many (but not all) narrative reporting frameworks. It is typically approached in those frameworks at a relatively high level, with requirements variously addressing bias, omission, understandability, and presentation. For example:

Guidance	*Areas addressed in guidance*
Australia: Regulatory Guide 247 Part E *Presenting the narrative and analysis* Disclosure must be balanced and unambiguous. Representations or statements about a future matter should be made only if there are reasonable grounds for making the representation or statement. Selective disclosure may include a failure to give 'bad news' equal prominence to 'good news', or providing non-IFRS financial information that is not appropriately explained.	Future matters, selective disclosure, non-IFRS information
Canada: Management's Discussion and Analysis — Guidance on preparation and disclosure § 2.3 It is critical for management credibility that the MD&A be balanced in its disclosures, being free from deliberate or systemic bias, and openly reporting bad news as well as good news thus avoiding the promotion of overly optimistic or pessimistic expectations. The MD&A should be transparent and discuss ranges of possibilities and possible outcomes.	Deliberate or systemic bias, range of outcomes
European Commission: Guidelines on non-financial reporting: § 3.2 The non-financial statement should give fair consideration to favourable and unfavourable aspects, and information should be assessed and presented in an unbiased way…Users of information should not be misled by material misstatements, by omitting material information, or disclosing immaterial information.	Users' perspective, omission, immaterial disclosures
Germany: GAS 20 § 18 Positive or negative aspects may not be presented from a biased perspective.	Bias
UK: Guidance on the Strategic Report: § 6.3, 6.4 The strategic report should be fair, balanced and understandable. The strategic report should address the positive and negative aspects of the entity's development, performance, position and future prospects of the entity openly and without bias. The board should seek to ensure that shareholders are not misled as a result of the presentation of, or emphasis given to, information in the strategic report, or by the omission of material information from it.	Users' perspective, presentation, emphasis, omission

The staff's proposed approach (1/2)

- The staff think that the revised Practice Statement should provide guidance on neutrality. The staff propose that this should comprise:

1. Describing the **key aspects of neutrality** which should be assessed in preparing management commentary (see slide 17). In identifying those key aspects, the staff have considered the approaches taken in other narrative reporting frameworks. Whilst some of the approaches identified address the neutrality of the management commentary as a whole, others address neutrality in the context of a piece of information. The staff think that both approaches should be incorporated in the revised Practice Statement. Additionally, the staff think that an interaction between neutrality and consistency should be reflected in the revised Practice Statement. The staff note that failure to provide information consistently between periods can result in the obscuring negative trends.

2. Providing **specific guidance in relation to individual content elements** where the application of one or more of the key aspects of neutrality could pose a particular challenge. For example, such further guidance might be appropriate in relation to analysis of current financial performance. We will discuss this topic in streams 2 and 3.

The staff's proposed approach (2/2)

Key aspects of neutrality to be addressed in preparing a management commentary:

Overall considerations	Proposed approach	*Illustrative problems it could address*
Overall tone & content	Entity considers whether the management commentary as a whole provides a balanced view to support an assessment of the entity's prospects for future net cash inflows and management's stewardship of its economic resources	*Positive language that is not representative of overall performance / outlook*
Prominence, obscurity, or omission of matters	Entity considers whether undue emphasis, obscurity, or omission of discussion of a matter might affect a user's interpretation of information in management commentary.	*Significant drop in order book, not yet reflected in the financials*
Detailed considerations		
Selection & presentation of information	Entity considers whether choice and form of information presented on each matter (including level of aggregation) could be expected to cause a user to take an unjustified view of the matter	*Aggregate water usage reported, but key water stressed site not identified*
Range of potential outcomes discussed	Entity considers whether an unduly wide or narrow range of potential outcomes discussed in relation to a matter might influence a user's view of the matter	*Initial indications suggest reserves could be as much as…*
Consistency	Entity considers whether changes in the basis of presentation or calculation of information might unduly influence a user's view of the matter	*Change in definition of same store sales*

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Questions for the Consultative Group

The staff's illustrative drafting on neutrality in management commentary is provided in Appendix A to this slide deck.

Do you agree that the key aspects of neutrality identified by the staff (see slide 17) should be discussed in the revised Practice Statement? Do you think there are additional key aspects of neutrality that should be discussed in the revised Practice Statement?

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Other matters

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Aggregation (1/2)—Why it matters

- Aggregation of information in financial reports affects its usefulness. Both excessive aggregation and providing excessive detail may have a detrimental effect on users' ability to assess the entity's prospects for future net cash inflows and management stewardship of the entity's economic resources.

> ***Conceptual Framework*, § 7.2, 7.21:**
>
> Effective communication of information in financial statements requires … aggregating information in such a way that it is not obscured either by unnecessary detail or by excessive aggregation.
> […]
>
> Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.

- Aggregation is important to all types of financial reports. However, absent specific presentation and disclosure guidance, it can present a particular challenge for management commentary and may result in information that is not useful.

Illustrating aggregation challenges in a management commentary:

Management commentary content area	Aggregation that does not result in useful information
Performance reporting	The aggregation of a growth trend for one customer group with a contraction trend for another.
Business model description	Generalised description of the entity's contracting structure when arrangements differ significantly across the business.
Strategy	The description of a growth strategy that is applicable to one group of customers only.

- The 2010 Practice Statement provides no explicit discussion of aggregation. The staff think that providing guidance on aggregation in the revised Practice Statement will both help preparers in preparing management commentaries and result in better information for users of management commentaries.

Aggregation (2/2)—the staff's proposed approach

The principle

- The staff propose that the revised Practice Statement incorporates the guidance from the *Conceptual Framework* and explicitly states that information must be provided in a way that it is not obscured by either:
  - a large amount of insignificant detail; or
  - excessive aggregation of divergent matters or trends.

An illustration

> Consider a water intensive business that faces water stress issues on a particular site. If the entity only reports on its global water consumption with no detail provided about the water stressed site, such information may be of little or no value (and potentially misleading) for users of management commentary. In this circumstance, users would need information about the water stressed site, including the entity's strategy for and the progress in managing the issue (for example, in the context of potential regulatory limits on consumption), and the level of earnings exposure.

Additional guidance

- To help entities apply the principle, the staff also propose to clarify that while the level of aggregation in management commentary should ordinarily be consistent with the level of aggregation in the related financial statements (for example, segment information or financial statement line items), in some cases a more granular discussion of a particular matter will be necessary to provide useful information to users.

Management commentary in relation to other information provided by the entity

- To support better information in management commentary, the staff think that the revised Practice Statement should specify the following requirements:

1. Management commentary should provide all information identified as material irrespective of disclosures provided elsewhere (eg investor relations activities typically account for a significant information flow to users).

> **Practice Statement 2 §25, 26:**
> The entity assesses whether information is material to the financial statements, regardless of whether such information is also publicly available from another source. Moreover, public availability of information does not relieve an entity of the obligation to provide material information in its financial statements.

The staff note that a similar provision is included in para 24-26 of the IFRS Practice Statement 2 *Making Materiality Judgements* that address the impact of publicly available information as well as in some other narrative reporting frameworks.

> **GAS20 § 15**: The provision of information elsewhere, for example as part of ad hoc disclosures, voluntary capital market communication, or in press releases, shall not discharge management from its reporting requirements in the group management report.

2. Information provided to meet an entity's other disclosure obligations cannot be assumed to meet information needs of users of management commentary as those other disclosure obligations may be designed to support objectives that are different from the objective of management commentary.

> **Illustration**
> An entity might be required to disclose its aggregate water usage. This disclosure may not satisfy users' needs if for example, the entity faces the potential closure of a major plant that is operating in a water-stressed area.

Assumed knowledge

- In determining what information is useful to users' decision making for inclusion in the management commentary, preparers will need to make assumptions about users' starting knowledge. This question is not addressed explicitly in the 2010 Practice Statement.
- It is sometimes suggested that users can be assumed to have a good knowledge of the entity's business model from other sources. Nevertheless, business models and strategy can vary within an industry (e.g. one entity may compete on expertise, another on price).
- The staff note that this question is addressed in principle by the *Conceptual Framework* which does not assume users already have knowledge of the entity.

Conceptual Framework (§2.36)

'Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently…'

- The staff think that it would be helpful to address assumed knowledge in the revised Practice Statement, and to clarify that in preparing management commentary an entity should not assume users already have knowledge of the entity itself.

Comparability (1/2)

- Comparability is a common challenge in relation to management commentaries – eg:

Comparability: Findings from Integrated Reporting implementation review

''Many respondents noted that developing more standardized metrics could improve consistency and comparability….The need for greater consistency over time and comparability within sectors was also raised, with some respondents noting the former may improve as reporting matures.'

CFA Institute: Usefulness of Key Performance Indicators and Other Information Reported Outside Financial Statements

"Staple concerns around the reporting of NGFMs* can be extended to other KPIs. These include: (a) the lack of comparable reporting of these performance measures across similar business models; (b) period-to-period inconsistencies in management definitions; (c) misleading positive bias; and (d) questionable reliability due to the lack of or inadequate assurances"

**NGFM: Non-GAAP Financial Measures*

The Practice Statement

- Comparability is identified as an enhancing qualitative characteristic of useful financial information in the 2010 Practice Statement, but no further guidance is provided.

The *Conceptual Framework*

- The *Conceptual Framework* make a distinction between consistency and comparability.

***Conceptual Framework*: §2.26**

Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal.

- The interaction between comparability and usefulness of information is described in the *Conceptual Framework*.

***Conceptual Framework* §2.27**

Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

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Comparability (2/2)

The staff's proposed approach

- In the light of principles-based approach of the Practice Statement, the staff do not propose to prescribe specific disclosures or to define subject-based performance measures to enhance comparability.
- However, the staff think that additional principles-based guidance aligned with the *Conceptual Framework* could support better comparability of information in relation to:
    1. Other information provided by an entity (including outside the document containing the management commentary)
    2. Estimates and forecasts provided by an entity
    3. Commonly applied definitions of KPIs and other measures provided by an entity

Proposed approach for discussion

The staff propose the following main features of comparability requirements for the revised Practice Statement:

1. The form and presentation of information should take into account users' needs to draw comparisons against (i) other information provided by the entity, whether within or outside the management commentary and financial statements; (ii) estimates and forecasts previously published; and (iii) commonly applied definitions of the measures provided.
2. Disclosure of scope, basis of preparation, and assumptions in relation to KPIs and other measures reported in management commentary should be sufficient to allow users to assess the limitations of comparative analysis they may reasonably perform.
3. The entity should consider the appropriate period to present each measure over, taking account that some trends emerge over a period of 3-5 years.
4. Comparability is an enhancing qualitative characteristic of useful financial information and does not override the requirement to provide relevant information.

Questions for the Consultative Group

Do you have comments on the staff's proposed guidance on other matters discussed on slides 20–25 and Appendix A to this slide deck?

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APPENDIX A– Illustrative drafting on principles for preparing management commentary

The appendix is provided for illustration only and the staff do not plan to discuss it in detail at the meeting.

Illustrative text

Completeness

A1. The management commentary addresses all matters that an entity reasonably considers to be capable of influencing a user's assessment of the amount, timing, and uncertainty of the entity's future net cash inflows or of management's stewardship of the entity's resources.

A2. A complete depiction of a matter includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.

Linkage

A3. The management commentary should provide a coherent discussion of each significant matter across the different areas of content within the management commentary. To achieve this, the management commentary addresses the linkages between each area of content. Linkages in the management commentary are relationships or interdependencies between, and the causes and effects of, matters disclosed in the different content elements of the management commentary.

A4. Although linkages are important for the presentation of the management commentary, they also provide a basis for assessing whether additional information is required to support users' analysis of the matters in the management commentary, and therefore whether the discussion in the management commentary is complete.

A5. Linkages exist where either:

(a) information in one content element is needed to give insight into matters discussed in another element—for example, if product quality is a principal risk, a related KPI may be appropriate; or

(b) information in one content element is needed as context to interpret matters discussed in another element—for example, if a strategic opportunity to grow a particular market is identified, the discussion of the business model may need to explain the characteristics of that market.

A6. In order to apply the linkage approach, the entity assesses whether the information interdependencies in relation to each matter identified in the report have been addressed, so that users would not be left with unanswered questions.

Other indicators

A7. In identifying the significant matters and material information about those matters that should be included in the management commentary, the entity considers:

(a) *information used internally*—the matters and information considered by management in setting the strategy and monitoring the financial and operational performance of the business;

(b) *internal and external factors, including insights from stakeholders*—management's understanding and interpretation of the external factors affecting the business over the long term, including insights obtained from stakeholders including customers, employees, and suppliers; and

(c) *capital markets communication*—matters and information communicated to users through channels other than the management commentary and financial statements (for example, in investor day's presentations), together with matters highlighted by users.

Management commentary and other information

A8. Management commentary should provide all information identified as material irrespective of whether that information is provided elsewhere, for example as part of capital market communications or press releases.

A9. Where information is required to be disclosed in relation to a matter by virtue of a legal or regulatory requirement, it cannot be assumed that this information satisfies the objectives of the management commentary. The entity must determine whether additional information should be provided to meet the objective of management commentary.

Neutrality

A10. The neutrality of the management commentary is considered in the context of management's reasonable expectation of how a user would interpret it. This consideration should be made in relation to:

(a) overall tone and content—the entity considers whether the management commentary as a whole presents a balanced view of the development, performance, position, and future prospects of the entity to support users' assessments of the entity's prospects for future net cash inflows and of management stewardship of the entity's resources. That consideration should take into account the prominence given to aspects of the business, and the language and presentation used in the management commentary as a whole.

(b) prominence, obscurity or omission of matters—the entity considers whether undue emphasis, obscurity or omission of a matter might affect a user's interpretation of the management commentary.

(c) selection and presentation of information—the entity considers whether the choice and form of information presented in relation to each matter in the management commentary could cause a user to take an unjustified view of the matter.

(d) range of potential outcomes discussed—the entity considers whether an unduly wide or narrow range of outcomes discussed in relation to a matter might influence a user's view of the matter.

(e) consistency—the entity considers whether changes in the basis of presentation or calculation of information since the last management commentary could influence a user's interpretation of the management commentary, and whether the impact of such changes is appropriately explained.

Other matters

Aggregation

A11. Information in the management commentary should ordinarily be presented on a basis that is consistent with the segments or line items included in the financial statements. However, in some circumstances, the information relevant to a matter may relate to a part of a business activity, segment or financial statements line item, for example, transactions with a particular category of customers. Where this is the case, the information should be presented on a more granular basis, with an indication of the proportion of the segment or financial statements line item that the information is attributable to.

Assumed knowledge

A12. In determining what information should be included in the management commentary, the entity assumes that users have a reasonable knowledge of general business and economic activities, but does not assume knowledge of the entity itself.

Comparability

A13. Where applicable, information should be presented in a form that enables comparisons to be made with other information.

A14. The form and presentation of information should take into account users' needs to draw comparisons against:

a. other information published by the entity, whether within or outside the management commentary and financial statements;

b. estimates, forecasts, and targets previously provided by the entity; and

c. information commonly provided by other entities.

A15. To help users assess the limitations of comparative analysis they may reasonably perform, explanations of the scope, basis of preparation, and assumptions underlying information in the management commentary should be provided

A16. Where the entity's strategy or circumstances differs from that of its peers, the information required by users may also differ. In these cases, comparability may be achieved by reconciling entity-specific analysis to an alternative basis of presentation or calculation, such as a common industry measure. It should not be achieved by presenting information in a form that is less reflective of the specific circumstances of the entity or by aggregating non-comparable information to provide an entity-wide measure.

A17. Where trend information is useful for users' analysis of the management commentary, the entity considers the appropriate period over which to present the trend for each item of information, taking into account that some trends may emerge over a period of 3–5 years or longer.