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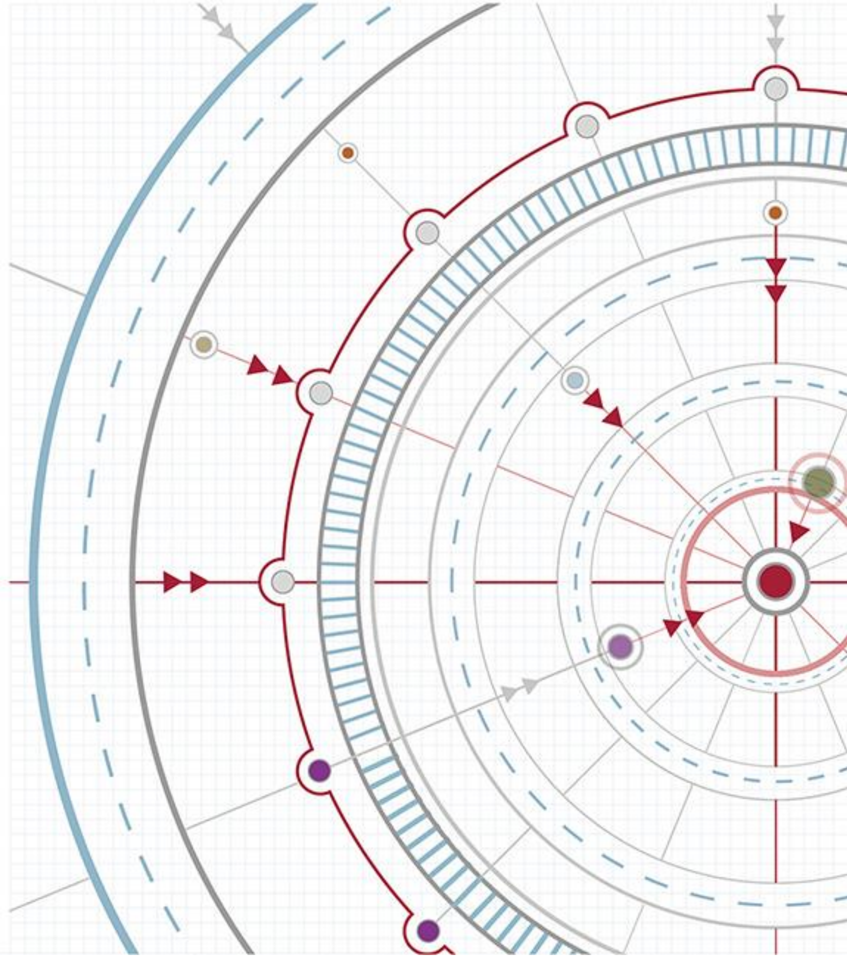

Management Commentary

Accounting Standards Advisory Forum meeting
April 2019

ASAF Agenda Paper 2

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Purpose of the session

- To seek ASAF feedback on:
  - The interaction between management commentary and other reports (slides 3–7);
  - Providing information ‘through the eyes of management’ and the interplay with users’ needs and neutrality (slides 8–15);
  - Forward-looking information in management commentary (slides 16–19); and
  - Information about tax in management commentary (slides 20–22).

Note: Appendix A provides background information on the Management Commentary project (slides 24–27). Further details can be found at https://www.ifrs.org/projects/work-plan/management-commentary/.

Interaction between management commentary and other reports

Issue, existing guidance and staff's proposed approach (1/3)

Issue

- At the January 2019 meeting the Consultative Group discussed the interaction (1) between management commentary and financial statements, and (2) between management commentary and other reports. The members questioned whether:
  (a) management commentary and financial statements should be viewed as a single reporting package or as separate reports;
  (b) cross-referencing could be used to avoid duplication and encourage conciseness;
  (c) allowing cross-referencing to financial statements and other reports could have any negative implications, eg for audit.

Existing Practice Statement

- The Practice Statement discusses management commentary as being supplementary to financial statements (see Appendix B – slide 30). The Practice Statement does not explicitly refer to cross-referencing but discusses avoiding duplication.
- The Practice Statement does not discuss the link between management commentary and other reports provided by the entity.

Staff's proposed approach

- In November 2018, the Board broadly agreed that the objective of management commentary should be to **give context for the financial statements** […].
- The staff do not suggest specifying in the revised Practice Statement whether management commentary and financial statements are a single reporting package because this is likely to depend on jurisdictional requirements. Furthermore, specifying whether they are a single reporting package is unlikely to make management commentary more useful to users.
- Instead, the staff suggest introducing:

(a) a principles-based approach to the interaction between management commentary and financial statements and incorporation of information by cross-referencing (see slide 5). The staff suggest that similar principles should apply when incorporating information in management commentary by cross-referencing to other reports.

(b) restrictions on providing cross-references between management commentary and financial statements and other reports (see slide 5).

(c) a requirement that where information is included by cross-referencing to other reports, the specific section being referenced will be considered to form part of management commentary and subject to all the requirements of the Practice Statement.

Staff's proposed approach (2/3)

Principles-based approach for the interaction between management commentary and other reports and incorporation of information by cross-referencing
(to avoid duplication and encourage coherent and understandable discussion)

(a) management commentary should include ***all relevant information*** needed to meet the objective of management commentary, either directly or by cross-referencing;
(b) information provided, either directly or by cross-referencing, should ***faithfully represent the substance*** of the relevant matter;
(c) management commentary can incorporate information by cross-referencing to financial statements or other reports to provide a ***coherent discussion*** and ***avoid duplication*** of information in these reports;
(d) incorporation of information by cross-referencing should not be done in a way that hinders ***understandability*** and ***neutrality*** of management commentary.

Restrictions on providing cross-references
(to avoid excessive cross-referencing that may lead to fragmentation of information)

(a) the reference should be to a ***precisely specified part*** of the document;
(b) the referenced document should be available:
(i) at the same (or approximately the same) ***time*** as management commentary;
(ii) on the same ***terms**** as management commentary; and
(iii) ***for as long as*** the management commentary is available.
(c) the referenced document ***cannot be changed*** after the management commentary has been issued, unless the change is highlighted in an updated management commentary.

* Ie, users should have access to the referenced material on the same basis as they have for accessing management commentary

Staff's proposed approach (3/3)

Examples of when cross-references could be used

Example 1—cross-reference to notes to financial statements

IFRS 7 *Financial Instruments: Disclosures* requires entities to disclose breaches of loan agreements during the reporting period.

If information about a breach is material to understanding the entity's financial position, management commentary should include information about the breach and its implications.

Such information could be provided by identifying the issue (ie the breach of a loan agreement) and cross-referencing the specific note in the financial statements. However, it would not be sufficient to simply include a general cross-reference saying 'Note X to financial statements discusses the entity's loan agreements' because that would not help users understand the substance of the issue.

Example 2—cross-reference to other reports required in local jurisdiction

Local regulation might require an entity to provide a sustainability report. If the report discusses issues that may materially affect the entity's future operations (for example, a change in CO2 emissions requirements), management commentary should inform the users that such issues exist and may provide the further information that users need through a cross-reference to the precisely specified part of the sustainability report.

Example 3—cross-reference to other published reports

Management may decide to provide in management commentary information about customer satisfaction based on a survey. In this case, management commentary may include directly a summary of the results but include the information on the methodology and a more detailed breakdown of the survey results by cross-referencing to the publicly available report on the survey (for example, when published on the entity's website).

Questions for ASAF members

Question 1

Have you encountered any issues (eg in relation to audit) with allowing cross-referencing from management commentary to:

(a) financial statements; or

(b) other reports published by the entity?

Question 2

Do you agree that the principles-based approach for the interaction between management commentary and financial statements described on slide 5 could help provide a coherent and understandable discussion and avoid duplication in management commentary? If not, why not, and what do you propose instead? Do you agree that a similar approach would work for the interaction between management commentary and other reports? If not, why not, and what do you propose instead?

Question 3

Do you agree that the restrictions on providing cross-references from management commentary to financial statements and to other reports described on slide 5 could help avoid fragmentation of information? If not, why not, and what do you suggest instead?

Providing information 'through the eyes of management'

Existing guidance and issue

Existing Practice Statement

- The Practice Statement includes a principle that management commentary should provide management’s view of the performance, position and progress:

> 9 Management commentary […] 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.
>
> 12 Management should present commentary that is consistent with the following principles:
> (a) to provide management’s view of the entity’s performance, position and progress; …
>
> 15 Management commentary should provide management’s perspective of the entity’s performance, position and progress. Management commentary should derive from the information that is important to management in managing the business.

Issue

- In the September 2018 Consultative Group papers the staff proposed retaining the principle in the existing Practice Statement that information in management commentary should be provided from management’s view, or in other words, provided ‘through the eyes of management’.
- Based on feedback from the Consultative Group, as well as the discussion at the ASAF October 2018 meeting, the staff would like to discuss the interaction between this principle and:
  (a) developing management commentary to meet users’ information needs (slides 10–11); and
  (b) neutrality (slides 12–14).

Meeting users' information needs – Issue and staff's proposed approach (1/2)

Issue

- The Consultative Group members supported retaining in the revised Practice Statement the principle of providing management commentary 'through the eyes of management'.
- However, some raised questions whether there is a tension between developing management commentary to reflect what the management considers important (or 'through the eyes of management') and developing it to meet users' information needs.
- Some members suggested it may be challenging for management to identify what information is useful for users.

Staff's proposed approach

Information important to management as a starting point

- The reason the staff believe there is no tension between developing management commentary to reflect what management considers important and developing it to meet users' information needs is that there is an overlap between information important to management in managing the business and users' information needs. This was explained by the Board in developing the existing Practice Statement:

> BC32 The Board noted a study that suggests that, with few exceptions, the information important to management in managing the business is the same information that is important to capital providers in assessing performance and prospects. Consequently, the Board decided that management commentary should derive from the same information that is important to management.

- The staff suggest retaining the idea of using information important to management in managing the business as a starting point for identifying information to be included in management commentary. Management can identify such information by considering information used internally in setting strategy and monitoring the performance of the entity, for example, management information packs or operating reviews.

Meeting users' information needs – Staff's proposed approach (2/2)

Additional guidance for identifying information to include in management commentary

- The staff's research and feedback from the Consultative Group suggest that an issue with current practice is that information provided in management commentaries does not fully address users' needs. Partly, this may be because it is challenging for management to identify what information is useful for users.
- Therefore, in addition to considering information used in managing the business, the staff propose to discuss in the revised Practice Statement other ways to help management identify information to be included in management commentary. In particular, this would include considering:
  - (a) external factors. Management could consider external factors affecting the entity over the long-term, known internally or through engagement with stakeholders, for example, customers, employees and suppliers.
  - (b) capital markets communication. This would be based on the information communicated to users through channels other than the management commentary and financial statements, for example, in investor days' presentations, and on matters highlighted by users in previous discussions.
- In revising the Practice Statement, the staff are also expecting to provide other guidance that could help management decide which information to include in management commentary, including:
  - (a) updating the objective of management commentary to clarify what assessments are made by users on the basis of management commentary, ie assessing the prospects for the entity's future net cash inflows and management's stewardship of the entity's economic resources (the Board broadly agreed with the revised objective in November 2018) - see paragraph A1 in Appendix B on slide 29.
  - (b) guidance to support the objective of management commentary that would help management identify matters that could reasonably be expected to influence users' assessments of prospects for the entity's future net cash inflows, and their assessments of management's stewardship - see paragraphs A3 and A4 in Appendix B on slide 29.
  - (c) extended guidance on matters to consider including in management commentary (eg, in the discussion of an entity's business model). If lists of example disclosures are included, the guidance would emphasise that management should consider the list in the context of the entity's circumstances and should not use the list as a substitute for selecting relevant entity-specific information.

Neutrality – Issue

Issue

- Some ASAF and Consultative Group members asked how the principle of providing information in management commentary through the eyes of management could be reconciled with the concept of neutrality. Some suggested that management can be biased and selective in what they include in management commentary and therefore management commentary cannot be expected to be neutral. Others argued that management commentary can and must be neutral.
- Some suggested that it would be better to use words like 'balance', 'objectivity' or 'unbiased' to convey the idea of neutrality in management commentary, rather than 'neutral'.

Need for neutrality

- Users have often identified lack of neutrality as an issue in current practice.

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.

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

Staple concerns around the reporting of Non-GAAP Financial measures can be extended to other KPIs. These include: […] period-to-period inconsistencies in management definitions [and] misleading positive bias […].

- Many management commentary frameworks include the idea of neutrality, for example:

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.

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.

Germany: GAS 20

18. Positive or negative aspects may not be presented from a biased perspective.

Australia: Regulatory Guide 247 Part E *Presenting the narrative and analysis*

Disclosure must be balanced and unambiguous... 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.

Neutrality – Staff's proposed approach (1/2)

Does neutrality apply to management commentary?

- Management commentary is part of financial reporting, so for information in management commentary to be useful, it must 'possess the qualitative characteristics described in the *Conceptual Framework for Financial Reporting'* (as described in the existing Practice Statement, paragraph 13).
- The *Conceptual Framework* identifies relevance and faithful representation as fundamental qualitative characteristics. Neutrality is a component of faithful representation.
- The existing Practice Statement does not explicitly refer to neutrality. However, it specifies that management commentary should address both positive and negative circumstances:

> 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.

Is there tension with providing information through the eyes of management?

- The *Conceptual Framework* describes neutral depiction as:

> 2.15 … ***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.

- The staff think that there is no tension between this description and providing information through the eyes of management because:

(a) neutrality is described in terms of influence on decisions made by users. Management should select relevant information and provide a faithful representation of that information. What is important in achieving neutrality is that management's intention cannot be to mislead users.

(b) in the *Conceptual Framework* the Board acknowledged that perfect neutrality is seldom, if ever, achievable, so the Board strives is to maximise the usefulness of information, including neutrality, to the extent possible.

Neutrality – Staff's proposed approach (2/2)

Supporting the concept of neutrality

- To support the application of the concept of neutrality in management commentary the staff propose to include in the revised Practice Statement:
  - (a) general guidance on selecting and presenting neutral information in management commentary, covering considerations both for particular matters and for management commentary as a whole;
  - (b) where necessary, specific guidance on how to apply neutrality within the content elements, eg asking to explain not only unusual losses but also unusual gains in discussing financial performance;
  - (c) a requirement to distinguish whether information provided in management commentary is fact or opinion; and
  - (d) a requirement to disclose assumptions and methods of calculation to support users' assessment of whether they are reasonable.
- Neutrality can also be supported by explaining the need to provide all material information, whether positive or negative.

Using another term to replace 'neutrality'

- In developing the existing Practice Statement, the Board decided that the concept of 'balance' is equivalent to neutrality.

> BC 43 In discussing the application of the qualitative characteristics to management commentary, the Board considered how the concept of balance (ie the inclusion of both bad news and good news) relates to the qualitative characteristics in general and the application of the qualitative characteristic of verifiability in particular. The Board decided that balance is equivalent to neutrality, in the context described in […] the *Conceptual Framework*. Consequently, the Board reasoned that because neutrality is a characteristic of faithful representation, balance is subsumed within faithful representation.

- The staff note that the idea of information being 'unbiased' is already included in the description of the concept of neutrality (slide 13).
- In addition, the staff suggest not introducing another term to express the concept of neutrality because:
  - (a) using different terms to express the same concept for financial statements and for management commentary could be confusing;
  - (b) any word or term selected may be understood differently in different jurisdictions and the intended nuance may be lost when translating the chosen term.

Questions for ASAF members

Question 4

Do you agree with the staff's analysis of why there is no tension between developing management commentary to reflect what management considers important and developing it to meet users' information needs on slide 10?

Question 5

Would the guidance for identifying information to be included in management commentary discussed on slide 11 be useful? Is there any other guidance that the Board should consider including in the revised Practice Statement?

Question 6

Some members of ASAF and the Consultative Group suggested that there is a tension between providing information though the eyes of management and the concept of neutrality. On slides 12-14 the staff explained why we disagree with this view and why neutrality should apply to information in management commentary. Do you think that the staff's explanation addresses the concerns regarding the perceived tension? Do you have any additional comments on this issue?

Forward-looking information in management commentary

Existing guidance and staff’s proposed approach

The existing Practice Statement states that forward-looking information is ‘information about the future (for example, information about prospects and plans) that may later be presented as historical information (ie results). It is subjective and its preparation requires the exercise of professional judgement’.

At this session, the staff would like to discuss provision of forecasts and targets in management commentary. The table below includes the key points on providing forecasts and targets from the existing Practice Statement (the related paragraphs can be found in Appendix B on slide 31), and the corresponding staff’s proposals:

Existing Practice Statement	Staff’s proposed approach
Management should provide forward-looking information through narrative explanations or through quantified data, which may—but are not required to—include projections or forecasts, and disclose the assumptions used.	Maintain the existing guidance of not requiring forecasts, but add a requirement to include forecasts or targets in management commentary if these have already been published elsewhere.
Management should explain how and why the performance of the entity varies from forward-looking disclosures made in the prior period management commentary, as well as the implications of those variances for the entity’s future performance.	Extend the existing requirement to provide comparisons of the entity’s actual performance to past forecasts and targets included in the prior period’s management commentary to forecasts and targets that were previously published elsewhere.

Feedback from the Consultative Group

Feedback from the Consultative Group

- The Consultative Group members expressed varying views about including forecasts in management commentary:
  - (a) some suggested that the revised Practice Statement should encourage the provision of forecasts;
  - (b) others expressed concerns related to legal liability risks arising from including forecasts in management commentary.
- One member commented that the proposed requirement to include forecasts published elsewhere in management commentary and provide comparisons to the entity’s actual results may deter entities from publishing any forecasts.

Questions for ASAF members

Question 7

Do you agree with the staff's proposals to add a requirement of:

(a) inclusion of forecasts and targets in management commentary if they have already been published elsewhere; and

(b) subsequent comparison of those forecasts and targets with the entity's actual results?

If not, why? What do you propose instead?

Question 8

Have you encountered or do you foresee any issues in your jurisdiction related to providing forecasts and targets in management commentary?

Information about tax in management commentary

Existing requirements, issue and staff's proposed approach

Existing requirements

- The existing Practice Statement does not explicitly require any disclosures in management commentary related to tax.
- IAS 12 *Income Taxes* requires an entity to disclose an explanation of the relationship between tax expense and accounting profit and of significant effects of enacted or announced tax changes.

> [The entity shall disclose]:
> 81(c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:
>
> (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or
>
> (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;
>
> 81(d) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;
>
> 88 […] where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities.

Issue

- Taxation and the sustainability of tax rates have become high-profile issues. Users may need more information than that required by IAS 12 to assess whether an entity's tax rate is sustainable.

Staff's proposed approach

- The required explanation of the relationship between tax expense and accounting profit in IAS 12 should provide users with useful information if it is sufficiently granular. If it is not granular enough in practice, it is not the role of management commentary to remedy that defect.
- However, there are some factors that may affect an entity's tax expense *in the future* that may not be captured by IAS 12 disclosures. Information on these factors would be necessary for users to assess whether an entity's effective tax rate is sustainable. The staff propose that management commentary should discuss factors such as:
  - (a) known or expected future changes in applicable tax rates or in tax law; and
  - (b) known or expected factors that could reasonably be expected to result in the relationship between tax expense and accounting profit for future periods differing from the relationship for the current year (for example, if a tax break or incentive is expected to expire).

Feedback from the Consultative Group

- Some members suggested that the entity's discussion of risks should include any material information about tax risks, and any implications for strategy.
- Some cautioned against duplication of information with the financial statements.
- Some suggested they would like management commentary to include information on the expected future tax rate.
- Some commented that tax is a sensitive topic and caution should be exercised in prescribing requirements.

Question for ASAF members

Question 9

Do you think the revised Practice Statement should include guidance on providing information about tax? If yes, do you agree with the proposal that management commentary should include a discussion of factors known or expected to change the tax expense in the future? If not, why and what would you propose instead?

Appendices

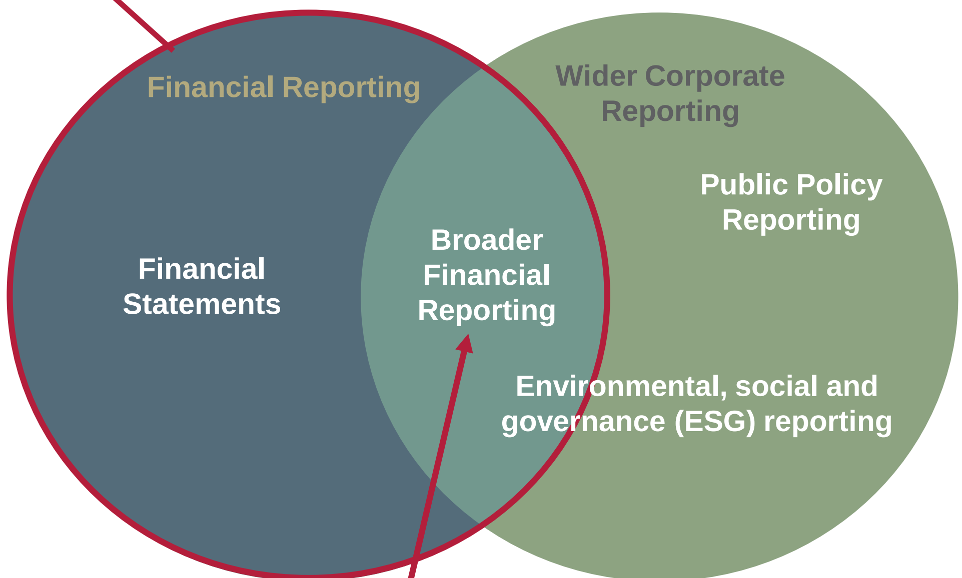
Appendix A – Background

Appendix A – Background
Project scope

- The objective of revising IFRS Practice Statement 1 *Management Commentary* is to:

improve guidance on preparation of management commentary that complements financial statements to support users' assessments of entities' sustainable prospects and stewardship, including guidance on provision of information about their intangible resources and relationships and ESG issues.

The Board's interest lies in financial reporting



Management commentary is part of broader financial reporting, and is a narrative report aimed at primary users of financial reports that provides context for and additional insight into an entity's financial statements.

Appendix A – Background
Project timeline

Nov 2017
Revision of the Practice Statement added to the Board's agenda

Jul 2018
The Board establishes the Consultative Group (CG)
The group will advise the Board in developing proposals for revision of the Practice Statement

Sep 2018
CG meeting - Stream 1
Objective, materiality and principles

October 2018 onwards
Meetings with other advisory bodies
Board deliberations

Jan 2019
CG meeting - Stream 2
Performance, position and progress

Apr 2019
CG meeting - Stream 3
Business model, risk, strategy, and operating environment

H1 2020
Publish Exposure Draft

Appendix A – Background
Update since last ASAF meeting

In December 2018, the staff discussed with ASAF the following topics:

- application of materiality to management commentary; and
- principles for preparing management commentary.

The feedback received in that meeting will be included in the staff's analysis in the Board Papers for the Board's upcoming discussions. The feedback was also considered in preparing the materials for the Stream 2 and Stream 3 discussions with the Consultative Group. The feedback on the concept of neutrality, particularly the possible tension between neutrality and providing information through the eyes of management, is included for further discussion in today's meeting (see slides 12–15).

The Consultative Group's Stream 2 discussion on performance, position and progress was held in January 2019. The discussion covered:

(a) analysis of the financial statements; and

(b) matters that could affect the entity's future development.

The papers supporting that discussion, including a summary of the meeting, as well as papers for other meetings, can be found at https://www.ifrs.org/projects/work-plan/management-commentary/#meetings

Appendix B – Extracts

Appendix B – Extracts
The proposed illustrative drafting of the objective of management commentary, including guidance to support it

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.

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 reasonably be expected to be capable of influencing users' assessment 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 – Extracts
Extract from IFRS Practice Statement 1 *Management Commentary* on link to financial statements

5. When management commentary relates to financial statements, an entity should either make the financial statements available with the commentary or identify in the commentary the financial statements to which it relates.

6. Management should identify clearly what it is presenting as management commentary and distinguish it from other information.

9. Management commentary…provides a context for the related financial statements…

16. Management commentary should supplement and complement the financial statements with explanations of the amounts presented in the financial statements and the conditions and events that shaped that information...

23. (b) When practicable, management should avoid duplicating in its management commentary the disclosures made in the notes to its financial statements.

The Basis for Conclusions explains that the Board decided to link management commentary to the financial statements because:

BC20 …management commentary is designed to supplement and complement information provided in a related set of financial statements. The Board observed that providing management commentary without (at minimum) identifying the related financial statements might be misleading for users. Consequently, the Board decided that when an entity presents management commentary that relates to IFRS financial statements, it should either make the financial statements available with the commentary or identify the financial statements to which the commentary relates.

Appendix B – Extracts
Extract from IFRS Practice Statement 1 *Management Commentary* on forward-looking information

Forward-looking information

17. Management commentary should communicate management's perspective of the entity's direction. Such information does not predict the future, but instead sets out management's objectives for the entity and its strategies for achieving those objectives. The extent to which management commentary looks forward will be influenced by the regulatory and legal environment within which the entity operates.

18. Management should include forward-looking information when it is aware of trends, uncertainties and other factors that could affect the entity's liquidity, capital resources, revenues and the results of its operations. Such information should focus on the extent to which the entity's financial position, liquidity and performance may change in the future and why, and include management's assessment of the entity's prospects in the light of current period results. Management should provide forward-looking information through narrative explanations or through quantified data, which may—but are not required to—include projections or forecasts. Management should disclose the assumptions used in providing forward-looking information.

19. Management should explain how and why the performance of the entity is short of, meets or exceeds forward-looking disclosures made in the prior period management commentary. For example, if management stated targets for future performance in previous reporting periods, it should report the entity's actual performance in the current reporting period and analyse and explain significant variances from its previously stated targets as well as the implications of those variances for management's expectations for the entity's future performance.

Prospects

36. Management should provide an analysis of the prospects of the entity, which may include targets for financial and non-financial measures. This information can help users of the financial reports to understand how management intends to implement its strategies for the entity over the long term. When targets are quantified, management should explain the risks and assumptions necessary for users to assess the likelihood of achieving those targets.

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