

# Management Commentary

Stream 3 *Business Model, Strategy, Operating Environment and Risks*

Slide Deck 2 *Business Model*

Consultative group meeting – 3 April 2019

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

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# Background

# Business model

## Challenges with current reporting practice

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- In Slide deck 1 we have identified the following challenges with reporting business model in management commentary:
  - (a) key business resources or relationships are not addressed in management commentary; and
  - (b) key features of how the business operates are either not described or over-generalised.
- In this Slide deck we explain the staff's proposed approach to addressing these challenges.
- In developing our approach, we have analysed national standard-setters' requirements for describing business model in management commentary or equivalent document (see slide 5) and approaches developed by other standard-setting bodies (see slide 13). We have also considered how the staff's proposals address investors' information needs as identified by the UK Financial Reporting Council's (FRC) Financial Reporting Lab in its 2016 research (see slides 14–15).

# Analysis of national standard-setters' requirements

- The national frameworks reviewed by the staff<sup>1</sup> provide various levels of guidance for describing business model:
  - (a) some requirements do not specifically refer to business model (for example, US, Mexico, Russia);
  - (b) some ask management for a brief description of the entity's business model, but leave management to decide what should be included in that description (for example, Spain, Portugal, Japan);
  - (c) some include high-level guidance on the features of business model that management should consider describing in management commentary (for example, UK, Germany).
- Frameworks reviewed do not define what is meant by 'business model'. Where descriptions are provided, they most commonly refer to 'value creation' or similar terms.

## ***EC Guidelines on non-financial reporting:***

A company's business model describes how it generates and preserves value through its products or services over the longer term.


- Many frameworks emphasise the importance of the description of business model as a context for management commentary. They ask management to consider the links between such description and other parts of management commentary.

## ***UK FRC Guidance on the Strategic Report:***

7A.20 The business model should provide context for other information presented in the strategic report and the annual report more broadly.

- Where high-level guidance is provided, examples of disclosures to consider include:
  - (a) structure of the entity;
  - (b) most important operating segments;
  - (c) locations;
  - (d) sources of value, being the key resources and relationships that support the generation and preservation of value;
  - (e) market(s) in which the entity operates and how the entity engages with those markets, including:
    - (i) what part of the value chain the entity operates in;
    - (ii) main products and services;
    - (iii) customers and distribution methods; and
    - (iv) competitive position within the market(s);
  - (f) entity's activities;
  - (g) business processes or methods of production of goods and methods of provision of services;
  - (h) external factors influencing the business;
  - (i) dependence of the company on foreign operations;
  - (j) the extent to which the business is cyclical or seasonal; and
  - (k) dependencies between key features of the business model.
- Note: two of the reviewed frameworks encourage management to use IIRC's International Integrated Reporting Framework (<IR> Framework) (see slides 13 and 18–19) for preparing management commentary.

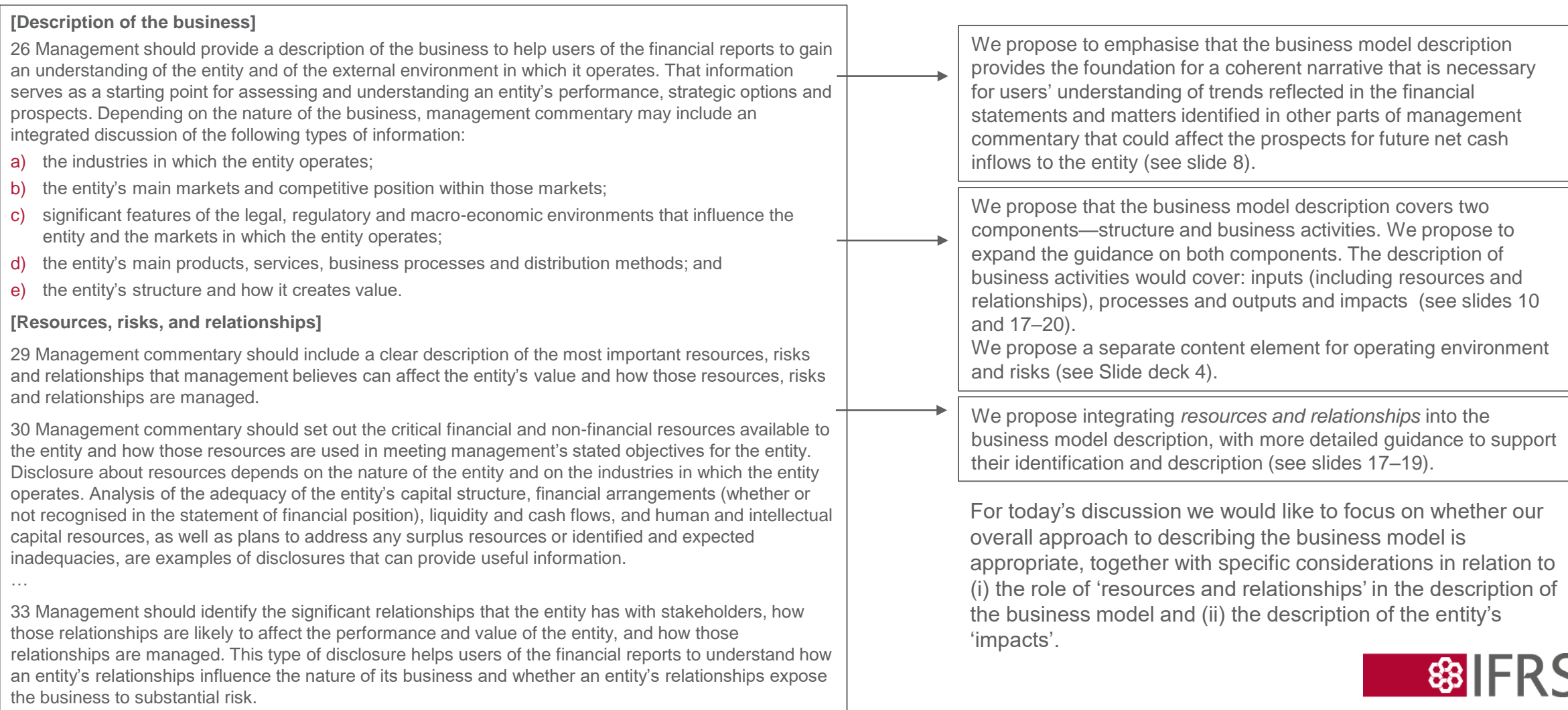
<sup>1</sup> Our review was based on the outreach performed in July-August 2018. In response to our questionnaire, we received 24 replies from national standard-setters.



# Staff's proposed approach for the description of the business model

# How we propose to revise the 2010 Practice Statement

The key changes proposed by the staff to the 2010 Practice Statement are summarised below:



# The role of the business model description in the management commentary

There is apparent confusion over the role of the business model description which may result in unfocused or incomplete descriptions. By setting out in the revised Practice Statement how the business model description contributes to achieving the objective of management commentary, we are aiming to support effective application of materiality to business model disclosures.

We propose that the role that the business model description in the management commentary is to provide the foundation for a coherent narrative that is necessary for users' understanding of:

- (a) trends reflected in the financial statements; and
- (b) matters identified in other parts of management commentary that could affect the prospects for future net cash inflows to the entity, for example, by affecting the entity's ability to pursue its strategy or its ability to respond to opportunities and risks in its operating environment.

*Example 1: If the entity identifies a strategy to enter a new market, the business model description should contain information on how the entity is planning to operate in that new market to help users assess possible implications for the entity's future cash flows. That information is particularly important if the way the entity plans to operate in the new market differs from the way it operates in its existing markets.*

This role is reflected in the application of the principle of narrative coherence discussed on slide 11. In implementing the revised Practice Statement, we would expect that preparers would build their report from the business model out. Similarly, we anticipate that users, regulators, and assurers would use the business model description as a basis for assessing whether the management commentary was complete

*Example 2: If a performance trend is attributable to an aspect of the business model that is not described then that might suggest the business model description is incomplete or over-aggregated.*

*Example 3: If an entity identifies dependence on long standing customer relationships in its description of the business model, then the content of other elements of the management commentary, such as strategy and progress, would also need to address this.*

To fulfil its role, we think the business model description needs to provide an overview of the business model together with detailed information about *only* the specific features of the business model that is necessary for users' understanding of trends reflected in the financial statements and matters identified in other parts of management commentary that could affect the prospects for future net cash inflows to the entity. Features of the business model are described in management commentary, for example, if they provide the entity with a competitive advantage, or if the importance of the feature is subject to uncertainty or is expected to change over time.

The 'eyes of management' approach of the Practice Statement places the responsibility on management to identify those features - we think prescribing them would undermine the principle of relevance (*for example, information on an entity's water-stressed assets may be relevant, aggregate information on its total water consumption may not be*). The staff's proposed approach is intended to provide principle-based guidance to support a comprehensive consideration of the specific features of the business model that need to be described in management commentary without making assumptions of what those features are.



# Staff's proposed approach

## General considerations

We propose that the description of the entity's business model in management commentary should explain what the entity does and how it relates to its purpose. The proposed approach to the description of the business model is summarised below:

Area	Proposed approach in the revised Practice Statement	Ref*
Components of the business model description	<ul style="list-style-type: none"> <li>Specify two components—structure and business activities—of the business model description. Require the description of business activities to cover: inputs, processes and outputs and impacts (see proposals for more detailed guidance on components on slide 10).</li> <li>Identify the components of the description of the entity's business model to be addressed in management commentary, but do not specify a structure for describing the business model.</li> </ul>	A6, A9
Entity-specific information	Require the provision of information that is specific to the entity.	A9
Role of the business model description	Explain the role that business model description plays in providing information necessary for users' understanding of (a) trends reflected in the financial statements and (b) matters identified in other parts of management commentary that could affect the prospects for future net cash inflows to the entity (see slide 8).	A7
Aggregation of information	Require an identification of the proportion of the business activity, segment or financial statements line item if information provided in the description of the entity's business model relates to a part of a business activity, segment or financial statements line item, for example, when transactions with one category of customers have different characteristics from those with another.	A10
More than one business model	<p>Ask management to consider whether understandability of management commentary is best supported by providing separate business model descriptions or combining them in a single description that provides detail on the distinguishing features of each business model. In selecting the way to provide a description of the business models, management to take into account:</p> <ul style="list-style-type: none"> <li>the extent to which different business models interact with each other or share common resources; and</li> <li>the rationale for operating those different business models.</li> </ul>	A11
Period covered and changes since the last reporting period	<p>Require management commentary to describe:</p> <ul style="list-style-type: none"> <li>the business model current at the date the management commentary is approved; and</li> <li>changes in the business model since the last reporting date, including changes in the importance of the features of the business model, for example an increased focus on a particular category of customers.</li> </ul> <p>Emphasise that features of the business model that have not changed since the last reporting date should be described in a manner consistent with their description at the last reporting date.</p>	A12

\* References are to the Illustrative drafting on business model, strategy, operating environment and risks. The illustrative drafting is provided for illustration only and we do not plan to discuss it in detail at the meeting.

# Staff's proposed approach

## Guidance on components of the description of the business model

Often in current practice key features of how the business operates are either not described or over-generalised. We propose to include the following guidance on components of the description of the business model that should be addressed in management commentary.

<b>Component</b>	<b>Proposed approach in the revised Practice Statement</b>	<b>Ref*</b>
1) Structure of the entity	<ul style="list-style-type: none"> <li>Provide an overview of the entity's:               <ol style="list-style-type: none"> <li>operating structure, including descriptions of how different parts of the entity interact, of the common resources and relationships they depend on; and</li> <li>legal structure.</li> </ol> </li> <li>Explain how operating and legal structure relate to each other.</li> </ul>	A13–A14
2) Business activities	<ul style="list-style-type: none"> <li>Provide a description of the business activities undertaken by the entity, including an overview of the business activities and more detailed qualitative and quantitative information about features of business activities necessary for users' understanding of (a) trends reflected in the financial statements and (b) matters identified in other parts of management commentary that could affect the prospects for future net cash inflows to the entity.</li> <li>The description of business activities needs to cover the entity's inputs, processes, and outputs and impacts. We propose these elements of the description for consistency with the revised definition of a business in IFRS 3 <i>Business Combinations</i> (except for identification of 'impacts').</li> </ul>	A15
2a) Inputs, including resources and relationships	<ul style="list-style-type: none"> <li>Require a description of (i) the main categories of raw materials and services the entity depends on for its success and (ii) the arrangements for sourcing the inputs.</li> <li>Require in the description of inputs a separate description of resources and relationships that the business model depends on, irrespective of whether they are recognised in the financial statements. In particular:               <ol style="list-style-type: none"> <li>require a focus on resources and relationships whose continued availability and strength could affect the prospects for future net cash inflows to the entity;</li> <li>provide examples to be considered by management in selecting resources and relationships to describe; and</li> <li>indicate what information to provide about selected resources and relationships.</li> </ol> </li> </ul> <p>See slides 17–19 that discuss specific considerations for describing resources and relationships in management commentary.</p>	A15(a), A16–A21
2b) Processes	<ul style="list-style-type: none"> <li>Address both processes involved in producing the entity's outputs and processes undertaken to develop and maintain the entity's resources and relationships that the entity depends on for its future success.</li> </ul>	A15(b)
2c) Outflows and impacts	<ul style="list-style-type: none"> <li>Require a description of (i) the main categories of the entity's products and services and (ii) the main categories of the entity's customers and distribution methods, including a description of the arrangements under which the entity transacts with its customers.</li> <li>Require information about impacts of the entity's business activities on the entity's resources and relationships addressing both positive and negative impacts. Such information is provided if the impacts affect the prospects for future cash net inflows to the entity. Such impacts could include, for example, impacts on relationships resulting from the entity's impacts on the environment or on staff satisfaction. See slide 20 that discusses specific considerations for describing impacts in management commentary.</li> </ul>	A15(c)– A15 (d)

\* References are to the Illustrative drafting on business model, strategy, operating environment and risks. The illustrative drafting is provided for illustration only and we do not plan to discuss it in detail at the meeting.

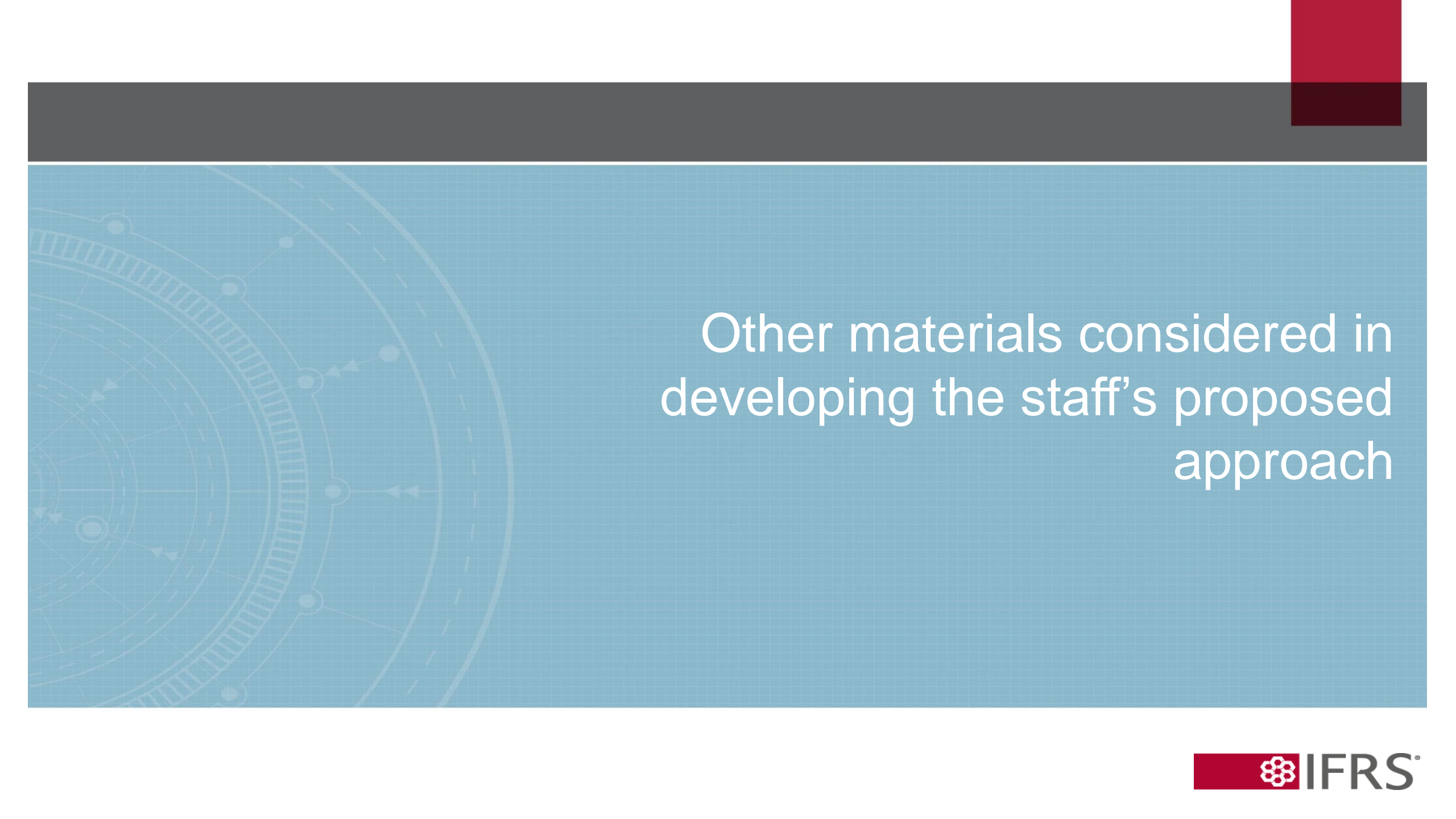
# Application of the principle of narrative coherence

The table below summarises the areas where we propose to provide guidance on the application of the principle of narrative coherence in relation to the business model. If the entity decides to provide information about a feature of the business model, then the revised Practice Statement would prompt management to determine whether there is material information to be provided in the following related areas:

<b>Related content</b>	<b>Proposed requirement</b>	<b>Illustration</b>
<b>Business model - impacts</b>	Provide information on 'impacts' if these impacts affect the prospects for future net cash inflows to the entity – Stream 3 A15(d)	<i>A branded goods manufacturer identifies in its business model description the importance of maintaining an 'ethical brand' reputation. It reports on the impacts of its supply chain on this reputation.</i>
<b>Operating environment</b>	Describe trends and factors in the operating environment that could affect the operations of the entity's business model – Stream 3 A40(b)	<i>A pharmaceuticals business identifies in its business model description the importance of the payer relationships. The description of its operating environment explains the trends in payer procurement policies.</i>
<b>Risks</b>	Identify risks arising from the operation of the entity's business model – Stream 3 A49(a)	<i>An extractives business identifies in its business model description that its expertise lies in the development of challenging assets. Its risk disclosures address the management of safety and environmental risk.</i>
<b>Progress</b>	Analyse and explain progress in managing the features of the entity's business model that the entity depends on for its success – proposed in Stream 2	<i>A retail bank relies on lifetime customer relationships. It reports customer retention statistics and the proportion of the active customer base having a five year plus relationship.</i>

To enhance narrative coherence, it is important that management commentary focuses on those features of the business model for which information is material so the management commentary does not become cluttered. To support this focus, we propose the following specific guidance in addition to the generic guidance on the application of materiality that we discussed in Stream 1:

- In addition to the overview of the entity's business model, management commentary should provide more detailed information about features of the entity's business model that is necessary for users' understanding of (i) trends reflected in the financial statements and (ii) matters identified in other parts of the management commentary that could affect the prospects for future net cash inflows to the entity, for example, by affecting the entity's ability to pursue its strategy or its ability to respond to opportunities and risks in its operating environment (see paragraphs A7–A8).
- The description of the entity's impacts should be limited to the description of impacts that affect the prospects for future net cash inflows to the entity (see paragraph A15(d)).
- Management should focus on identifying and describing only the resources and relationships whose continued availability and strength could affect the prospects for future net cash inflows to the entity (see paragraph A16).



Other materials considered in  
developing the staff's proposed  
approach

# Analysis of other perspectives on the business model

In developing the staff's proposed approach to the description of the business model, we have considered additional perspectives on business model from:

- (a) the IIRC's <IR> Framework; and
- (b) CIMA-Global's publication *Rethinking the Business Model*, which incorporates a review of business model literature.

## Notable features relating to the description of the business model:

- The IIRC refers to '*value creation processes*'. CIMA-Global also emphasise the role of value in relation to the business model. We are proposing to require information on the entity's business model without explicitly referring to value creation as we do not think the 'value creation' qualifier would change how the proposed guidance is interpreted.
- CIMA Global's model suggests separate consideration of processes and activities – '*firms and their partners engage in activities that use the processes to convert resources into goods and services*'. CIMA Global use the term 'processes' to mean components of 'activities'. We use 'processes' as a synonym for 'activities'. Our choice of the word 'processes' is based on its use in the revised IFRS 3 where 'processes' are identified as an element of a business.
- CIMA Global's model identifies '*sharing of surplus*' as a component of value capture. We consider 'shared surplus' to be one approach to managing an entity's relationships amongst a range of possibilities, therefore we do not propose to include it in the Practice Statement. Where an entity follows 'sharing of surplus' approach to enhance its relationships (for example, with employees), information about this could be material and, if so, would have to be provided in management commentary.

## Other notable features:

- Use of the term 'stakeholder' – we are proposing to avoid using the term 'stakeholder' because as discussed during Stream 1 management commentary provides information for primary users of financial reports as defined in the *Conceptual Framework for Financial Reporting* (ie existing and potential investors, lenders and other creditors) rather than for a broader range of 'stakeholders' such as for policy purposes or society at large. The staff think that the proposed guidance on describing relationships in management commentary would prompt management to identify all information about the entity's relationships with other parties that is relevant to primary users of financial reports.
- CIMA Global identifies 'technology' as a separate component of the business model. Whilst recognising the importance of both technology and data, we think the emphasis on addressing the entity's resources is sufficient.
- The IIRC model makes the role of governance across the value creation process explicit. We cover the overlap between management commentary and governance disclosures in Slide deck 1.

Note: Slide 18 provides comparison of the staff's proposals to the 'capitals' concept in the <IR> Framework.

## Analysis of investors' information needs (1/2)

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In developing the staff's approach to the description of the business model, we have considered the findings of the FRC's Financial Reporting Lab research in 2016. The Reporting Lab's report *Business Model Reporting* identified so called 'investor wants' related to description of the business model. The eighteen features identified are summarised in the table on slide 15, together with a summary of how we propose to address the 'want' in revising the Practice Statement.

The staff's proposals for the description of the business model address many of the 'wants' identified in the Reporting Lab's research except for:

- Market share – this information can be provided (eg when describing the operating environment), but requiring such information is not proposed because it may not be available to management.
- SWOT analysis – not proposed as a requirement because it is only one of the possible methods of providing information about an entity's strengths, weaknesses, opportunities and threats. However, we think the information in a management commentary would support a user's own analysis.
- Cash flow for each significant business – not proposed as a requirement in the Practice Statement, but we highlight that liquidity considerations were discussed in Stream 2.
- Returns – not proposed as part of the guidance on the business model description, but we highlight that provision of information that would help users evaluate the returns generated by past allocation decisions was discussed in Stream 2.

# Analysis of investors' information needs (2/2)

<i>Investor 'want' identified by the Reporting Lab</i>	<i>The staff's proposed approach in the Practice Statement</i>	
<b>'Most investors want the company to include:'</b>		
What it does and where it sits in the value chain	* / X	Substantially addressed by requiring a description of business activities (A15) , but no specific requirement to discuss an entity's position in the value chain
Key divisions and their contribution, and legal structure	*	Both operating and legal structure addressed (A13–A14). Divisional contribution assumed to be covered in the financial statements by segment reporting.
Key markets and market segments	✓	Addressed in guidance on describing customer relationships (A20(a))
Its competitive advantage	✓	Features of the entity's business model that provide an entity with a competitive advantage are expected to be described in management commentary (A8)
Key inputs (assets and liabilities, relationships and resources) and how they are maintained / enhanced	✓	Addressed for inputs (A15(a)) and resources and relationships (A16). The guidance on strategy covers plans to develop business model, including its resources and relationships (A22(c))
Key revenue and profit drivers	*	The description of the role of the description of the business model emphasises future cash flows rather than revenue / profit drivers (A7)
Value created for other stakeholders that supports economic value generation	*	Addressed in the context of factors affecting the health of the entity's relationships (A21) and negative and positive impacts of the entity's business activities on resources and relationships (A15(d)), though we do not propose to use the term 'value creation'
Statistics to indicate relative importance of elements	✓	Addressed by requiring quantitative information about features of the entity's business model to support users' understanding (A7)
<b>'Many investors also want:'</b>		
Direct threats	✓	Addressed by the requirement to report on trends and factors that could affect the operation of the business model (A40)
Market share	X	Not explicitly required, but used as an example of information that can be provided (A45)
<b>'Some investors also want:'</b>		
Culture and values	✓	Culture is addressed as part of 'strategy' content element (Slide deck 3)
SWOT analysis	X	Not proposed as a requirement in the Practice Statement but information in management commentary would support a user's own analysis
Purpose	✓	Purpose is addressed as part of 'strategy' content element (Slide deck 3)
Investment plans	✓	Information about investments required to deliver plans is required as part of 'strategy' content element (Slide deck 3)
How the business model is likely to evolve	✓	Purpose, objectives and plans are addressed as part of 'strategy' content element (Slide deck 3)
Cash flow for each significant business	X	Not proposed as a requirement in the Practice Statement
Capital and assets allocated to each significant business	*	Partly addressed by proposals on 'financing position and requirements' in Stream 2 and proposal to describe financial resources required to implement the entity's strategy when describing funding strategy (A38(c))
ROE, ROCE, or ROA	X	Discussion on returns was included in Stream 2

✓ Addressed directly by the staff's proposals

\* Substantially addressed by the staff's proposals

X Not addressed by the staff's proposals



# Specific considerations in describing business model



# Resources and relationships

## Greater emphasis proposed

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The role of an entity's resources and relationships in supporting the sustainable operation of its business has received significant attention. We discussed this during *Stream 1*, and in *Stream 2* where we covered information on the entity's progress in managing its resources and relationships.

Although the importance of resources and relationships was recognised in the 2010 Practice Statement, we think that further emphasis would be desirable in order to support more focused consideration of which resources and relationships need to be described in an entity's management commentary, and what information about them to provide.

This importance of resources and relationships is recognised in the '*capitals*' concept in the <IR> Framework as well as other frameworks, notably the FRC's *Guidance on the Strategic Report*.

The staff's proposed approach for the Practice Statement is compared to that of the <IR> Framework on the following two pages.

# Resources and relationships

## Comparison to the ‘capitals’ concept in the <IR> Framework

- We highlight the similarity between the emphasis on ‘resources and relationships’ in our proposals and the ‘capitals’ concept in the <IR> Framework.
- We note that there is sometimes confusion about the role of the capitals in an integrated report as the description of capitals may be seen as an objective for the report, rather than as supporting the objective. We wish to avoid this confusion and are therefore proposing to:
  - (a) focus the description of resources and relationships on ‘*those resources and relationships whose continued availability and strength could affect the prospects for future net cash inflows to the entity*’; and
  - (b) give as examples resources and relationships that ‘*provide the entity with a competitive advantage*’ or ‘*if there is uncertainty about the continued availability of the resource or relationship that the entity depends on for its success*’.
- The approach to the capitals in the <IR> Framework is more high level than in the staff’s proposals, providing six categories of capital to consider. A downside with this approach is that some commonly important resources such as *customer base* and *know-how* are not listed explicitly. Therefore, we are proposing guidance on the common resources and relationships that the discussion in management commentary *may* need to include. A downside of providing such guidance is that the guidance cannot list all resources and relationships that may be important for an entity (for example, we do not explicitly identify data assets, which may be important in some businesses).

<i>Integrated Reporting ‘Capitals’</i>	<i>Staff’s proposed approach Examples of ‘resources and relationships’ to be covered</i>
<b>Financial</b>	<ul style="list-style-type: none"> <li>• Financial resources, and access to financial resources – A18(e)</li> </ul>
<b>Intellectual</b>	<ul style="list-style-type: none"> <li>• Expertise, know-how, and other intellectual capital – A18(b)</li> </ul>
<b>Manufactured</b>	<ul style="list-style-type: none"> <li>• Operating sites and infrastructure – A18(a)</li> </ul>
<b>Social and relationship</b>	<ul style="list-style-type: none"> <li>• Customer relationships, including the current and target customer and end-user base, the channels and partners through which the entity distributes its products and services, the entity’s markets and its position in them – A20(a)</li> <li>• Sourcing relationships, including supplier and outsourcing dependencies, and the features of the entity’s supply chain – A20(b)</li> <li>• Wider relationships, including those with government, regulators, and society at large to the extent that those wider relationships could affect the prospects for future net cash inflows to the entity – A20(d)</li> <li>• Brand and reputation – A18(c)</li> </ul>
<b>Human</b>	<ul style="list-style-type: none"> <li>• Staffing relationships, including both those directly with employees and those indirectly with employees and contractors in the supply chain – A20(c)</li> </ul>
<b>Natural</b>	<ul style="list-style-type: none"> <li>• Access to natural resources, whether licensed or unlicensed – A18(d)</li> </ul>

## International Integrated Reporting Framework: Capitals Disclosures

### 4.54 Disclosures about the capitals, or a component of a capital:

- Are determined by their effects on the organization's ability to create value over time, rather than whether or not they are owned by the organization
- Include the factors that affect their availability, quality and affordability and the organization's expectations of its ability to produce flows from them to meet future demand. This is particularly relevant with respect to capitals that are in limited supply, are non-renewable, and can affect the long term viability of an organization's business model.

4.55 When it is not practicable or meaningful to quantify significant movements in the capitals, qualitative disclosures are made to explain changes in the availability, quality or affordability of capitals as business inputs and how the organization increases, decreases or transforms them. It is not, however, necessary to quantify or describe the movements between each of the capitals for every matter disclosed.

The variety of resources and relationships that may need to be described in a management commentary means it is not possible to provide specific guidance on what information to provide in relation to each. We are therefore proposing that the revised Practice Statement should ask for '*qualitative and quantitative information necessary for understanding of [the resource or relationship's] nature and its importance to the future operation of the business.*' Resources and relationships that have different characteristics, such as direct and indirect customer relationships, are described separately.

Proposed guidance also requires to provide information to help users understand the current and planned rate of replenishment of the resource relative to the rate of depletion in cases when a resource is depleted as a consequence of the entity's business activities (for example, in the extractives industry).

In addition, we think it is important to distinguish the information on the entity's relationships required to support the objective of management commentary from the information that may be required by 'other stakeholder'<sup>(\*)</sup> reporting frameworks. We are therefore proposing to provide guidance to illustrate the purposes for which information about relationships may be required to support the objective of management commentary. We propose to identify information to help primary users of management commentary evaluate:

- (a) the durability of the relationship;
- (b) the lifecycle of the relationship;
- (c) the extent of customers' dependency on the entity to meet their ongoing service needs;
- (d) the entity's dependency on the relationship; and
- (e) the entity's vulnerability to disruption to the relationship.

Management commentary also provides information about any concentration of risk resulting from a particular relationship or group of relationships.

We discussed a proposed requirement to report on progress in managing the entity's impacts during Stream 2:

*The management commentary should provide analysis and explanations of progress in managing the features of the entity's business model that are [critical] to the entity's future success, including...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.*

To support this requirement, in the guidance on describing the entity's business model we are proposing that the entity is required to provide information on the impacts of the entity's business activities on the entity's resources and relationships (see paragraph A15(d) of illustrative drafting). Impacts on the entity's resource or relationships may be positive or negative and could include, for example, impacts on relationships resulting from the entity's impacts on the environment or on staff satisfaction.

Given that impact reporting is sometimes approached from the perspective of a broader set of users to the financial statements, we propose to emphasise that information about impacts is provided in management commentary only if these impacts affect the prospects for future net cash inflows to the entity.

# Questions

1. Do you agree with the proposed role and components of a business model description (slides 8 and 10)? If not, why and what do you propose instead?
2. Do you agree with the level of emphasis placed on the entity's resources and relationships in the description of its business model (slides 17-19)? Do our proposals provide sufficient guidance for (i) identifying resources and relationships that need to be described in management commentary and (ii) determining what information to provide about them? If not, why and what do you propose instead?
3. Do you agree with the staff's proposal that management commentary should describe only those impacts that affect the prospects for future net cash inflows to the entity (slide 20)? If not, why and what do you propose instead?

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