This illustrative drafting is provided for illustration only and the staff do not plan to discuss it in detail at the meeting.

Overall approach to reporting performance, position and progress (Slide deck 1)

Performance, position and progress

A1. Analysis and explanations of the entity's performance, position and progress included in the management commentary:

(a) are based on information used in managing the business.

(b) can be qualitative or quantitative in nature, or both, whichever best meets the objective of management commentary.

(c) include measures that are directly used in managing the business, or are derived from information that is used in managing the business, and are analysed and summarised to meet the objective of management commentary.

(d) include discussion of the matters that affected the entity's performance and position, the matters known to management that could affect the entity's future development, and their potential implications. The discussion should link to discussion of management's strategy for managing those matters, where appropriate. Management is not required to include predictions of future outcomes in the management commentary.

(e) complement, and link to, information provided both in the financial statements and in other parts of the management commentary, including the discussion of the entity's business model, strategy, and operating environment.

Application of principles to reporting performance, position and progress

Narrative coherence

A2. If the management commentary identifies material matters in the analysis and explanations of the entity's performance, position and progress, the management commentary should include information to help users evaluate the potential implications of those matters. This information may be provided elsewhere in the management commentary. For example, the description of the business model might include information about the revenue attributable to a category of customers that is affected by a trend and the description of the strategy might include information on how management is responding to that trend.

A3. Matters should be explained in the context of the entity's operating environment, including the external trends and factors the entity faces.

A4. The management commentary complements the financial statements. It is not required to repeat information in the financial statements, unless repetition is necessary to provide a neutral and understandable discussion.

Aggregation

A5. Analysis and explanations in the management commentary should ordinarily be provided on a basis that is consistent with the segments or line items included in the financial statements. The management commentary should include additional detail where the analysis would otherwise result in the aggregation of divergent trends.

A6. Where the management commentary includes analysis of a business activity that does not constitute the whole of a segment identified in the financial statements (for example, because the matter being discussed relates to a particular category of customer), the management commentary should describe the scope of analysis by reference to the most appropriate item provided in the financial statements (for example, by indicating the proportion of revenue generated by the business activity covered by the analysis).

Comparability

A7. The management commentary should provide comparative information. Analysis and explanations of the entity's performance, position and progress based on amounts in the financial statements should cover at least all periods for which financial statements provide comparative information. In determining the period for which to provide comparative information, management also considers the period over which the trends relating to a matter emerge, taking into account that some longer-term trends may emerge only over a period of, say, three to five years. In addition, the understandability of the management commentary may be enhanced if comparative information is provided in tabular format where such a format is appropriate.

Management's estimates and judgements

A8. The management commentary may need to include estimates and approximations made by management if it is not practical to provide an exact figure in relation to a matter. Any such estimates or approximations should be clearly identified as such, and their sources and the basis on which they have been made should be explained, including explanations of any limitations in the approach taken by management.

A9. In addition, descriptions of facts should be clearly distinguished from statements of opinions in the management commentary.

Components of reporting performance, position and progress

A10. The management commentary should include:

(a) analysis and explanations of the financial statements;

(b) analysis and explanations of the matters that:

(i) affected the entity’s current period financial and operational performance and its position at the end of the current period;

(ii) could affect the future development of the entity’s financial and operational performance; and

(iii) could affect the features of the entity’s business model that the entity depends on for its future success.

Analysis of the financial statements (Slide deck 2)

Overview of the entity's performance and position

A11. The management commentary should include an overview of the entity's financial performance and position based on the performance measures and ratios that management considers to be most important for understanding of the entity's performance for the current reporting period. If adjusted performance measures are used, the overview should not give greater prominence to those performance measures than to their unadjusted equivalents, ie the most directly comparable (unadjusted) measures included in the financial statements. That overview does not need to be a separate section of the management commentary.

Financial performance

Entity's ability to generate cash flows in the future

A12. The management commentary should provide information that helps users evaluate the extent to which current period financial performance is indicative of the entity's ability to generate cash flows in the future. Such information includes analysis and explanations of the following income or expenses that may not be indicative of the entity's ability to generate cash flows in the future and that relate to:

(a) unusual and infrequent items;

(b) transactions whose economic characteristics might not be inferred from the entity's description of its business model; and

(c) changes in accounting estimates and policies.

Trends in the entity's financial performance

A13. To help investors understand period-to-period trends in the entity's financial performance, the management commentary should include analysis of changes in the entity's financial performance attributable to:

(a) income or expenses that may not be indicative of the entity's current ability to generate cash flows in the future (see paragraph A12);

(b) changes in macro-economic factors, such as changes in currency exchange rate; and

(c) changes to the structure of the reporting entity arising from acquisitions or disposals.

Methods of explaining matters that affect financial performance

A14. Management determines the most appropriate method or methods of explaining in the management commentary matters that affect the entity's financial performance. Such methods may include:

(a) a 'bridge analysis' that breaks the overall change in financial performance into components that cumulatively account for the overall change in financial performance; and

(b) other forms of hypothetical analysis such as 'constant currency calculations' that adjust for effects of changes in foreign exchange rates or 'pro forma group calculations' that adjust for the effect of significant changes in the reporting entity arising from acquisitions or disposals.

A15. Where management provides a hypothetical analysis, it should ensure that:

(a) the analysis is provided in a neutral and understandable way and includes explanations of the limitations of the analysis;

(b) hypothetical numbers are described as such so that it is clear that they do not depict actual events or actual trends; and

(c) any adjustments incorporated in the analysis (for example, constant currency adjustments) should solely relate to the matters being analysed (such as changes in currency exchange rate) and be factually supportable.

A16. In making any changes from period to period in the method of explaining matters that affect the entity's financial performance, management should:

(a) ensure that such changes do not make the management commentary less neutral or less understandable; and

(b) explain the nature of such changes and the reasons for them.

Adjusted performance measures and ratios

A17. The management commentary may include measures and ratios that incorporate adjustments to the source data (for example, the amounts in the financial statements or internal reporting systems) to help users understand performance. Where such adjusted measures are used, the management commentary should provide a reconciliation to their unadjusted equivalents and a description of:

(a) why the measure provides management's view of performance;

(b) the basis of its calculation, identifying any changes in that basis from the previous period or any differences from similar measures published by the entity, for example, in investor presentations; and

(c) each adjustment to the measure's unadjusted equivalent and the reason why management considers the adjustment appropriate in the context of the entity's economic circumstances.

A18. The management commentary should not provide adjusted measures with greater prominence than their unadjusted equivalents. Particular care is needed when reporting adjusted measures that cause ratios to cross a key threshold, for example, where the adjusted measure exceeds a covenant threshold and the unadjusted equivalent does not.

A19. Adjusted measures should be labelled appropriately so that:

(a) the measure cannot be confused with similar measures included in the financial statements; and

(b) the description of the measure does not imply a broader set of adjustments than is the case. For example, a measure should not be described as adjusting for 'one-off items' unless management has determined that the measure does in fact incorporate all such adjustments.

A20. The management commentary should not use descriptions such as 'non-recurring' or 'non-underlying' when items of a similar nature may be expected to arise over the entity's business cycle.

A21. Where ratios are provided, the nature and scope of the numerator and denominator and any related adjustments must be consistent with each other.

Link to management compensation

A22. If management compensation includes a component that is linked to the entity's performance, the management commentary should identify the performance measure used in determining the compensation and include:

(a) a reconciliation of the performance measure used in determining management compensation to its nearest unadjusted equivalent; and

(b) discussion of the entity's performance in the context of that performance measure if it is not already provided in the main discussion of performance.

Matters that affect operational performance

A23. The management commentary should provide analysis and explanations of the matters that affect the entity's income and expenses that result from the entity's main business activities for the current period and provide comparisons to prior period(s).

A24. Such analysis and explanations should reflect the features captured in the description of the entity's business model and address:

(a) analysis of revenue variances, including explanations of price and volume components and analysis of other revenue measures (such as average revenue per customer) used by management in managing the business;

(b) analysis of cost measures used by management in managing the business, including explanations of efficiency and utilisation variances; and

(c) other indicators (such as fixed-variable cost ratios) that help users understand the relationship between costs and revenues.

A25. The management commentary should provide explanations of the operational matters giving rise to the above variances.

A26. If a matter affected the entity's performance for only part of the current period or may not affect the entity's performance in future periods, the management commentary should include information to help users evaluate the potential impact of the matter over a full period and on future periods.

Other aspects of performance and position

Investment activities

A27. The management commentary should include analysis and explanations of amounts included in the financial statements in relation to capital and operating expenditure that is useful for users' understanding of the extent to which the entity's current levels of investment are consistent with its ongoing needs in the context of its stated business model and strategy.

A28. Where appropriate, such analysis and explanations should include:

(a) analysis of capital expenditure between categories that are intended to maintain the entity's ongoing operations and categories that are intended to support the extension of the entity's activities in accordance with its strategy;

(b) analysis of operating expenditure between categories that are intended to maintain the entity’s ongoing operations and categories that are intended to enhance the entity’s economic resources and relationships in accordance with its strategy (for example, research expenditure, customer acquisition programmes); and

(c) explanations of the relationship between the entity’s strategy and the nature and the level of expenditures.

A29. Where possible, the management commentary should include information to help users evaluate the returns generated by past capital allocation decisions. Depending on the nature of the investment, such information may include information about the returns generated by the investment and the amount of the underlying investment.

Financing position and requirements

A30. The management commentary should include information about the entity’s financial position to help users assess the entity’s ongoing financing requirements. This information should include:

(a) explanation of working capital changes during the period if the entity’s working capital position at the end of the reporting period is unrepresentative of the entity’s working capital during the period;

(b) analysis of performance measures and ratios that help users understand the entity’s compliance with its financing covenants;

(c) analysis of terms and conditions of financial liabilities, guarantees, lease, option and other financing agreements that could give rise to early repayment obligations; and

(d) discussion of the entity’s financing requirements both for the next period and beyond, including explanations of the impact of the entity’s stated strategy on its financing requirements.

Matters affecting current period other income and expenses

A31. The management commentary should provide analysis and explanations of the matters affecting the entity's current period interest, tax and other income and expenses.

A32. The discussion of the entity's income tax expense should complement the information in the financial statements to help users assess whether the entity's effective tax rate is sustainable in the context of the entity's income tax strategy. To provide users with information needed for this assessment, the management commentary should discuss factors such as:

(a) known or expected future changes in applicable tax rates or in tax law;

(b) known or expected changes in the entity's income tax strategy that could reasonably be expected to affect the tax consequences of the entity's future transactions and future activities; and

(c) 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.

Comparisons to previously published forecasts and targets

A33. Where the entity has previously published (including outside the management commentary) a forecast of, or a target for, an aspect of the entity's performance for the current period, the management commentary should include a comparison of the entity's current period performance with that forecast or target. The comparisons should explain any significant variances from the forecasts or targets and discuss the implications of those variances for management's expectations of the entity's future performance.

Matters that could affect the entity's future development (Slide deck 3)

Matters that could affect the future development of the entity's performance

Progress in implementing the entity's strategy

A34. The management commentary should provide analysis and explanations of the matters known to management that could affect the future development of the entity's financial and operational performance, covering:

(a) the progress in implementing the entity's strategy in managing the matters identified in the description of the entity's operating environment. Depending on the matter being discussed, progress might be described in terms of the actions taken by the management or in terms of the effect of those actions. The analysis should include quantitative measures where these are available to management or can be derived from information available to management. In providing comparative information, the management should consider whether users need to evaluate progress in managing the matter over a number of years.

(b) information to help users assess the potential implications of the matter and the entity's strategy in managing the matter on the entity's future performance. This information may include:

(i) information about the scale of business activity that is potentially affected by the strategy in managing the matter; and

(ii) information about the potential impact of the strategy on the business activity.

Forecasts and targets

A35. Forecast and target information may relate to the entity's financial or operational performance. Management is not required to prepare forecasts or targets for inclusion in the management commentary. However, where the entity has published a forecast or target that relates to a subsequent period, such forecast or target should be included in the management commentary, together with analysis and explanations of:

(a) the basis on which the forecast or target has been prepared and how that basis aligns with the description in the management commentary of the entity's business model, its strategy and operating environment; and

(b) the risks and assumptions incorporated in the forecast or target and how those risks and assumptions align with the discussion of current performance in the management commentary.

Matters arising after the end of the reporting period

A36. The management commentary should include analysis and explanations of matters arising between the end of the reporting period and the date of publication of the management commentary that reflects management's up-to-date perspective on the business that is not reflected in the financial statements.

A37. The analysis and explanations should cover:

(a) specific matters arising after the end of the reporting period that are known to management.

(b) trends after the reporting period in measures used by management to monitor the entity's performance. Depending on the entity's business model, it may be appropriate to include analysis of the entity's forward order book, pipeline or sales order backlog.

Progress in managing the critical features of the business model

A38. 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:

(a) the tangible and intangible economic resources needed to achieve the entity's purpose and strategy, irrespective of whether those resources are recognised in the entity's financial statements; and

(b) 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.

A39. The analysis and explanations should address progress in managing opportunities and risks identified in the description of features of the entity's business model or the operating environment that are critical to the entity's future success. The information provided should be specific to the aspect of the resource or relationship for which an opportunity or risk has been identified.

A40. Depending on the feature being discussed, progress might be described in terms of the actions taken by the management or in terms of the effect of those actions on the entity's resources and relationships, including the extent to which adverse impacts of business activities on those resources and relationships are being mitigated. The discussion should include quantitative measures where these are available to management or can be derived from information available to management. In providing comparative information, management takes into account that users may need to evaluate progress over a number of years.

A41. The management commentary is not required to include predictions of the impact of a matter on the entity's performance. However, it should provide information that is necessary to help users assess the potential impact of the matter. This information may include analysis and estimations of the scale of business activity that is potentially exposed to the matter, and, if available, scenario or sensitivity analysis.

A42. The management commentary should provide qualitative analysis of progress where such analysis enhances the quantitative analysis, or where the information to provide quantitative analysis is not available to management. Where qualitative analysis is provided, the management commentary should describe the reference points or milestones against which progress is analysed and distinguish those aspects of the analysis that are based on management's opinions from those that are based on facts. Analysis of progress over the current period should include both comparison to progress made in previous periods and comparison to management's forecasts or targets for progress over the current period where such forecasts or targets were previously published.

Survey information

A43. Where the management commentary includes information derived from surveys, such as net promoter scores, the management commentary should include:

(a) reference to the source of the survey and the methodology applied in the survey. If the methodology has changed from the prior year, an explanation of the reasons for the change should be provided.

(b) an overview of the questions asked in the survey and the results.

(c) information about the population surveyed, including whether it related to a specific category of customers or employees or part of the business, and the response rate.

A44. Where surveys have been conducted across business activities with different characteristics, it may be misleading to aggregate the results. Instead, findings may be summarised by, for example, grouping results for business units exceeding a specified score.

Scenario or sensitivity analysis

A45. Where management uses scenario or sensitivity analysis in managing the business, it may be appropriate to provide the results of this analysis in the management commentary. However, if the outcome of the analysis is highly sensitive to small changes in how the analysis is performed, it may be misleading to provide the analysis in the management commentary. Similarly, suppose an entity has many contracts that are highly sensitive to interest rate increases above a change of 1.5%, but not sensitive at all to an increase of 1%. In that case, it could be highly misleading to disclose only the sensitivity to an increase of 1%.

A46. Where scenario or sensitivity analysis has been provided, the management commentary should describe the scope of analysis, the scenarios considered, and the inputs and key assumptions made compared to the entity's current position and identify any non-linearities in sensitivity to the inputs and key assumptions (eg points at which significant options or guarantees come into the money) and any inherent or scoping limitations in the analysis. The analysis should link to the discussion of the entity's operating environment and its strategy for managing the matter, including descriptions of mitigating actions that are assumed to have been taken in the analysis.