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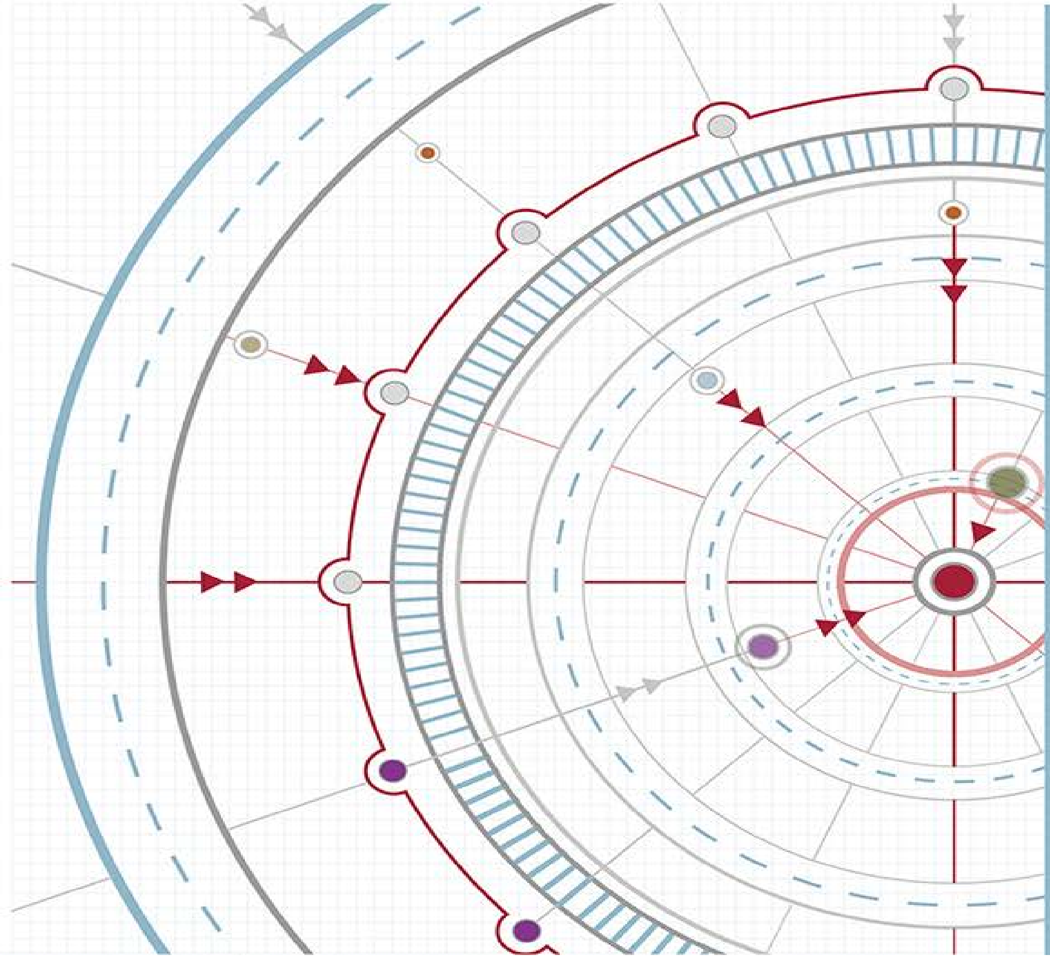


Management Commentary

Stream 2 *Performance, position and progress*

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

Consultative group meeting - 11 January 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.

Introduction

The staff’s proposed approach

The staff's proposed approach (1/3)
Matters to be covered

November 2018 IASB Agenda Paper 15A: Illustrative drafting
Guidance on the objective of the management commentary

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:

- 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;
- 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).

This slide deck addresses guidance on reporting of progress in managing the matters that could affect the entity's future development and success.

It covers information that should be provided in management commentary to meet the requirements of paragraphs A3(b) and A3(c) of the draft guidance on the objective of the management commentary.

The staff have combined the discussion of information necessary to meet the requirements of those two paragraphs in one topic because there is an overlap between the information that the staff think should be provided under those paragraphs. However, the staff think that the revised Practice Statement should address the requirements of each paragraph separately because (i) there are specific considerations applicable to each paragraph; and (ii) providing a single set of guidance to support those two paragraphs might lead to the discussion of longer-term aspects of performance being omitted from management commentaries in some cases.

The staff's proposed approach (2/3)
Information to be provided

November 2018 IASB Agenda Paper 15A : Illustrative drafting
Guidance on the objective of the management commentary

A4 To meet its objective, management commentary sets out

i. 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,

ii. the entity's progress in implementing that strategy;

iii. and the potential implications for the entity's prospects for future net cash inflows.

Paragraph A4 of the draft guidance on the objective of the management commentary addresses users' information needs in relation to the entity's strategy and the potential implications. The staff will cover the description of the strategy itself in Stream 3 (which will link to the entity's purpose and objectives).

This stream covers information to support users' understanding of:

- the progress in implementing the strategy, and
- the potential implications for the entity's prospects for future net cash inflows.

The staff's proposed approach (3/3)
Structure of the proposed approach

The staff think that the revised Practice Statement should address objectives A3(b) and A3(c) separately to support separate consideration of each. Broadly, A3(b) covers specific matters known to management, and A3(c) covers issues inherent in the business model that have not yet crystallised.

Source of the matter to be addressed

To be covered in our Stream 3 discussion

Strategy
Sets out how the entity is managing the opportunities and risks in the context of its overall purpose and objectives

Operating Environment (including external trends and principal risks)

Business Model
Identifies the key resources and relationships that the business depends on

Characteristics of information

Covered by objective A3(b)

Matters affecting future development
Aspects of performance where the entity is managing a specific opportunity / risk – e.g. upgrading existing customers to a new product

The entity will typically be actively monitoring specific measures to support its strategy, and have a clear view of what the strategy is designed to achieve. Measures will be unique to the strategy, with management commentary content adapting as strategic priorities develop.

Covered by objective A3(c)

Progress managing critical features of the business model
Aspects of performance where the entity is managing the overall health of the business – e.g. retaining development expertise

The entity may be monitoring the business for signs that an issue is emerging. It may have a broad approach to managing the matter, for example, that is implicit in its culture and purpose.
Standard measures may be relevant, but may still need to be tailored to the particular aspect of the business.
Measures will typically act as warning indicators and be more informative if presented over a longer period.

Matters affecting future development

Matters affecting future development (1/6)

This section focuses on the entity's progress in managing known matters that could affect the future development of the entity's financial and operational performance and covers:

- Progress in implementing the entity's strategy
  - Information about progress in managing the matter
  - Information that supports an assessment of the implications
- Forecasts and targets *(if previously published by the entity)*
- Matters arising after the end of the reporting period

Matters affecting future development (2/6)
Progress in implementing strategy – Progress in managing the matter

- There is a number of ways in which an entity could provide useful information on its progress managing known matters that could affect the entity's future development, illustrated opposite. In particular, some measures may address the *actions* taken (illustration 1) whilst others address the *effects* of management's actions (illustrations 2 and 3).
- There are advantages and disadvantages to both types of measure:
  - measures addressing *actions* taken should provide a longer term view, but it may be difficult to identify an objective measure of performance that is useful to users.
  - measures addressing *effects* of management's actions provide a shorter term view but may be easier for users to interpret.
- The staff propose that the revised Practice Statement recognises that either type of measure may be appropriate. However, the staff do not propose to give guidance on which is preferable (or whether to include both) as the staff think that the right measure will depend on the specific nature of the matter.

Illustration 1: Progress implementing a strategy

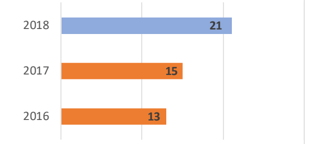
Operational KPIs				
KPI	Definition	Commitment	Performance	Historic Performance
Stores Upgraded	The number of stores upgraded in line with our 'drop-in' strategy	We are committed to upgrade all our stores to our 'drop-in' format by 2020	During the year we upgraded 21 stores, and have now covered 72% of the estate.	

Illustration 2: Progress managing an indirect performance driver

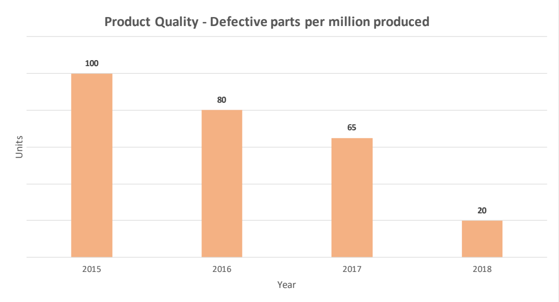
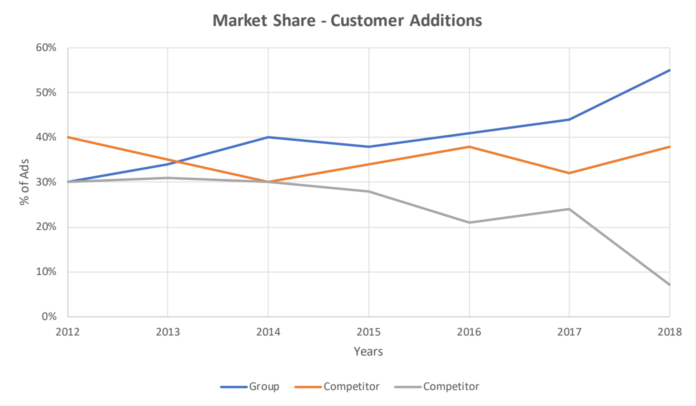


Illustration 3: Progress managing a direct performance driver



Matters affecting future development (3/6)

Progress in implementing strategy – Information that supports an assessment of the implications

- In addition to information on the progress in implementing the entity's strategy, the staff think users will need information to support their assessments of the implications of the strategy.
- The staff identify two types of information to support these assessments:
  1. Information on the scale of activity that is potentially affected by the strategy; and
  2. Information on the potential impact of the strategy on the activity.
- The staff expect that the information to support (1) would be covered in the business model description which will be discussed in Stream 3.
- The staff think the range of information that could support (2) is extremely broad, therefore the staff do not propose additional guidance on what information should be provided, beyond emphasising the need for such information. This places the onus on management to determine what information is needed to meet users' needs.
- The staff recognise that this type of information may be commercially sensitive if provided in 'raw' form – for example, identifying an entity's ten worst performing stores. However, we think the broadly specified objective for (2) should provide sufficient flexibility that discussion in management commentary can be adapted to avoid exposing sensitive data whilst meeting users' needs. The second example opposite illustrates one approach that could be applied.

Illustration 1: Additional analysis of revenue can help users asses the implications of a matter that is confined to one aspect of business activity

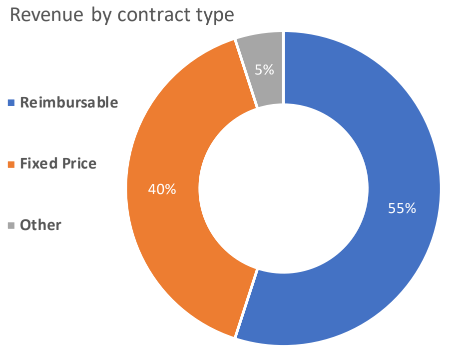


Illustration 2: A store profitability profile can support users' assessments of strategy implications without exposing sensitive data

Retail store profitability

Mainline store profitability	Percentage turnover
>30%	85%
>20%	96%
>15%	99%
>10%	99%
>0%	100%

Matters affecting future development (4/6)
Forecasts and targets (1/2)

- As discussed in Stream 1, the staff do not propose to require the inclusion of future forecast or target information in the management commentary.
- However, the existing Practice Statement recognises that forecasts and targets *may* be included in a management commentary. The staff propose to extend this guidance to *require* such disclosure if the entity *has already published* a forecast or target that relates to a subsequent period. This is because:
  a) The forecast or target would provide important insight for users, and it would not be appropriate to omit this information when it is publicly available.
  b) The insight provided by the management commentary will be enhanced by linking the discussion of past performance and strategy to management's forecast or targets.
- An additional consideration arises when the re-publication of a forecast would require that the forecast be updated (for example, in accordance with securities regulation). The staff think that such an update is appropriate because a stale forecast within or outside the management commentary could potentially render the management commentary misleading.

Forecast information – the existing Practice Statement:

18: Management should include forward-looking information when it is aware of trends, uncertainties or 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.

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.

Note: Forward-looking information

The staff don't propose to retain the term '*forward-looking information*' in the revised Practice Statement as it is sometimes used narrowly to refer to forecasts and projections, and sometimes more broadly to cover any information (including historical) that provides insight into prospects.

The latter use is implied by the existing Practice Statement, and the same interpretation is embedded into the proposed objective of the management commentary (see Slide deck 1, appendix A).

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Matters affecting future development (5/6)
Forecasts and targets (2/2)

- The guidance on forecast information in the existing Practice Statement is provided at a high level, requiring only that the entity should *explain the risks and assumptions necessary for users to assess the likelihood of achieving those targets.*
- The staff note that others' guidance, including that of securities regulators, is more detailed. In particular, the German Accounting Standard No 20 *German Management Report* (GAS 20) provides significantly more detail.
- Given that forecast information is not the main focus of the Practice Statement, the staff do not propose this level of detail. However, the staff think there are opportunities to extend the existing guidance whilst maintaining a high level approach. Specifically, the staff propose that:
  a) The basis of preparation of forecast information should be described in a way that links to the other content in the management commentary – business model, strategy, and operating environment (i.e. applying the narrative coherence principle); and
  b) The description of risks and assumptions incorporated in the forecast information should link to the discussion of current performance in the management commentary.

Forecast information – GAS20 disclosure requirements:

Report on expected developments

118. Forecasts by group management about the course of business and the position of the group shall be assessed and discussed in the group management report. The disclosures shall be summarised in an overall assessment.

119. The forecasts shall be based on the composition of the group in the forward looking period.

120.The material assumptions on which the forecasts are based shall be disclosed. The assumptions shall be consistent with the assumptions underlying the consolidated financial statements

121 For example, assumptions about future sales (revenue) trends in the earnings forecast shall be consistent with those in the projections used for the goodwill impairment test.

122. Examples of assumptions include: economic and sector trends, exchange rates, inflation, regulatory measures, technical progress, expected special factors affecting the group, the realisation of potential synergies, completion of development projects and commissioning of new plant or systems.

123. If the group's own forecasts for the course of business and position of the group are based on forecasts issued by other organisations (eg economic research institutions), this fact shall be disclosed.

124. Publicly available forecasts of macroeconomic and sector-specific trends shall only be presented to the extent that this is necessary for an understanding of the disclosures on the expected development of the group. They may not divert attention away from the disclosures on the expected development of the group.

125. The wording of the disclosures on the expected development of the group shall emphasise that they are forecasts.

126. Forecasts shall be provided for the most important financial and non-financial key performance indicators that are reported in accordance with paras. 102 and 106. They shall be determined in such a way that the projected and actual values for the same reporting period are comparable.

127. The forward-looking period shall cover at least one year, starting from the most recent reporting date of the consolidated financial statements. The period to which the forecasts refer shall be disclosed. Foreseeable special factors affecting the economic position of the group after the forward-looking period shall be presented and analysed.

128. The forecasts shall contain disclosures about the expected change in the projected key performance indicators compared with the relevant actual figures for the reporting period, and shall illustrate the direction and intensity of the change. Different reference points for the forecasts shall be disclosed.

129. Disclosures on direction indicate a positive or negative trend (eg rising, falling). Intensity describes the strength of the trend (eg strong, considerable, minor, slight).

130. The following types of forecast normally meet the requirements set out in para. 128: point forecasts, interval forecasts, qualified comparative forecasts. Comparative and qualitative forecasts do not meet the requirements set out in para. 128.

131. The reference values, ie the figures for the key performance indicators forecast in the reporting period, shall be disclosed either in conjunction with the forecast or elsewhere in the group management report such that the direction and intensity of the change are evident.

132. If the expected development of a material component of the group differs significantly from that of the group, this prediction shall be addressed separately.

Matters affecting future development (6/6)
Matters arising after the end of the reporting period

- Although the management commentary should be based on information for the current reporting period, the staff think it should reflect management's current perspective on the business as at the publication date. To support this, the staff propose to introduce a specific requirement to address matters after the period end (the staff anticipate a similar consideration will apply to our Stream 3 discussions).
- The staff expect that this discussion will be more extensive than a financial statements post balance sheet events disclosure. The staff think this is appropriate given the nature of the management commentary discussion (ie it would be misleading to provide an out of date management's perspective).
- The staff think the revised Practice Statement should capture:
  i. specific matters – 'shocks' - arising after the end of the reporting period; and
  ii. routine measures used by management to monitor the entity's current performance.
- The staff propose to include in the revised Practice Statement a requirement to include in management commentary 'analysis of the entity's forward order book, pipeline, or sales order backlog' to illustrate (ii). The staff acknowledge that these measures are not applicable to all business models, but think that they are sufficiently well understood to help preparers identify an appropriate measure of current activity if one is available.

GAS 20: Order book

'72. The order situation shall be presented and analysed if this information is material for a knowledgeable user.

73. Examples of disclosures on the order situation are disclosures on orders received during the reporting period, on the order backlog and on the forward order book.'

Staff research on the prevalence of 'order book' terminology

The staff have identified 260 company reports that reference 'order book' or similar terminology ('order pipeline', 'sales pipeline', 'order backlog', 'sales backlog', 'committed orders') out of a total population of 2,620 larger listed companies.

Progress in managing the critical features of the business model

Progress in managing the critical features of the business model (1/10)

This section focuses on the entity's progress in managing the critical features of its business model. The section covers:

- The staff's proposed approach:
  - Scope and focus of the information to be provided
  - Similarities with Integrated Reporting
  - Similarities with the EU 'Impact' reporting
- Information that supports an assessment of progress
  - Key considerations
  - Specific topic – survey information
- Information that supports an assessment of potential impacts
  - Key considerations
  - Specific topics - sensitivity analysis, scenario analysis

Progress in managing the critical features of the business model (2/10)
Scope and focus of information to be provided

- The staff think that management commentaries should address any feature of the business that is critical for its ongoing success (not only ESG (*environment, social, governance*) information). For example, know-how and quality of customer base may be critical considerations for many entities.
- The staff's proposed approach builds on the description of the entity's business model and operating environment (Stream 3) that provide the basis for determining which features of the business the entity should report on.
- The staff think that this information will help users confirm their understanding of the extent to which longer-term business challenges are being appropriately managed - i.e. it will act as a warning indicator. On that basis the staff propose that the revised Practice Statement should specify that:

1. Information is needed on critical features of the business only

   The staff propose to use the term '*critical*' to qualify the scope of the discussion – '*progress in managing the aspects of the entity's business model and features of its operating environment that are critical to the entity's future success*'.

   The staff recognise that the term is already used in the existing Practice Statement in the context of 'critical success factors' (§37) and 'critical performance measures' (§24). In general the staff think that it is preferable that the Practice Statement does not include such terminology because such qualifiers may be subject to diverse interpretation. However, the staff propose to use 'critical' in this case as otherwise preparers may conclude that they need to anticipate every issue that could result in a fluctuation in business performance.

2. Information should address the specific feature that is critical

   The staff aim to support explanations and analysis that focus on the specific feature of the business that is critical for its success. Taking human capital as an example, a technology business might identify that the retention of its development staff is the critical priority if it is competing for a scarce resource; a hospitality business might consider that front-of-house staff satisfaction is critical for attracting its target customer base. In those instances, providing entity-wide staff measures would not address these critical priorities.

   In Stream 3 the staff plan to address how the revised Practice Statement can support descriptions of the business model that are sufficiently granular to highlight the features critical to the entity's success.

Progress in managing the critical features of the business model (3/10) Similarities with Integrated Reporting

The staff note the similarities between the proposed approach and the application of the ‘six capitals’ concept to performance reporting in the *<IR> Integrated Reporting Framework*. In particular, both focus on performance in managing the resources and relationships that the entity has itself identified as important to its ongoing success. The staff highlight two key differences in the language used which the staff do not believe to be substantive:

- *Value chain* – <IR> emphasises the identification of matters across the value chain. The staff think the management commentary’s emphasis on ‘features of the business model that it depends on for its future success’ is sufficiently broad, and is not limited to internal resources and relationships.
- *Stakeholders’ legitimate needs and interests* – the staff think this term used in <IR> could create confusion over the purpose of information in the management commentary. The IIRC’s Framework Implementation Feedback (Q3) noted that *‘[stakeholders’ legitimate needs and interests] continues to be a source of some confusion*’.

The staff plan to discuss the identification of the entity’s resources and relationships as part of the business model discussion in Stream 3.

International <IR> Framework §4.31

An integrated report contains qualitative and quantitative information about performance that may include matters such as:

- *Quantitative indicators with respect to targets and risks and opportunities, explaining their significance, their implications, and the methods and assumptions used in compiling them*
- *The organization’s effects (both positive and negative) on the capitals, including material effects on capitals up and down the value chain*
- *The state of key stakeholder relationships and how the organization has responded to key stakeholders’ legitimate needs and interests*
- *The linkages between past and current performance, and between current performance and the organization’s outlook.*

International <IR> Framework – Executive Summary: ‘six capitals’

The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization. They are categorized in this Framework as financial, manufactured, intellectual, human, social and relationship, and natural capital, although organizations preparing an integrated report are not required to adopt this categorization or to structure their report along the lines of the capitals.

Progress in managing the critical features of the business model (4/10)
Similarities with the EU 'Impact' reporting

The EU non-financial reporting directive includes a requirement to report on the *impact of the entity's activity*. The staff think that this type of information can provide insight when the entity is managing a potentially sensitive relationship (whether it is with a group of customers, a regulator, or with broader society). Therefore, the staff propose to include in the revised Practice Statement an explicit reference to impact reporting.

However, the staff note two areas of practical difference between the EU directive and the staff's proposed approach for the management commentary:

1. The directive includes a list of 'as a minimum' areas for disclosure, focusing on ESG topics (though the directive nevertheless asks for all information that is necessary for an understanding of development, performance, position, and impacts). Whilst recognising that disclosure lists may provide useful prompts to preparers, the staff think the question of which areas to cover needs to be addressed in the context of the entity's specific circumstances and priorities, and the provision of a list of areas to cover, whether mandatory or not, could distract preparers from this.

2. The staff are aware that the directive is *sometimes* interpreted to require reporting of information that meets the needs of a broader set of users than the primary users described in the Practice Statement. The staff do not think the information needs of different user groups can be assumed to be the same.

EU Non-financial reporting directive: Article 19a.1

….include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters….

Progress in managing the critical features of the business model (5/10)
Information that supports an assessment of progress – Key considerations (1/2)

The staff identify four aspects of information that would enhance its ability to support users' understanding of progress. The staff propose to address each of those aspects in the Practice Statement:

1. *Information should be specific to the matter*

   Information relating to an opportunity or risk should be specific to the aspect of the resource for which the opportunity or risk has been identified.

   For example, if the entity identifies the retention of development expertise as a priority, general staff satisfaction or retention measures are unlikely to provide useful insight into the matter.

   The staff are mindful that public policy reporting requirements, particularly in relation to ESG matters may lead entities to report only information that meets that requirement without considering whether other information is needed to support the objective of the management commentary.

   The staff think the approach of requiring information that addresses features of the entity's business model that are critical to its future success would support the objective of the management commentary. The staff propose to address the issue explicitly in the revised Practice Statement.

   The staff also propose to specify in the revised Practice Statement that information may need to be provided to address a specific aspect of the business that forms a part of a financial reporting segment of a financial statement balance.

2. *Analysis should be adapted to meet the objective of the management commentary*

   Analysis should include quantitative measures where these measures can be derived from information available to management. The staff anticipate that in some situations the entity may be managing a resource based on detailed systems information without reference to a performance measure that is appropriate for the management commentary.

   However, it may be possible to summarise that detailed information available to management in a form that could be included in the management commentary (for example, customer retention rates). The staff think this would support a more objective assessment of the matter by users than a narrative discussion, whilst still remaining consistent with our 'eyes of management' approach.

Progress in managing the critical features of the business model (6/10)
Information that supports an assessment of progress – Key considerations (2/2)

3. *Information should support assessment of progress over a number of years*

   The staff think that progress in managing some resources may only be visible as a long-term trend. For example, a measure of customer satisfaction is likely to be difficult to interpret as a point figure, but the emergence of a trend in the score over three or five years may be of much greater significance.

   The staff propose to include in the revised Practice Statement a requirement that an entity should consider providing multi-period comparatives in the management commentary.

4. *Some progress information may be best provided in qualitative form*

   The staff propose to address in the revised Practice Statement situations when narrative analysis is most appropriate either to support quantitative analysis, or because information for quantitative analysis is not available to management. The guidance will cover:

   - identification of reference points or milestones by which management judges progress in managing the matter
   - distinguishing factually supportable statements from opinion
   - provision of comparative analysis, including to previous targets and forecasts when such targets and forecasts have been provided.

In addition to the above, the staff note that progress may sometimes be communicated through levels of investment activities (whether classified as capital or operating expenditure) - see slide deck 2.

Progress in managing the critical features of the business model (7/10)
Information that supports an assessment of progress – Survey information

- Survey results could be indicative of performance or the outcome of policies and strategy. Examples include:
  - net promoter score (measuring customer loyalty) – usually run by a 3rd party on behalf of the entity;
  - employee satisfaction survey – could be run internally.
- When the management commentary includes information derived from surveys, the staff think that for such information to be useful, the management commentary should include:
  - reference to the source and methodology of the survey (if methodology has changed from the prior year, an explanation of the reasons for the change should be provided). Signposting to information outside the management commentary could be considered.
  - overview of the questions asked and the results.
  - 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.
- In addition, the staff think other guidance on reporting performance, position and progress, in particular the guidance on comparatives (in relation to targets and multi-period comparisons) and aggregation (providing information at a level that does not combine divergent trends), is applicable to survey information.

SASB Standards

For information based on surveys, SASB standards, where relevant to a particular industry, prescribe a minimum amount of background information besides the results of the survey. For example, for employee engagement, the standard prescribes the following:

The entity shall briefly describe:

1.1 The source of its survey (e.g., third-party survey or entity's own)

1.2 The methodology used to calculate the percentage

1.3 A summary of questions or statements included in the survey or study (e.g., those related to goal setting, support to achieve goals, training and development, work processes, and commitment to the organization)

2 When the survey methodology has changed compared to previous reporting years, the entity shall indicate results based on both the old and new methods for the year in which the change is made.

3 If results are limited to a subset of employees, the entity shall include the percentage of employees included in the study or survey and the representativeness of the sample

Progress in managing the critical features of the business model (8/10) Information that supports understanding of potential impacts – Key considerations

The staff think the information that would support users' understanding of the potential impacts of a matter needs to be determined by management. Therefore, the staff propose a broad approach that covers the following:

1. Predictions of impacts are not required

   Although the management commentary should contain information that supports users' understanding of the potential impact of a matter, it is not required to include management's predictions of that impact. The staff propose to clarify this in the revised Practice Statement.

2. Information to support users' understanding of potential impacts

   It may be difficult for management to provide direct information that supports users' understanding of potential risks and opportunities because the factor affecting the business may just be emerging. In this situation, the staff expect that quantitative information in the description of the business model should provide the most relevant information to support users' analysis of potential impacts. The staff propose to emphasise this in the revised Practice Statement.

   For example, if the operation of a site is at risk from deteriorating relations with the host country then information on the earnings attributable to the site would support users' understanding of the potential exposure.

Additionally, the staff think there are specific considerations for sensitivity and scenario analysis which are covered on the following pages.

- Sensitivity analysis

In some situations management may determine that uncertainty is such that users may want to perform their own assessment of impacts based on their view of the most likely scenarios. Sensitivity analysis may support this assessment. The table below illustrates sensitivity to commodity prices (without incorporating allowance for how much change is passed on to the consumer).

Sensitivity analysis – illustration:
Theoretical impact of CU change in commodity prices

	Impact on profit after taxation from Continuing and Discontinued Operations (CU million)	Impact on Earnings (CU million)
US$1/t on energy coal price	10	15
US$1/t on iron ore price	140	205
US$1/t on metallurgical coal price	20	35
US$1/bbl on oil price	45	75

The staff propose that the revised Practice Statement should discuss sensitivity analysis and provide high level guidance to support the transparency of such analysis in the management commentary.

Progress in managing the critical features of the business model (10/10)
Specific topics – Scenario analysis

- Scenario analysis

  Scenario analysis may be appropriate in some situations to support users' understanding of the potential impacts of a matter on the entity. The staff do not propose to require this type of analysis because the management commentary should reflect the information used to manage the business.

  However, the staff propose to specify in the revised Practice Statement how scenario analysis should be provided if it is included in the management commentary. That guidance will be high level and will address:

  – the risk that the analysis may be misleading because of high sensitivity to changes in assumptions outside the scenario considered

  – the presentation of assumptions and scoping limitations

  – linkage of the analysis to related discussion of the entity's strategy for managing the matter

  Task Force on Climate-related Financial Disclosures guidance is provided opposite as an illustration of more detailed guidance on the topic.

Scenario analysis – Task Force on Climate-Related Financial Disclosures (TCFD):

A process for identifying and assessing the potential implications of a range of plausible future states under conditions of uncertainty. Scenarios are hypothetical constructs and not designed to deliver precise outcomes or forecasts. Instead, scenarios provide a way for organizations to consider how the future might look if certain trends continue or certain conditions are met. Scenario analysis can be qualitative, relying on descriptive, written narratives, or quantitative, relying on numerical data and models, or some combination of both. Qualitative scenario analysis explores relationships and trends for which little or no numerical data is available, while quantitative scenario analysis can be used to assess measurable trends and relationships using models and other analytical techniques. Both rely on scenarios that are internally consistent, logical, and based on explicit assumptions and constraints that result in plausible future development paths. In conducting scenario analysis, organizations should strive to achieve

- transparency around parameters, assumptions, analytical approaches, and time frames;
- comparability of results across different scenarios and analytical approaches;
- adequate documentation for the methodology, assumptions, data sources, and analytics;
- consistency of methodology year over year;
- sound governance over scenario analysis conduct, validation, approval, and application; and
- effective disclosure of scenario analysis that will inform and promote a constructive dialogue between investors and organizations on the range of potential impacts and resilience of the organization's strategy under various plausible climate-related scenarios.

Questions for the Consultative Group

1. Do you agree with the proposed guidance on reporting matters affecting future development, in particular on:
   a. progress in implementing the entity’s strategy (slides 9-10);
   b. forecasts and targets (slides 11-12); and
   c. matters arising after the end of the reporting period (slide 13)?
2. Do you agree with the proposed guidance on reporting progress in managing the critical features of the business model, in particular on:
   a. the scope and focus of information to be provided (slide 16);
   b. information that supports an assessment of progress (slides 19-21);
   c. information that supports understanding of potential impacts (slides 22-24)?
3. If you think that any other guidance on reporting matters affecting future development or progress in managing the critical features of the business model should be provided, what should that guidance be and why is it necessary?

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