

STAFF PAPER

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IASB® meeting

Project	Management Commentary		
Paper topic	Introduction to disclosure objectives		
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Purpose of this paper

1. This paper provides an introduction to disclosure objectives on:
 - (a) business model;
 - (b) strategy; and
 - (c) resources and relationships.
2. This paper is for information only and does not ask the Board for decisions.

Background

3. In March 2020, the International Accounting Standards Board (Board) tentatively decided that the overall objective of management commentary is to support investors and creditors in assessing an entity's prospects for future cash flows and management's stewardship of the entity's economic resources by providing useful information and analysis that:
 - (a) enhance investors and creditors' understanding of the entity's performance and position as depicted in the related financial statements; and
 - (b) give insight into factors that could affect the entity's prospects.
4. The Board also discussed initial ideas for developing disclosure objectives for the main areas of content in management commentary. No decisions were made on this matter.

5. Initial ideas for disclosure objectives were also discussed at the December 2019 meeting of the Management Commentary Consultative Group and the March 2020 meeting of the Capital Markets Advisory Committee. The staff considered that input in developing the analysis presented in the agenda papers for this meeting.

Note on terminology – ‘investors and creditors’

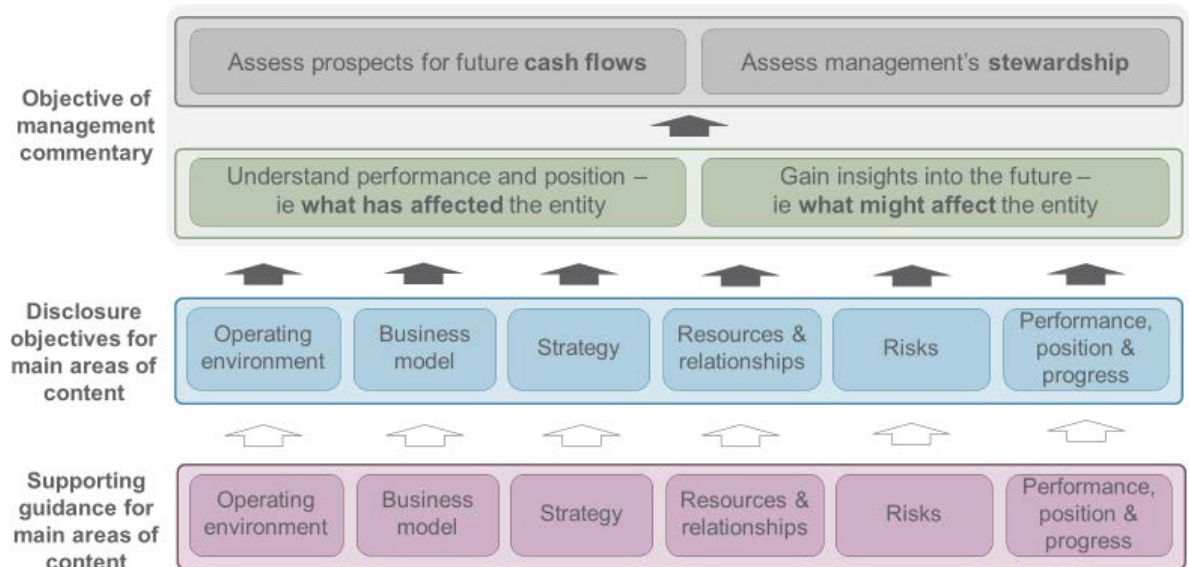
- In March 2019, the Board tentatively confirmed that the revised Practice Statement should retain the statement that management commentary is prepared for the entity’s existing and potential investors, lenders and other creditors. The *Conceptual Framework for Financial Reporting* and IFRS Standards refer to these parties as ‘primary users’ of the entity’s financial reports. Accordingly, the staff have been using the reference to ‘primary users’ in the previous papers. However, the Board directed the staff to use simple language as much as possible because the intended audience of the revised Practice Statement is broader than just accounting professionals. The staff think that the term ‘primary users’ may not be familiar to the intended audience of the revised Practice Statement. Therefore, the staff are using the term ‘investors and creditors’ for simplicity and clarity for non-accountants. The staff expect that the revised Practice Statement will define primary users of management commentary as the entity’s existing and potential investors, lenders and other creditors and will use the term ‘investors and creditors’ to refer to those users throughout the document.

The role of disclosure objectives

6. Disclosure objectives for the main areas of content in management commentary are intended to support the overall objective of management commentary. In particular, they are designed to help:
- (a) management identify information and analysis that needs to be included on each of the main areas of content in management commentary to help investors and creditors:
 - (i) assess the entity’s prospects for future cash flows;

- (ii) assess management’s stewardship of the entity’s economic resources;
 - (iii) better understand the entity’s performance and position as depicted in the related financial statements; and
 - (iv) gain insight into factors that could affect the entity’s prospects; and
- (b) assurers and regulators assess whether information and analysis included in management commentary meet the overall objective of management commentary.
7. Disclosure objectives also provide an important link between the overall objective of management commentary and supporting guidance on identifying information that needs to be provided in management commentary. Entities must meet disclosure objectives for areas of content in management commentary in order to meet the overall objective of management commentary. In meeting those disclosure objectives, entities will use the supporting guidance in the revised Practice Statement in determining what needs to be provided.
8. The role of disclosure objectives is illustrated in Figure 1.

Figure 1



Design of disclosure objectives

9. The staff designed disclosure objectives for main areas of content as follows:
- (a) the main principle or a headline objective that the information and analysis on the area of content in management commentary needs to meet. For example, the headline objective for business model could be to provide information and analysis to help investors and creditors understand how the entity's business model creates value and converts that value into cash flows.
 - (b) a description of the main assessments that investors and creditors typically make using that information and analysis. For example, the assessments that investors and creditors make about the entity's business model could include:
 - (i) how effective the entity's business model is in creating value and converting that value into cash flows;
 - (ii) how scalable the entity's business model is; and
 - (iii) how durable, resilient and adaptable the entity's business model is.
 - (c) a high-level description of types of information and analysis that need to be provided to help investors and creditors make those assessments. For example, the revised Practice Statement could specify that, to help investors and creditors assess the entity's business model, information and analysis in management commentary needs to cover key features related to:
 - (i) the range, nature and scale of the entity's operations;
 - (ii) the entity's cycle for creating value and generating cash flows—from sourcing inputs to designing, producing and delivering outputs to customers; and
 - (iii) the impacts of the entity's operations that could affect the entity's ability to generate cash flows in the future.
10. Each type of information identified in the disclosure objective for an area of content would be supported by guidance explaining what information might be provided in order to help investors and creditors make their assessments for that area of content.

The supporting guidance would also address how to identify the key features that need to be addressed in management commentary and provide examples of such key features. The specific information provided by entities as a result of applying the supporting guidance will differ and will depend on their specific circumstances. Nevertheless, that information would need to be sufficient to meet all the aspects of the disclosure objective.

11. In some cases, information provided on an area of content in management commentary will be necessary to help investors and creditors make their assessments, but not sufficient without information on other areas of content in management commentary. For example, in order to assess the resilience and adaptability of the entity's business model, it is not enough for investors and creditors to understand how the entity creates value and converts that value into cash flows. Investors and creditors would also need to understand the resources and relationships that the entity's business model depends on, the risks the entity is facing and how those risks are managed. Where such important linkages exist, the staff will highlight them in their analysis and in the proposed guidance.
12. Appendix A in Agenda Paper 15 *Cover paper* summarises the disclosure objectives for the areas of content discussed at this meeting—business model, strategy and resources and relationships. The staff plan to update that summary as the Board's discussions progress.

Question for the Board

Do you have any comments or questions on the discussion in this paper?