



# STAFF PAPER

**July 2020**

## IASB® meeting

Project	<b>Management Commentary</b>		
Paper topic	Progress		
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## Purpose of this paper

1. This paper forms a part of the package of papers on reporting performance, position and progress in management commentary. This paper discusses requirements and possible supporting guidance that should be included in the revised IFRS Practice Statement 1 *Management Commentary* (Practice Statement) on reporting progress and asks the Board for decisions.

## Summary of staff’s recommendations

2. The staff recommend that information about progress in managing key matters is included in the required types of information for business model, strategy, resources and relationships, risks and external environment.

## Background

3. The notion of ‘progress’ is already recognised in the existing Practice Statement, which requires management to provide its view of the entity’s ‘performance, position and progress’.<sup>1</sup> However, the Practice Statement does not provide guidance on reporting progress in management commentary.

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<sup>1</sup> See paragraphs 15 and 35 of the Practice Statement,

## Requirements and guidance on reporting progress

4. In developing requirements and guidance for the revised Practice Statement on reporting progress in management commentary, the staff considered:
- (a) why information about progress is useful to investors and creditors and how that information interacts with other information in management commentary (paragraph 5);
  - (b) where in the revised Practice Statement requirements and guidance on reporting progress would be best placed (paragraphs 6–7); and
  - (c) what those requirements and guidance should be (paragraph 8).

### *Note on terminology – ‘progress’*

- In the context of management commentary, the notion of ‘progress’ relates to the key matters identified and discussed with respect to: the entity’s business model, management’s strategy for maintaining and developing that model, the entity’s resources and relationships, its risks and its external environment. Depending on the specifics of a matter, progress may relate to the results of management’s efforts in managing the matter during the reporting period (for example, progress implementing management’s strategy) or may reflect the state or the position at the end of the reporting period (for example, the level of customer satisfaction at the end of the period).

5. Information about progress in relation to the key matters is important because it provides the context for understanding the drivers that affected the entity’s performance and position depicted in the financial statements for the reporting period, or drivers that could affect the entity’s performance and position in the future, including over a long term. For this reason, the staff think that information provided about the key matters should cover not only the description of the key matters and of how they are monitored and managed (as per the Board’s tentative decisions to date summarised in Appendix A of Agenda Paper 15 *Cover paper*), but also the progress related to those matters. For example, if

management’s strategy is to increase its share of the market and it sets a 20 percent growth target over the next three years, management commentary should describe the progress in executing the strategy, for example that during the reporting period the entity’s market share increased from 7 to 11 percent. That information would help investors and creditors understand the entity’s performance and position depicted in the financial statements for the reporting period. For example, management could explain how much of the revenue growth is attributable to the successful execution of management’s strategy reflected in the increase in the entity’s market share. That information would also provide an insight in the management’s stewardship of the entity’s resources.

6. As previously discussed, the revised Practice Statement would not prescribe how to organise information in a management commentary. Instead, in preparing a management commentary, management would apply the principles set out in the revised Practice Statement (for example, the principles of clarity, conciseness and coherence) and apply judgement. However, the Board noted that management may choose to follow the structure of the revised Practice Statement in organising information in management commentary.
  
7. The staff think that requirements and supporting guidance on reporting progress in managing key matters would be best placed in the guidance on content areas discussed by the Board to date—business model, strategy, resources and relationships, risks and external environment—rather than being combined with requirements and supporting guidance on explaining the entity’s performance and position depicted in the financial statements. This is because, in the staff’s view:
  - (a) the discussion of progress does not fall under the disclosure objective for performance and position recommended by the staff in Agenda Paper 15C *Performance and position*. The staff think that those disclosure objectives should focus on the entity’s performance and position depicted in the financial statements. Information about progress in managing key matters provides essential context for understanding the entity’s performance and position and that progress affects the amounts reported in the financial statements, although the financial statements do not report that progress directly. Instead, financial

statement provide information about the entity’s assets, liabilities, equity, income and expenses.

- (b) the discussion of progress falls under the disclosure objectives tentatively approved by the Board for business model, strategy, resources and relationships, risks and external environment (see Appendix A of Agenda Paper 15). This is because understanding the key matters discussed under business model, strategy, resources and relationships, risks and external environment would not be complete without understanding the progress in managing those matters. In addition, the discussion of a key matter, of how it is managed and of the progress in managing the matter are all closely interrelated and, in some cases, may not even be separable. For example, an entity’s net exposure to a key risk at the end of the reporting period would necessarily reflect the results of management’s actions in managing that risk.

- 8. Accordingly, the staff recommend that information about progress in managing key matters is included in the required types of information for business model, strategy, resources and relationships, risks and external environment. The supporting guidance would ask management to explain progress in managing a matter and to provide management measures and indicators reflecting that progress. Agenda Paper 15D *Management measures and indicators* discusses management measures and indicators to be included in management commentary and information that should be provided about those measures and indicators.

**Question 1 for the Board**

The staff recommend that the disclosure objectives for business model, strategy, resources and relationships, risks and external environment should require management to provide information about progress in managing key matters.

Do you agree with this recommendation?