

Agenda Paper 4

Management Commentary *Disclosure objectives*

Capital Markets Advisory Committee – March 2020

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

Objective of the session and agenda



- The staff propose introducing in the revised Management Commentary Practice Statement* disclosure objectives for each area of content in management commentary.
- The objective of the session is to get CMAC members' views on the staff's initial ideas for disclosure objectives for the following areas of content:
 - business model
 - strategy
 - resources and relationships
 - external environment
 - risks
 - performance, position and progress



- Introduction (5 minutes) – IASB Technical Staff
- Discussion of disclosure objectives (55 minutes) – CMAC members

* The Practice Statement provides non-mandatory guidance to help management prepare management commentary that relates to IFRS financial statements

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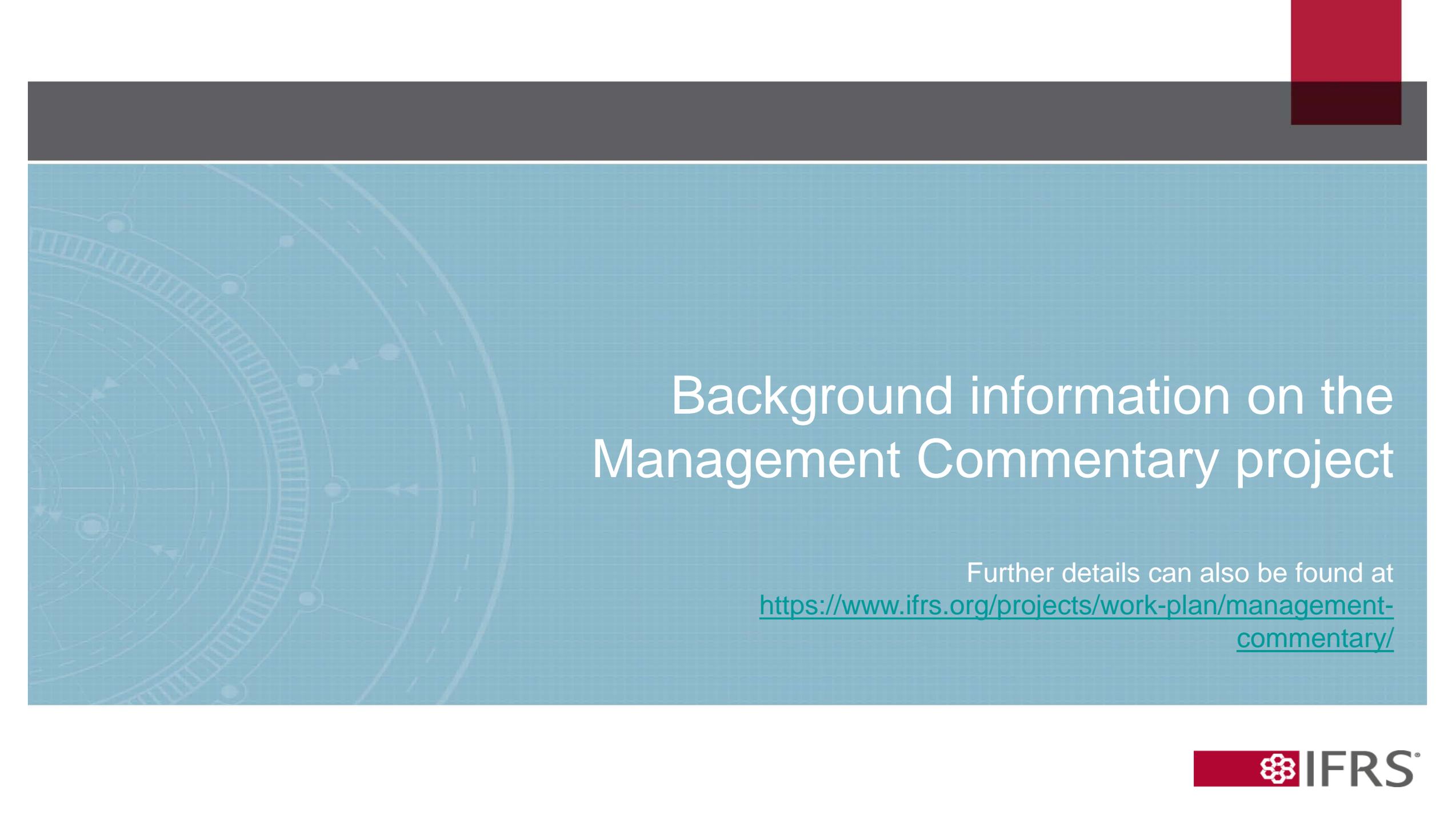
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Disclosure objectives are the focus of today's discussion.



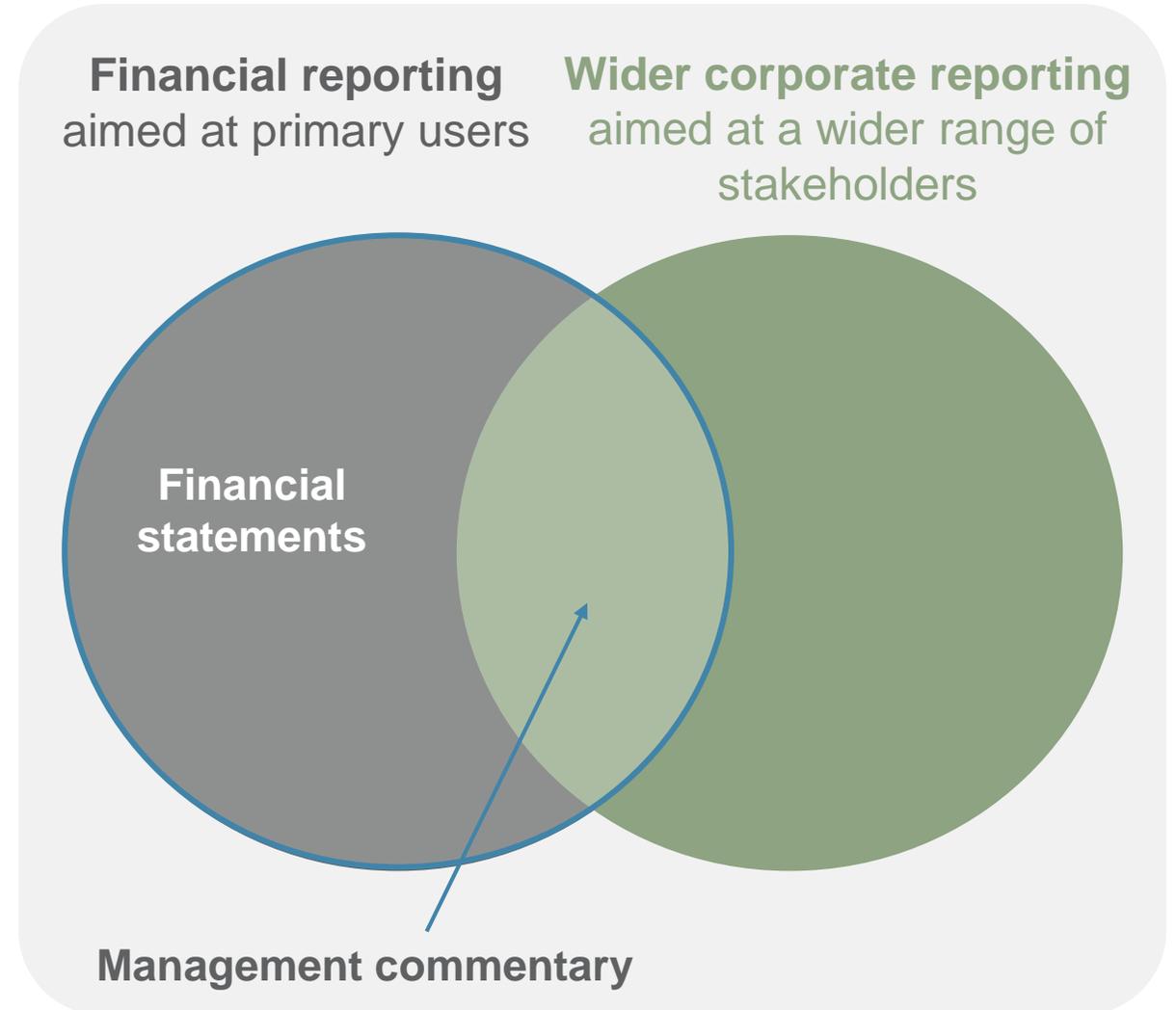
Background information on the Management Commentary project

Further details can also be found at
<https://www.ifrs.org/projects/work-plan/management-commentary/>

What is management commentary?

- A narrative report that gives context for the financial statements and additional insight into the company's long-term prospects
- Sits within the boundaries of financial reporting and is aimed at the company's existing and potential investors, lenders and other creditors*

Environmental, social and governance (ESG) matters—normally part of wider corporate reporting—are discussed in management commentary if necessary for primary users to make economic decisions



*The *Conceptual Framework* identifies investors, lenders and other creditors as the primary users of financial reports

Why revise?

Developments in narrative reporting



Gaps in current reporting practice



Increasing need for additional information



Focus of revision

Align with primary users' changing information needs

Retain a principles-based approach but expand the guidance to:

- consolidate innovations
- address gaps in reporting
- support rigorous application

Particular emphasis on:

- company-specific matters
- intangibles and ESG matters
- matters that underpin long-term ability to generate cash flows
- coherent discussion across areas of content

Aim to be compatible with jurisdictional requirements and subject-matter frameworks (eg TCFD, SASB)

Scope of Board's revision

Objective of management commentary

What makes information useful

Areas of content in management commentary

Business model

External environment

Strategy (including opportunities)

Risks

Resources and relationships

Performance, position and progress

Progress to date

➔ To be confirmed by the Board at its March 2020 meeting

➔ Discussed by the Board

➔ Focus for H1 2020, **including disclosure objectives**

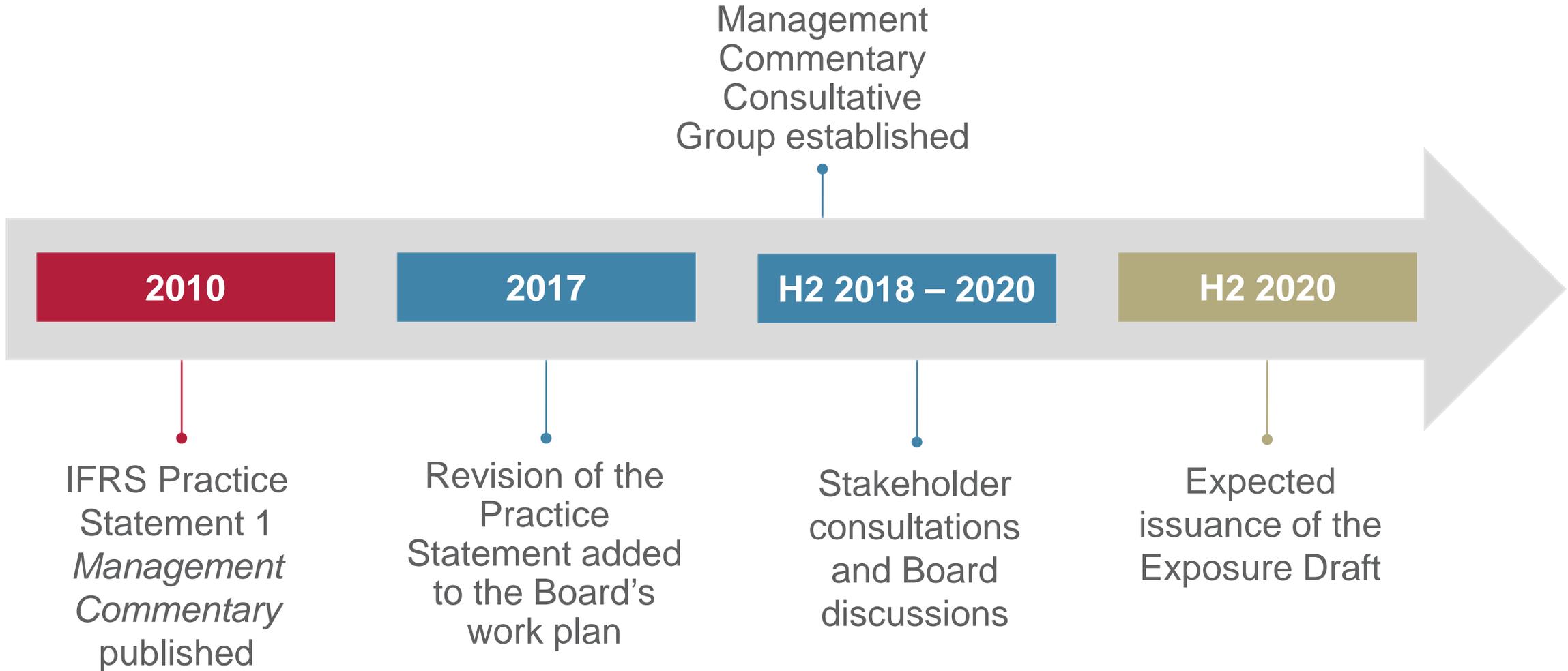
Previous discussions with CMAC (1/2)

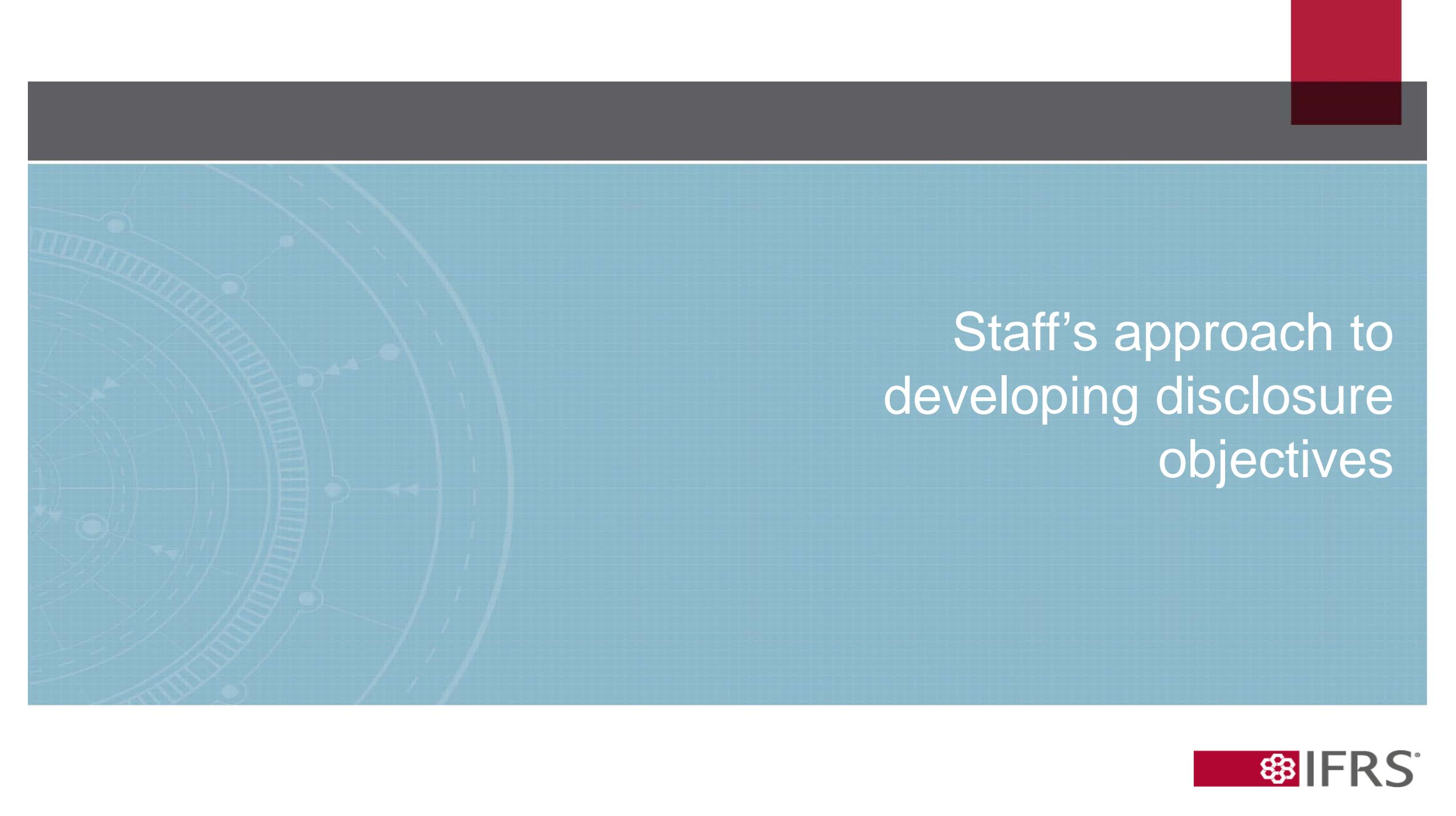
Date	Topic discussed	How staff considered the input
November 2018	The objective of management commentary	CMAC members' input was considered in developing the recommended description of the objective for November 2018 Board Agenda Paper 15A <i>The objective of management commentary</i> and March 2020 Board Agenda Paper 15A <i>The objective of management commentary</i> .
November 2018	Characteristics that make information in management commentary useful, in particular, materiality, neutrality, completeness and comparability	The following Board papers summarise how the staff considered CMAC members' input on these topics in: <ul style="list-style-type: none"><li data-bbox="1009 796 2395 901">• Appendix C of July 2019 Agenda Paper 15B <i>Making relevance and materiality judgements</i>;<li data-bbox="1009 911 2395 1015">• Appendix A of September 2019 Agenda Paper 15A <i>Faithful representation in management commentary</i>;<li data-bbox="1009 1025 2395 1129">• Appendix B of October 2019 Agenda Paper 15A <i>Enhancing qualitative characteristics in management commentary</i>.

Previous discussions with CMAC (2/2)

Date	Topic discussed	How staff considered the input
March 2019	Cross-referencing in management commentary	The staff considered CMAC members' input when developing recommendations on incorporating information by cross-reference as part of recommended guidance on understandability (See Appendix B of October 2019 Agenda Paper 15A <i>Enhancing qualitative characteristics in management commentary</i>).
March 2019	Topics related to guidance on performance, position and progress	The input from CMAC members will be reported to the Board and considered by the staff in developing recommendations for the revised guidance on these topics.
June 2019	Topics related to strategy	

Timeline





Staff's approach to developing disclosure objectives

Clarifying objective of management commentary

- Both financial statements and management commentary are intended to help investors:

Assess the entity's prospects for future **cash flows**

Assess management's **stewardship** of the entity's economic resources

- Agenda Paper 15A (March 2020 Board meeting) sets out staff recommendation for the objective of management commentary to make it clear how it differs from the objective of financial statements.

Existing objective of financial statements

Provide useful **financial information about** the reporting entity's **assets, liabilities, equity, income and expenses**

Recommended objective of management commentary

Provide **useful information and analysis** which:

Enhance investors' understanding of the entity's performance and position as depicted in the related financial statements

Give insight into factors that could affect the entity's prospects

Supporting the objective of management commentary

- To support the objective of management commentary, the staff suggest for each area of content in management commentary:
 - introducing a disclosure objective (slides 16–22 provide staff’s initial ideas on those objectives and ask CMAC members for input); and
 - providing guidance to help preparers meet that disclosure objective (slides 25–30 provide examples of guidance that could be included. These are provided for information only).

Objective of management commentary



Individual disclosure objectives



Guidance to help meet individual disclosure objectives

Developing disclosure objectives

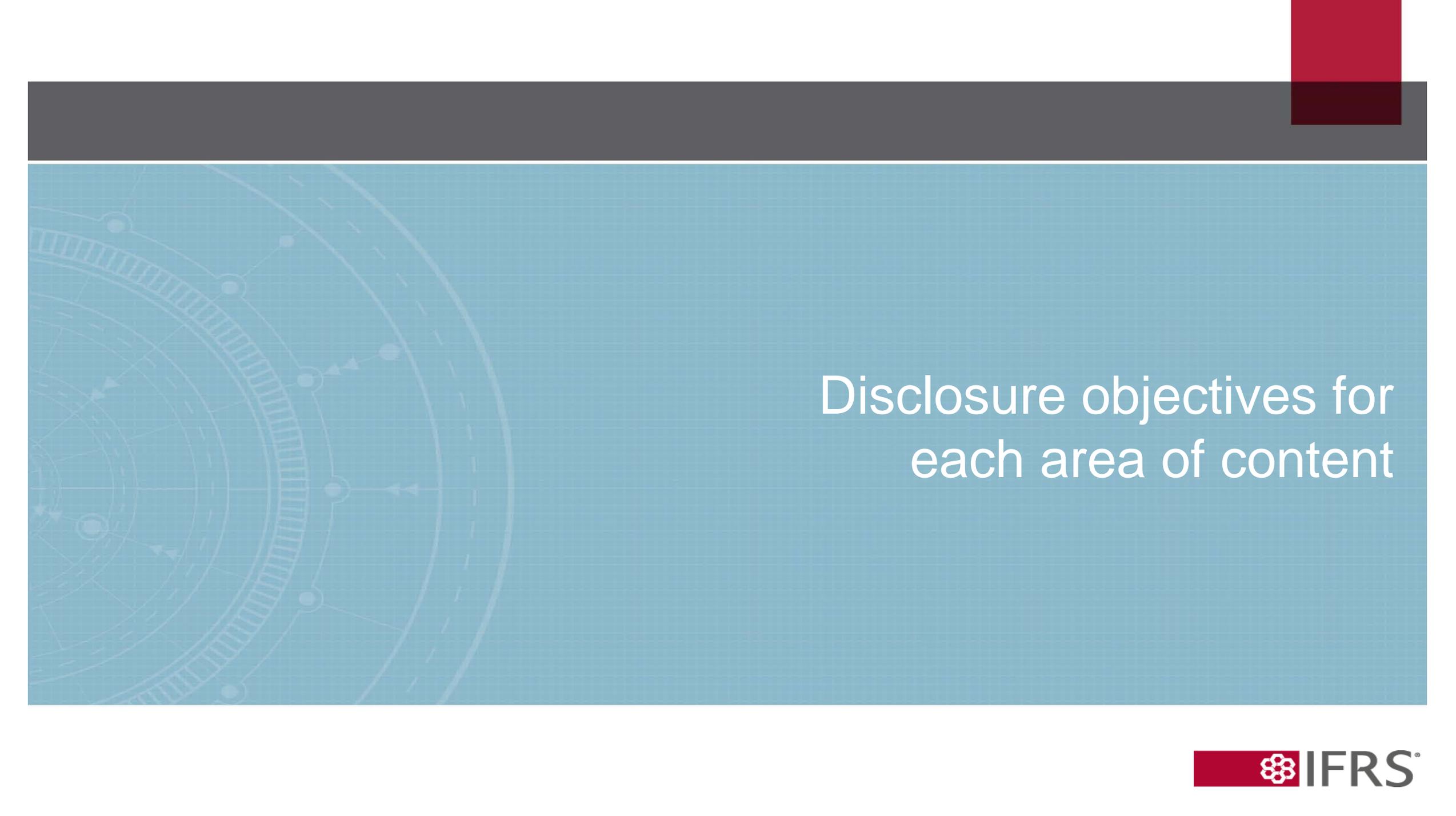
- The existing Practice Statement does not include explicit disclosure objectives for each area of content in management commentary, but addresses the objectives indirectly (see Appendix B).
- The staff suggest introducing explicit disclosure objectives to help:
 - preparers identify what information to provide in management commentary; and
 - regulators and assurers determine whether management commentary meets its objective.
- The staff will develop disclosure objectives based on their analysis of **investors and creditors' information needs** that particular areas of content in management commentary need to satisfy.
- Individual disclosure objectives for each area of content are intended to help those primary users:

Assess prospects for future **cash flows**

Assess management's **stewardship**

Understand performance and position –
ie **what has affected** the entity

Get insights into the future –
ie **what might affect** the entity



Disclosure objectives for
each area of content

- Slides 17-22 illustrate the staff's initial ideas for the disclosure objectives for each area of content:
 - business model
 - strategy
 - resources and relationships
 - external environment
 - risks
 - performance, position and progress.

Questions for discussion

Slides 17–22 set out the focus of each disclosure objective.

- **Question 1:** Do you agree with the focus of the disclosure objectives proposed by the staff? If not, what should disclosure objectives focus on instead, and why?

Slides 17–22 also discuss users' information needs under each disclosure objective.

- **Question 2:** Do you agree with the staff's identified information needs? If not, what are your information needs, why do you need that information and how do you use it in your analysis and decision-making?

The description of an entity's business model needs to cover what the entity does and how it does it.

Provide information to help primary users understand how an entity creates, maintains or destroys value.

That includes information to help users understand:

- the nature and scale of the entity's operations that create, maintain or destroy value;
- features of the entity's business model that give the entity competitive advantage or contribute to the entity's unique value proposition; and
- how resilient and adaptable the entity's business model is.

Provide fundamental context for understanding information in other sections of management commentary and in the related financial statements.

 Examples of supporting guidance are provided on slide [25](#)

The description of the entity's strategy needs to cover what the entity is trying to achieve and why and how it is trying to achieve that.

Provide information to help primary users understand management's plans to develop and sustain the entity's ability to create value.

That includes information to help users understand:

- what the entity is trying to achieve and whether management is effective in seizing opportunities to develop or maintain the entity's ability to generate value;
- management's ability to execute the strategy; and
- the potential effects of management's plans on the entity's ability to create value in the future.

 Examples of supporting guidance are provided on slide [26](#)

Provide information to help primary users understand what resources and relationships the operation of the entity's business model and the implementation of its strategy depends on.

That includes information to help users understand:

- how the entity's key resources and relationships are managed; and
- resilience and adaptability of the entity's resources.

 Examples of supporting guidance are provided on slide [27](#)

Provide information to help primary users understand the external environment in which the entity operates and the features of the environment which affect the entity's ability to create value or implement its strategy

That includes information to help users understand:

- factors and trends in the external environment that have affected the entity; and
- factors and trends in the external environment that could affect the entity's operations in the future or its ability to execute the strategy.

 Examples of supporting guidance are provided on slide [28](#)

Provide information to help primary users understand what might disrupt the direction in which the management plans to take the entity.

That includes information to help users understand the risks that could affect:

- the entity's ability to create value or its business model;
- the entity's ability to implement its strategy; or
- the entity's financial performance and position.

 Examples of supporting guidance are provided on slide [29](#)

Performance, position and progress

Provide information to help primary users to understand:

- **the results of the entity's operations for the reporting period; and**
- **how well the management has implemented its strategy.**

This includes information to help users understand:

- the extent to which the entity's financial performance and position reported in financial statements are indicative of the entity's ability to generate cash flows;
- how the entity's results compare to management's previous expectations; and
- management's view of factors behind the entity's performance and position reported in financial statements and how those factors might affect the entity in the future

 Examples of supporting guidance are provided on slide [30](#)

The terms 'performance' and 'results' are used broadly and intended to capture income and expenses reported in the financial statements, cash flows, changes in financial position and changes in resources and relationships not captured in the financial statements



Appendix A: Guidance supporting disclosure objectives

Approach to developing supporting guidance

- Slides 25–30 illustrate the staff’s initial ideas for guidance that could be included in the revised Practice Statement to help preparers meet individual disclosure objectives.
- The guidance is intended to identify the types of information that would typically be required to meet the disclosure objectives but it is not intended to be used as a checklist or a list of minimum requirements. Management will need to exercise judgement to determine whether additional information is needed to meet the disclosure objectives.
- The staff do not expect CMAC members to provide input on the supporting guidance, but if CMAC members wish to provide such input offline, the staff would be happy to receive it.

Examples of the supporting guidance:

- Identify components of the description of an entity's business model, ie the entity's structure, inputs, processes, outputs and impacts (indirect wider consequences of the entity's operations)
- Require an overview of an entity's business model and a focused discussion of its 'key' features
- Set out the principle for identifying the 'key' features of business model
- Provide guidance on identifying the 'key' features of business model, eg those providing an entity with a competitive advantage
- Suggest types of information about components of the business model that can be useful to users
- Provide guidance for entities that have several business models
- Address interaction between business model and the entity's purpose
- Explain how to address effects of environmental, social and governance (ESG) matters
- Link to other content in management commentary, eg to strategy

 Associated disclosure objective is provided on slide [17](#)

Examples of the supporting guidance:

- Explain interaction between the entity's strategy and its purpose
- Identify components of the description of an entity's strategy, ie what the entity seeks to achieve (its objectives) and how management plans to achieve it
- Require the description of strategy to cover all time horizons
- Provide guidance on selecting 'key' features of an entity's strategy, eg identify types of strategies that may be of particular interest to users such as funding strategy or strategy for managing significant ESG issues
- Suggest types of information about an entity's strategy that can be useful to users, eg resources needed to implement the strategy or assumptions behind the strategy
- Provide guidance on including forecasts and targets
- Link to other content in management commentary

 Associated disclosure objective is provided on slide [18](#)



Examples of the supporting guidance:

- Identify types of resources and relationships to be addressed, eg financial / non-financial, controlled by the entity / controlled by others (eg key suppliers or the community) that the entity depends on, tangible / intangible, recognised / unrecognised
- Set the principle for identifying the entity's 'key' resources and relationships
- Provide guidance on identifying the entity's 'key' resources and relationships, including examples of common resources and relationships
- Suggest types of information about the entity's 'key' resources and relationships that can be useful to users, eg information about depletion, replenishment, durability, availability, vulnerability of resources
- Explain how to address effects of ESG issues
- Link to other content in management commentary



Associated disclosure objective is provided on slide [19](#)



External environment

Examples of the supporting guidance:

- Suggest types of information about external environment that can be useful to users
- Explain how to address ESG issues
- Link to other content in management commentary



Associated disclosure objective is provided on slide [20](#)

Examples of the supporting guidance:

- Discuss whether description should provide both an overview and focused discussion of the 'key' risks
- Identify types of risks to be addressed, (eg internal / external, controllable / non-controllable)
- Set the principle for identifying 'key' risks
- Provide guidance on identifying 'key' risks, for example common sources of risks
- Suggest types of information about 'key' risks that can be useful to users, eg progress in managing a key risk
- Explain how to address ESG issues
- Link to other content in management commentary

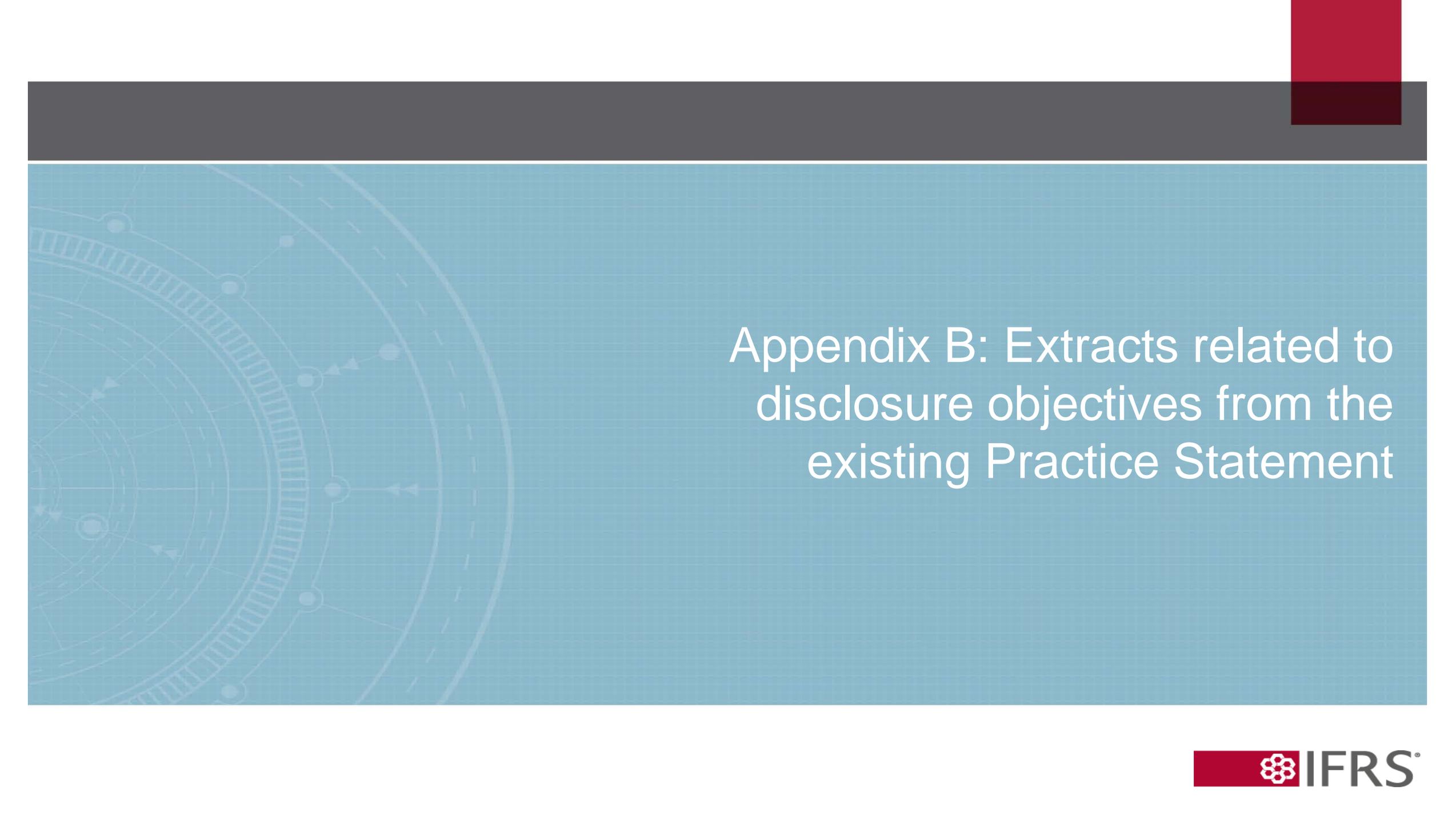
 Associated disclosure objective is provided on slide [21](#)

Performance, position and progress

Examples of the supporting guidance:

- Identify components of the description of performance, position and progress
- Require to cover all time horizons
- Discuss whether the discussion should provide both an overview and focused discussion of significant matters
- Provide guidance on performance measures and indicators
- Explain how to address ESG issues
- Link to other content in management commentary

 Associated disclosure objective is provided on slide [22](#)



Appendix B: Extracts related to disclosure objectives from the existing Practice Statement

Appendix

Extracts from the existing Practice Statement

Elements	Statement similar to disclosure objective
Nature of the business and operating environment	26 Management should provide a description of the business to help users of the financial reports to gain an understanding of the entity and of the external environment in which it operates. That information serves as a starting point for assessing and understanding an entity's performance, strategic options and prospects.
Objectives and strategies	27 Management should disclose its objectives and strategies in a way that enables users of the financial reports to understand the priorities for action as well as to identify the resources that must be managed to deliver the results.
Resources and relationships	<p>30 Management commentary should set out the critical financial and non-financial resources available to the entity and how those resources are used in meeting management's stated objectives for the entity.</p> <p>33 Management should identify the significant relationships that the entity has with stakeholders, how those relationships are likely to affect the performance and value of the entity, and how those relationships are managed. This type of disclosure helps users of the financial reports to understand how an entity's relationships influence the nature of its business and whether an entity's relationships expose the business to substantial risk.</p>

Appendix

Extracts from the existing Practice Statement

Elements	Statement similar to disclosure objective
Risks	31 Management should disclose an entity's principal risk exposures and changes in those risks, together with its plans and strategies for bearing or mitigating those risks, as well as disclosure of the effectiveness of its risk management strategies. This disclosure helps users to evaluate the entity's risks as well as its expected outcomes.
Results and prospects	34 Management commentary should include a clear description of the entity's financial and non-financial performance, the extent to which that performance may be indicative of future performance and management's assessment of the entity's prospects. Useful disclosure on those matters can help users to make their own assessments about the entity's performance, position, progress and prospects.
Performance measures and indicators	37 ... Management should disclose performance measures and indicators (both financial and non-financial) that are used by management to assess progress against its stated objectives. Management should explain why the results from performance measures have changed over the period or how the indicators have changed. This disclosure can help users of the financial reports assess the extent to which goals and objectives are being achieved.