

## STAFF PAPER

February 2021

## IASB® meeting

Project	Management Commentary	
Paper topic	Sweep issues—Requirements and guidance on key matters	
CONTACT(S)	Yulia Feygina	yfeygina@ifrs.org
	Jelena Voilo	jvoilo@ifrs.org

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Purpose of this paper**

1. At its October 2020 meeting, the International Accounting Standards Board (Board) gave the staff permission to begin the balloting process for an Exposure Draft of a revised IFRS Practice Statement 1 *Management Commentary* (Practice Statement). In December 2020, the staff circulated a pre-ballot draft of the Exposure Draft to Board members and external reviewers.
2. The pre-ballot draft reflected the Board’s tentative decisions to require information in management commentary to focus on ‘key matters’, and to describe the key matters for each area of content in management commentary by reference to how much they affect the entity’s ability to create value and generate cash flows, and how that effect arises.
3. Some reviewers raised questions or comments about the proposed requirements and guidance relating to key matters. In this paper, the staff analyse those questions and comments, and suggest an approach to clarifying the proposed requirements and guidance. The paper does not ask the Board to make any decisions but invites Board members to comment on the staff analysis and suggestions.

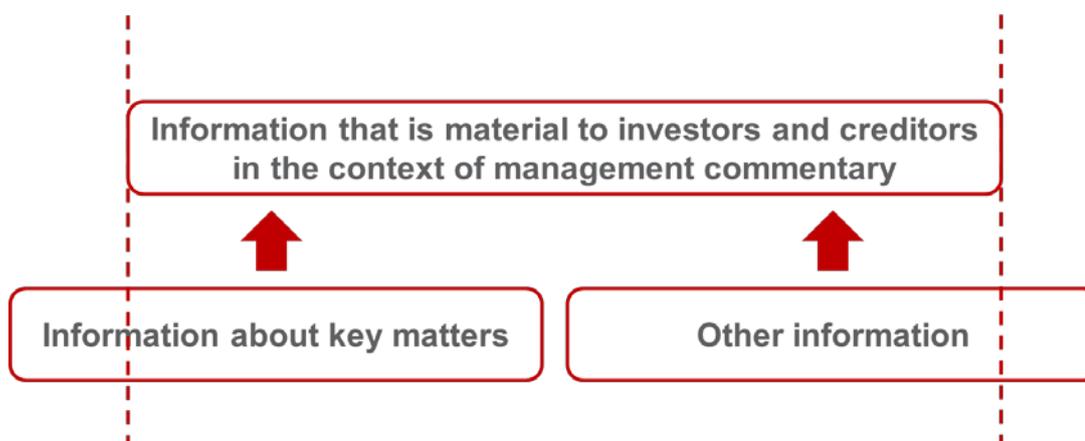
## Background

4. This section discusses:
  - (a) the role of requirements and guidance on key matters (paragraphs 5–7); and
  - (b) descriptions of key matters (paragraphs 8–12).

### ***The role of requirements and guidance on key matters***

5. The *Conceptual Framework for Financial Reporting* explains that general purpose financial reports provide information that is material to investors and creditors in making their decisions. In identifying material information, an entity applies judgement. The Practice Statement will provide guidance to help entities make materiality judgements.
6. In developing the proposals for the Exposure Draft, the Board noted that the scope of information that may need to be included in management commentary for it to meet its objective is very broad. Accordingly, making materiality judgements in the context of management commentary may be particularly difficult. To help management identify material information that must be reported in management commentary, the Board has developed the notion of key matters. Identifying key matters would not replace making materiality judgements. Instead, it is a tool to assist management in making those judgements in the context of the entity's management commentary.
7. Information might be material even if it does not relate to a key matter. An overview of an entity's business model is one example of information that might be material but not relate to a key matter. On the other hand, not all information about a key matter is material. However, at least some information about a key matter will be material. The relationship between material information and key matters is illustrated in Diagram 1.

Diagram 1—The relationship between material information and key matters



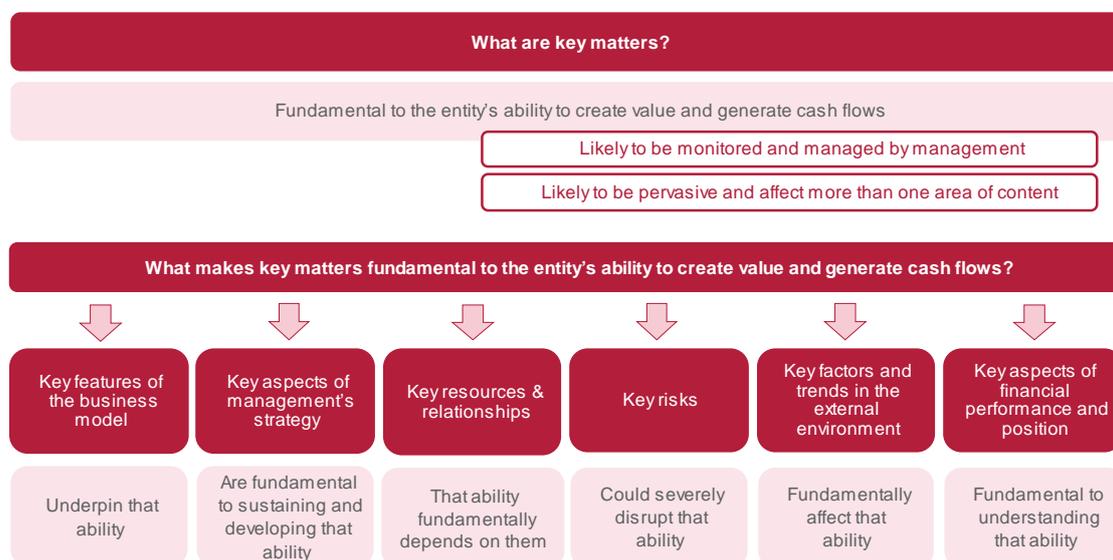
### ***Descriptions of key matters***

8. To help management identify key matters, the pre-ballot draft of the Exposure Draft provided:
  - (a) a generic description and application guidance that would apply to all key matters; and
  - (b) specific descriptions and application guidance on key matters by area of content.
  
9. The pre-ballot draft of the Exposure Draft included the following generic description of key matters:
 

...matters that are fundamental to the entity’s ability to create value and generate cash flows, including in the long term. Because key matters are fundamental to that ability, they are likely to be matters that management monitors and manages. They are also likely to be pervasive, affecting more than one of the areas of content in management commentary.
  
10. The generic description highlights that all key matters share a common property—their fundamental importance for the entity’s ability to create value and generate cash flows. However, the reason for their importance differs by area of content. Specific descriptions of key matters for each area of content are designed both to convey how important those matters are and to explain why they are so important.

11. The pre-ballot draft of the Exposure Draft provided the following specific descriptions of key matters by area of content (*emphasis added*):
- (a) key features of the entity’s business model—features that *underpin* the entity’s ability to create value and generate cash flows;
  - (b) key aspects of management’s strategy for sustaining and developing that business model—aspects that are *fundamental to sustaining and developing* the entity’s ability to create value and generate cash flows in the future, including in the long term;
  - (c) key resources and relationships—resources and relationships on which the entity’s ability to create value and generate cash flows *fundamentally depends*;
  - (d) key risks—risks of events or circumstances that could *severely disrupt* the entity’s ability to create value and generate cash flows, including in the long term;
  - (e) key factors and trends in the external environment—factors and trends that have had, or could have, a *fundamental effect* on the entity’s ability to create value and generate cash flows, including in the long term; and
  - (f) key aspects of the entity’s financial performance and financial position— aspects that are *fundamental to understanding* the entity’s ability to create value and generate cash flows.
12. The relationship between the generic and specific descriptions of key matters is illustrated in Diagram 2.

Diagram 2—The relationship between the generic and specific descriptions of key matters



### Questions arising in developing the Exposure Draft

13. In reviewing the pre-ballot draft of the Exposure Draft, some reviewers raised questions and comments related to key matters. Reviewers suggested:
- (a) it is unclear how the notion of material information relates to the notion of key matters.
  - (b) it is unclear how the notion of ‘fundamental’ relates to the notion of ‘material’ and to the notion of ‘key’ and whether they all constitute different materiality thresholds.
  - (c) it is unclear why the notion of ‘fundamental’ features in some, but not all, specific descriptions of key matters.
  - (d) the pre-ballot draft lacks discipline in using the label ‘key’ which it sometimes uses to describe items other than key matters (eg ‘key employees’) and can create confusion.

## Staff analysis and suggested clarifications

14. The selection of the terms used in the pre-ballot draft reflects the following points:
- (a) the terms ‘key’ and ‘fundamental’ are used in relation to matters, rather than ‘material’, because materiality is a property of information, it is not a property of matters. Materiality is the single threshold that determines which information should be included in management commentary (see paragraph 5).
  - (b) the term ‘fundamental(ly)’ is used in the generic and some of the specific descriptions of key matters to convey how important those matters are for the entity’s ability to create value and generate cash flows. Using this term is intended to help management in identifying key matters, without setting a new threshold for the information to be included in management commentary (see paragraph 10).
  - (c) in two of the specific descriptions of key matters, the terms ‘underpin’ and ‘severely’ are used instead of ‘fundamental(ly)’ because those terms fit better in the particular context. Using those different terms is not intended to imply a larger or smaller effect than the effect implied by the term ‘fundamental(ly)’.
  - (d) the term ‘key’ is used as a label for matters that are fundamental to the entity’s ability to create value and generate cash flows. It is not intended to set a threshold.
15. The staff suggest the following approach to clarifying requirements and guidance on key matters to address concerns identified in paragraph 13:
- (a) clarify in drafting the relationship between material information and key matters reflecting the discussion in paragraphs 6–7.
  - (b) explain in the Basis for Conclusions why the Exposure Draft uses the terms ‘key’, ‘fundamental(ly)’, ‘severely’ and ‘underpin’, and explain how those terms relate to the materiality threshold (see paragraph 14). In addition, the staff will consider further whether to retain the terms ‘severely’ and ‘underpin’ rather than ‘fundamental(ly)’.
  - (c) review and eliminate the use of ‘key’ when not referring to key matters.

## Question for the Board

### **Question 1—Requirements and guidance on key matters**

Do you have any comments or questions on the staff's analysis and suggested approach to clarifying requirements and guidance on key matters?