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# Management commentary

## Digital reporting implications

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# Objective of the session

Seek ITCG members' views on the digital reporting implications of the Board's proposals for reporting information in management commentary

We plan to cover at **this meeting** – significant modelling for disclosure proposals:

| Disclosure objectives and examples | Key matters | Metrics |
|---|---|---|

We plan to cover at a **future meeting** – technology considerations reflecting:

| relationship with other taxonomies | cross-reference to information in other reports | identification of information from each report | statement of compliance with requirements |
|---|---|---|---|

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# Agenda

Slides

| | Slides |
|---|---|
| Background of the project | 4–17 |
| Project objectives | 4–7 |
| Proposals in the Exposure Draft | 8–17 |
| Effects of ED proposals on digital reporting | 18–37 |
| Questions for ITCG members | 38–39 |

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# Background of the project

## Project objectives

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# What is management commentary?
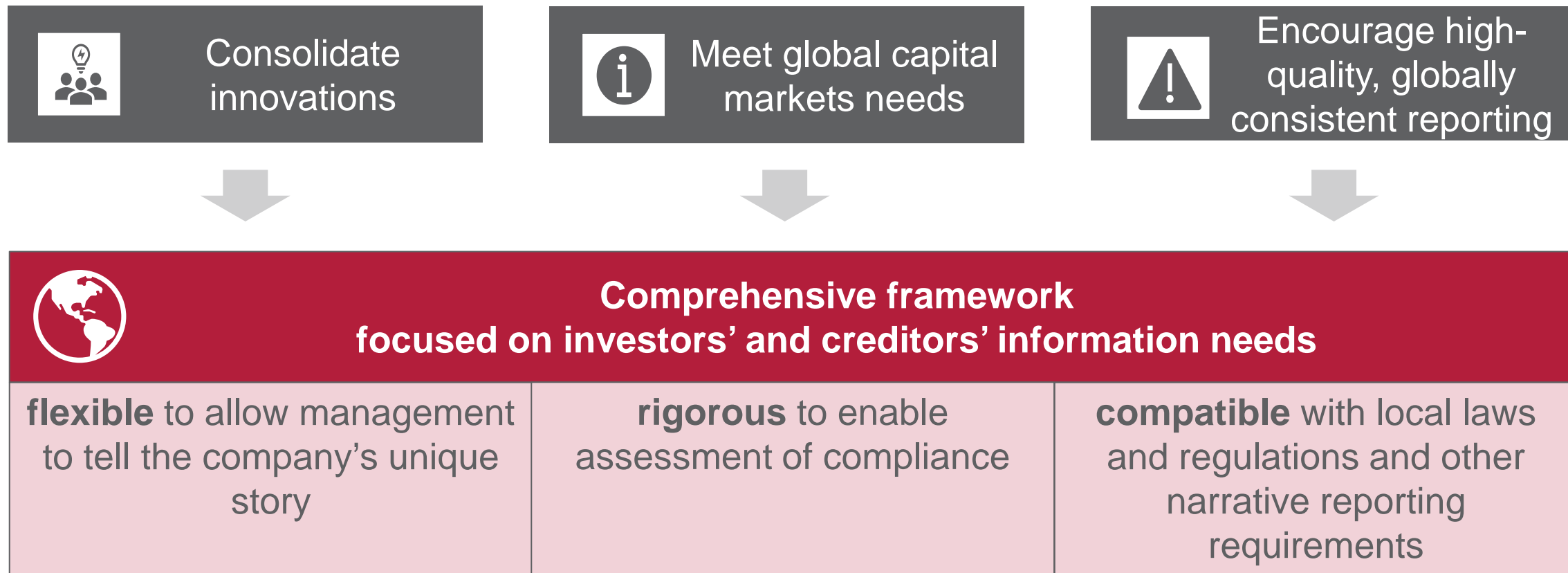
## A financial report

- Complements financial statements by explaining factors that affected a company's financial position or performance or might affect it in future – **includes more discussion, analysis, forward-looking information and non-financial information**

- Provides insights into a company's ability to create value and generate cash flows

- Aimed at investors and creditors but may be useful for a wider range of stakeholders

IFRS Practice Statement 1
*Management Commentary*

**Management commentary**

Financial statements

**General purpose financial reporting**

**Wider corporate reporting**

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# What is the IASB aiming to achieve?

| Consolidate innovations | Meet global capital markets needs | Encourage high-quality, globally consistent reporting |
|---|---|---|

**Comprehensive framework
focused on investors' and creditors' information needs**

| **flexible** to allow management to tell the company's unique story | **rigorous** to enable assessment of compliance | **compatible** with local laws and regulations and other narrative reporting requirements |
|---|---|---|

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# Next steps

May 2021 — Publication of the Exposure Draft

June – November 2021 — Comment period and outreach

Board redeliberations — The Board will consider feedback received

We invite constituents to submit comments on the proposals by **23 November 2021**

- Project information https://www.ifrs.org/projects/work-plan/management-commentary/
- The Exposure Draft can be found here
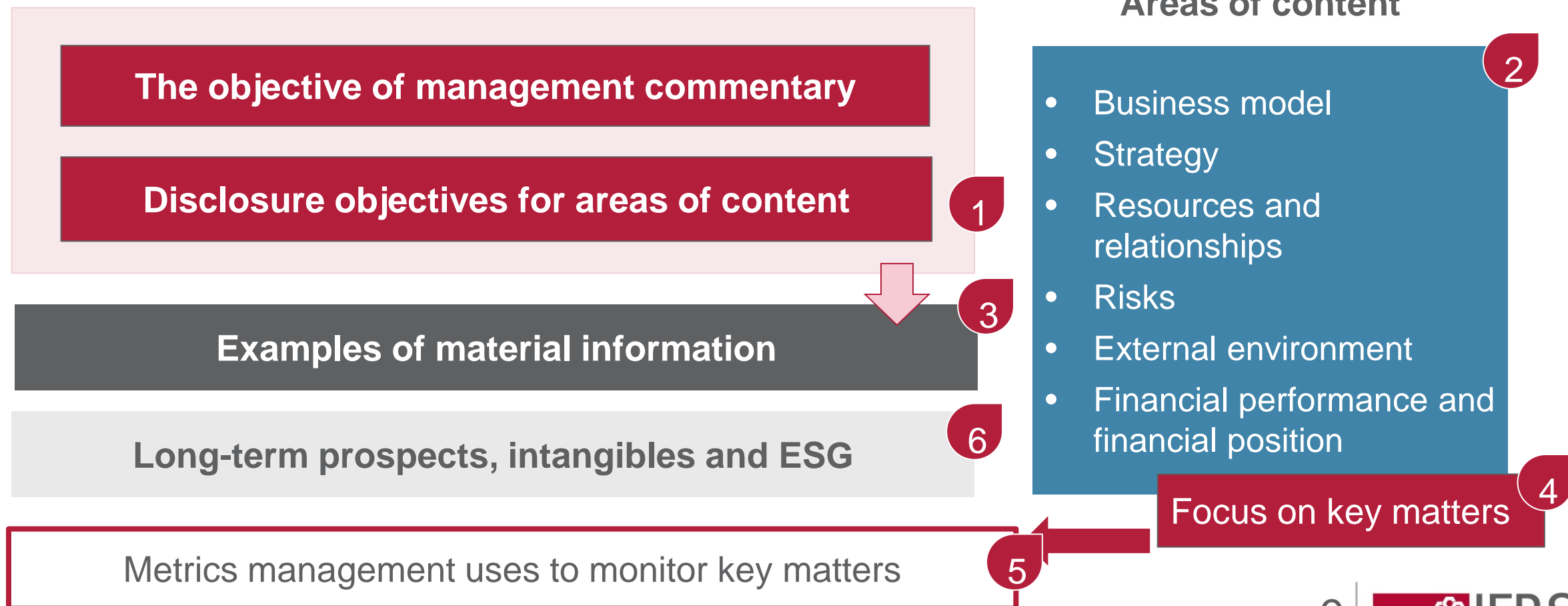- The snapshot summarising the proposals in the Exposure Draft can be found here

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# Background of the project

## Proposals in the Exposure Draft

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# What is the IASB proposing?

**Comprehensive objectives-based framework**

**The objective of management commentary**

**Disclosure objectives for areas of content** ①

②

**Examples of material information** ③

**Long-term prospects, intangibles and ESG** ⑥

**Areas of content**

- Business model
- Strategy
- Resources and relationships
- Risks
- External environment
- Financial performance and financial position

Focus on key matters ④

Metrics management uses to monitor key matters ⑤

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# Disclosure objectives: the design

**Disclosure objectives for each area of content**

A headline objective

Assessment objectives

Specific objectives

👍 Based on **investors and creditors'** information needs

Overall information needs

Assessments that rely on provided information

Detailed information needs

👍 Basis for **preparers** to identity company-specific information

👍 Basis for **regulators and auditors** to assess compliance

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# Disclosure objectives: Business model example

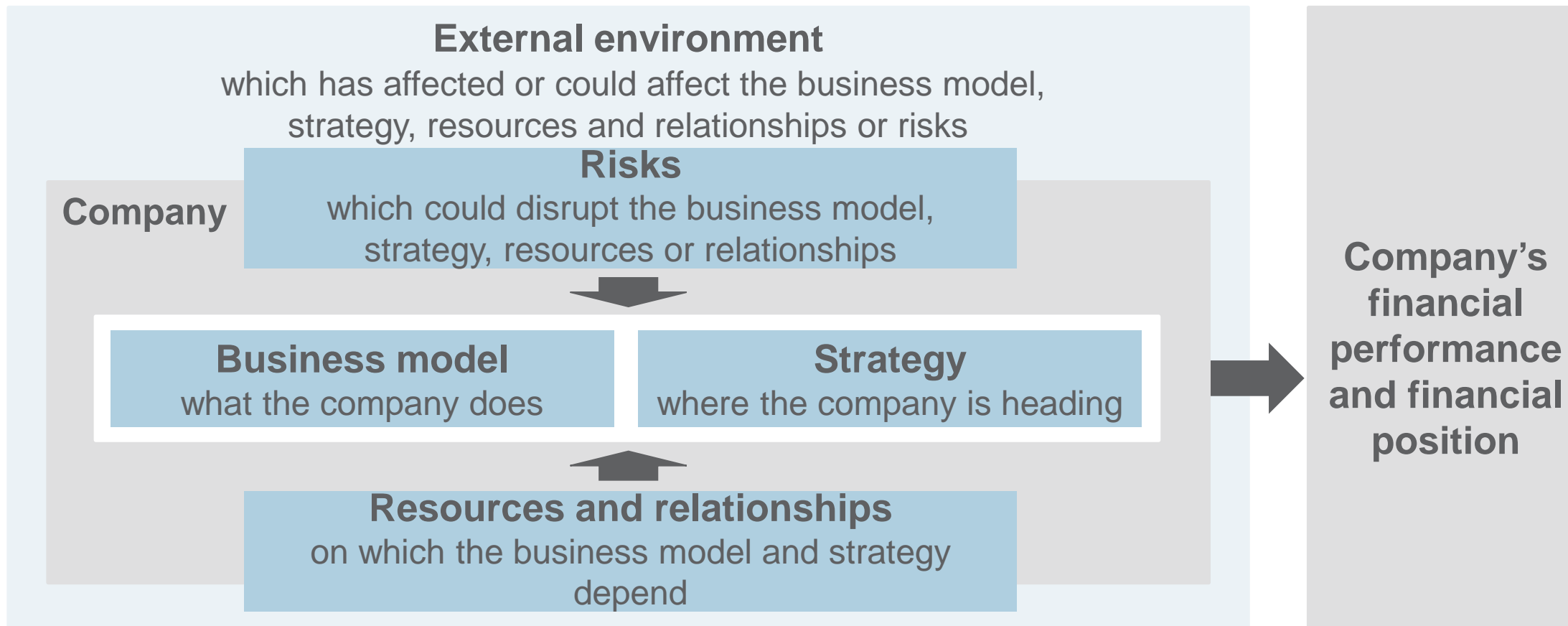| Disclosure objectives | Business model |
|---|---|
| **A headline objective** | Enable investors and creditors to understand:<br>• How the company's business model creates value and generates cash flows |
| **Assessment objectives** <br> why? | Provide a sufficient basis for investors and creditors to assess:<br>• How effective the company's business model is<br>• How scalable and adaptable it is<br>• How resilient and durable it is |
| **Specific objectives** <br> what? | Enable investors and creditors to understand:<br>• The range, nature and scale of the company's operations<br>• The cycle of creating value and generating cash flows<br>• Environmental and social impacts of the company's activities<br>• Progress in managing the company's business model |

Chapter 11 of the Exposure Draft summarises disclosure objectives for all areas of content
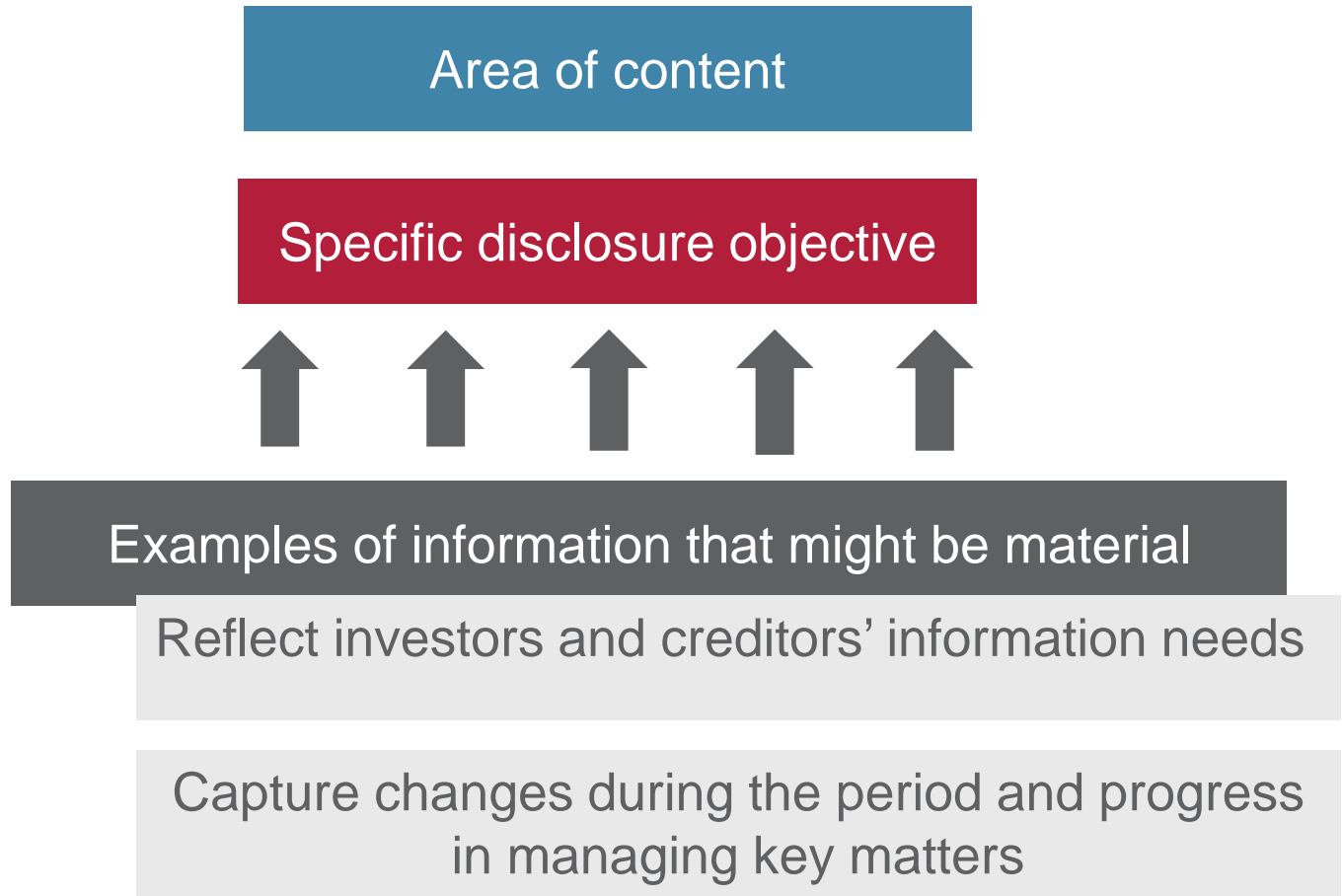
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# Relationships between areas of content

! Financial, sustainability and other material information about the company

**External environment**
which has affected or could affect the business model,
strategy, resources and relationships or risks

Company

**Risks**
which could disrupt the business model,
strategy, resources or relationships

**Business model**
what the company does

**Strategy**
where the company is heading

**Resources and relationships**
on which the business model and strategy
depend

**Company's financial performance and financial position**

! Information provided to meet the disclosure objectives for one area of content might also help meet the disclosure objectives for other areas of content

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# Examples of material information

Area of content

Specific disclosure objective

Examples of information that might be material

Reflect investors and creditors' information needs

Capture changes during the period and progress in managing key matters

**!** **Management needs to apply judgement:**

- is the information material in the company's circumstances?

- is other information needed to meet the disclosure objective?

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# Focus on key matters

| Key matters | Examples of key features for business model |
|---|---|
| Fundamental to the company's ability to create value and generate cash flows, including in the long term | • Feature that differentiates company's products (competitive advantage), eg custom-built technology |
| Likely to be **pervasive** and relate to more than one area of content | • Feature that will need to change to sustain ability to create value, eg processes that will need to change to comply with new regulation |
| Likely to be **monitored and managed** by management | • Feature that may create uncertainty over ability to create value, eg dependence on a single supplier |

**!** Much (but not all) of the information material to investors and creditors will relate to key matters

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# Example of pervasive key matter for a clothing retailer

**Key matter:** The trend towards online shopping and increasing influence of social media

| Area of content | Information the company provides in its management commentary |
| --- | --- |
| **Business model** | The company's clothing designs are targeted at customers in the 18-35 age group.  In the current year, 60% of the company's sales were made from its high street stores and 40% were made online from its website. |
| **External environment** | Customers in the 18-35 age group are increasingly buying clothes online from established online-only brands. Recommendations by social media influencers are now a direct driver of online sales. |
| **Strategy** | Management's strategy for developing the business model is to increase the company's revenue and profitability by increasing its online sales. The aim is to increase online sales to 70% of total sales within 3 years.  Plans to achieve this aim include upgrading the company's website, establishing relationships with more social media influencers and closing underperforming high street stores. |
| **Resources and relationships** | In the current period, the company has started a project to upgrade its website to include all the functionality offered by other online retailers' websites.  The company has also developed relationships with 2 rising social media influencers, adding to the relationships it already had with 3 well-established influencers.<br>The company leases its high street stores under long leases. It closed 2 of these stores during the year. Where the stores have been closed the company has prioritised the transition of affected customers to online shopping. In the current year, 60% of loyalty card holders affected by a store closure made at least one online purchase (previous year: 45%). |
| **Risks** | The company's future profitability depends on its ability to sub-let the stores it closes, or terminate their leases. |
| **Financial performance and financial position** | Online sales increased by 35% during the year.  Of this increase, 65% is attributable to click-through sales from social media links.  During the year, the retailer spent CUX on social media marketing and CUY on upgrading its website. |

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# Metrics

| Company-specific | • Material information likely to include metrics that management uses to: |
|---|---|
| |   - **monitor key matters** |
| |   - **measure progress** in managing those matters |
| | • Depend on the company's activities and the industry in which it operates |

## The Exposure Draft proposes

| Examples of metrics for each area of content | Disclosure requirements |
|---|---|
| For business model metrics may relate to:<br>• the scale of the company's operations<br>• the inputs involved in those operations<br>• environmental or social impacts of the company's activities<br>• effects of impacts on the company | • Label and define clearly<br>• Explain method and inputs used to calculate metric<br>• Explain assumptions made and limitations of the method<br>• If metric is derived by adjusting an amount in financial statements - provide reconciliation between amounts |

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# Long-term prospects, intangibles and ESG

Affect companies differently → need to be discussed across management commentary

## 🔗 Dedicated appendix

- **Overview** of requirements and guidance to consider in providing information about:
  - key matters that could affect the company's long-term prospects
  - key intangible resources and relationships
  - key environmental and social matters
- **Examples of application** in described fact patterns

Information is reported if **material** to investors and creditors

**! Other sustainability frameworks:**

- can help identify information that might be material
- other information specified by those frameworks can be also included if it does not obscure material information

# Effects on digital reporting

# Agenda

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# Effects on digital reporting

## Background

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# Current IFRS Taxonomy

- Management Commentary is included in a separate entry point

- This entry point includes 6 text blocks that reflect disclosure requirements in Practice Statement 1 *Management Commentary* issued in 2010

| Text block elements in the IFRS Taxonomy |
| --- |
| Management commentary |
| Disclosure of nature of business |
| Disclosure of management's objectives and its strategies for meeting those objectives |
| Disclosure of entity's most significant resources, risks and relationships |
| Disclosure of results of operations and prospects |
| Disclosure of critical performance measures and indicators that management uses to evaluate entity's performance against stated objectives |

# How we reflect investors' needs in IFRS Taxonomy

**Investors need to analyse narrative information…**

| Extract appropriate pieces of information from a long report | 2: Compare information across periods | 3: Compare information between companies |
|---|---|---|

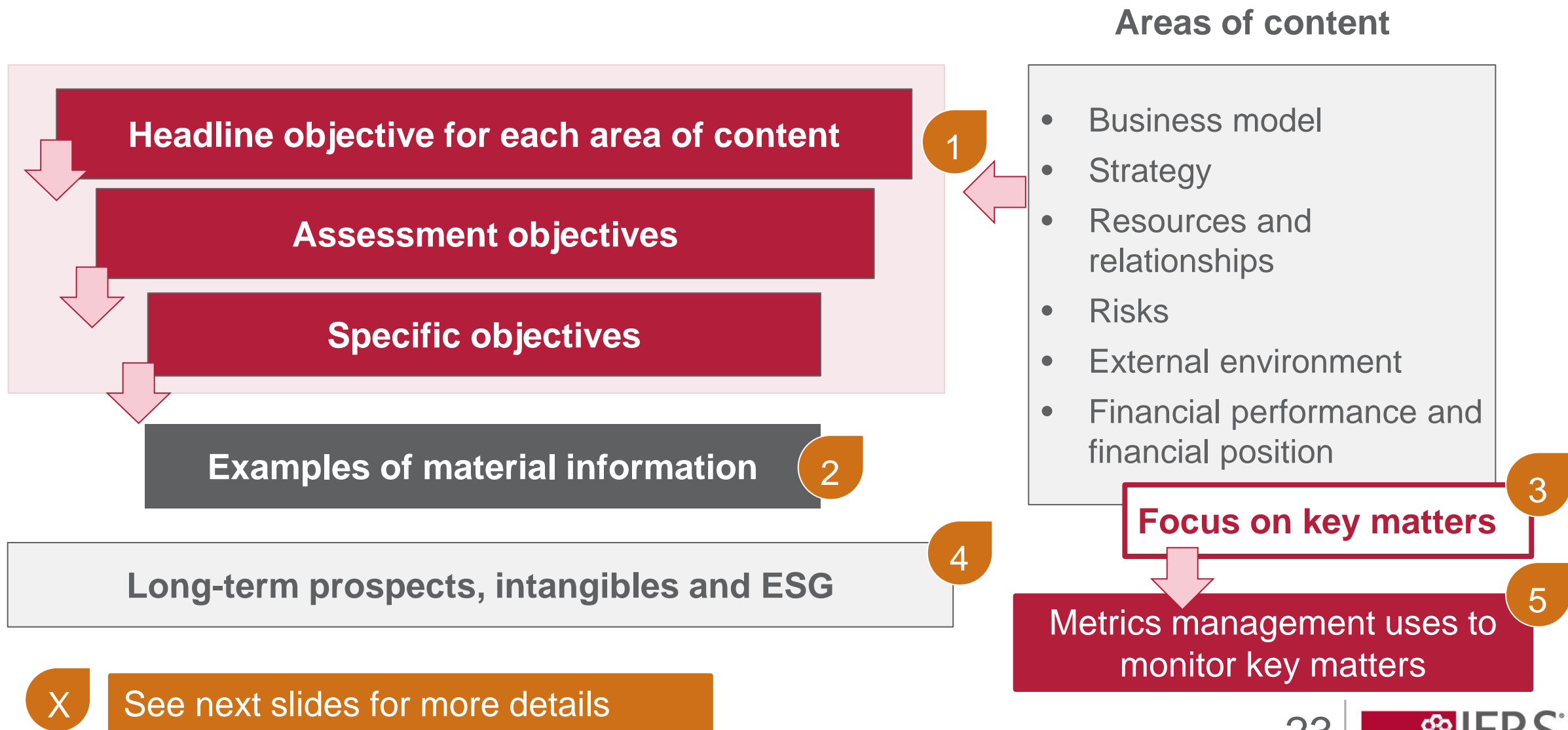**IFRS Taxonomy elements that help with analysis …**

| Text blocks allow users to extract blocks of information needed for their analysis | Text elements allow users to extract textual information needed for their analysis | Numeric elements allow users to extract more detailed information and facilitate comparison across periods and companies |
|---|---|---|

Narrative information is less structured and less comparable than numerical information. Consequently, investors might extract and analyse narrative information differently.

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# Reflecting proposals in the IFRS Taxonomy

**Areas of content**

**Headline objective for each area of content** ①

**Assessment objectives**

**Specific objectives**

**Examples of material information** ②

**Long-term prospects, intangibles and ESG** ④

- Business model
- Strategy
- Resources and relationships
- Risks
- External environment
- Financial performance and financial position

③ **Focus on key matters**

⑤ Metrics management uses to monitor key matters

Ⓧ See next slides for more details

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# Effects on digital reporting

Disclosure objectives and examples

# Disclosure objectives and examples: Staff analysis

| Proposals for each area of content | Will IFRS Taxonomy elements be created? |
|---|---|
| *Headline objective*<br>Explains overall information needs | ✓ * |
| *Assessment objectives*<br>Explain **why** investors need some information | ✗ |
| *Specific objectives*<br>Explain **what** information should be disclosed | ✓ |
| Further details to help entities determine how to satisfy disclosure objectives: | |
| *Examples of material information* relate to each specific disclosure objective | See slides 28-29 |

\* "Catch all" element for each area of content covering information that meets requirements for all specific disclosure objectives and information not specified in specific disclosure objectives

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# Disclosure objectives and examples:
# Possible hierarchy of elements in the IFRS Taxonomy

| Element | E. type | Ref type | Ref |
|---|---|---|---|
| *Business model* | *Abstract** | | |
| Description of how entity's business model creates value and generates cash flows | Text block | Disclosure | 5.5 |
| Range, nature and scale of entity's operations, business model | Text block | Disclosure | 5.7(a) |
| Overview of entity and of range of its operations, business model | Text block | Example** | 15.3(a) |
| Description of entity's operations and quantitative information about their scale, business model | Text block | Example** | 15.3(b) |
| (...) | | | |
| Environmental and social impacts of entity's activities, business model | Text block | Disclosure | 5.7(b) |
| Description of impacts (both positive and negative) and their causes, business model | Text block | Example** | 15.5(a) |
| (…) | | | |

* Abstract – heading in Taxonomy not used for tagging          ** If we reflect examples in IFRS Taxonomy – see Slide 29

# Disclosure objectives and examples: Staff analysis

**Considerations on level of detail for tagging disclosure objectives and examples**

- Primary benefits of more detailed tagging of information in management commentary are likely to be:
  - facilitating quick identification of relevant information by investors
  - providing foundation for techniques of extracting and data analysis such as machine learning algorithms or natural language processing (NLP).
- Suggested hierarchical structure would allow users to extract information at desired level of granularity and is consistent with disclosure requirements.

BUT:

- Too granular information may have limited use for investors because it is not likely to be used in analysis of data series or peer comparison.
- Too many elements increase the size of IFRS Taxonomy and various levels increase complexity of tagging.
- Interrelated tags increase risk of errors and make consumption more difficult.

# Which examples should be reflected in IFRS Taxonomy? (1/2)

The entity's cycle of creating value and generating cash flows

15.4    Material information about the entity's cycle of **creating value** and generating cash flows (see paragraph 5.7(b)) could include:

    (a)    information about the inputs to the entity's business model, such as the entity's resources and relationships (see Chapter 7);

    (b)    a description of the outputs of the entity's business model, such as categories of the entity's products or services, and an explanation of how the entity differentiates those products or services from those of its competitors;

    (c)    a discussion of the processes involved in operating the entity's business model, including:

        (i)    processes involved in obtaining, maintaining or enhancing resources and relationships—for example, purchasing, research and development, staff training, and customer loyalty programmes;

        (ii)    processes involved in creating products and services—for example, product design, production and quality control; and

        (iii)    processes involved in delivering products and services—for example, marketing, distribution and after-sales service;

    (d)    an overview of the entity's markets, selling and distribution channels, and categories of customers; and

    (e)    an analysis of changes in the entity's inputs, processes and outputs during the reporting period—for example, changes that affect the entity's production capacity or efficiency.

- Examples of material information are provided for each specific disclosure objective for all areas of content

- The extract shows examples of material information for one of the specific objectives for business model

Please see Chapter 15 (page 78-92) of the Exposure Draft Management Commentary for all examples – it might be helpful in considering the appropriate approach to reflecting examples in IFRS Taxonomy – see question on slide 30

# Which examples should be reflected in IFRS Taxonomy? (2/2)

- We are exploring whether investors would find it useful to extract information related to examples of material information, and if so, whether they need information related to all or some examples.

- Depending on the analysis of investors' needs, the IFRS Taxonomy could reflect:

  - Option 1: **all examples** – for example, this would mean creating 5 elements corresponding to examples in paragraphs 15.4(a)-(e) on slide 28.

    - Elements could also be created for examples included in sub-bullets (for example, those in paragraphs 15.4(c)(i)-(iii)). However, this level of granularity could substantially increase the number of elements in IFRS Taxonomy without providing additional benefits to investors.

  - Option 2: **some examples** – the analysis could indicate what could be a basis for determining which examples to reflect.

  - Option 3: **no examples** – the analysis could indicate that extracting information at specific disclosure objective level is sufficient for investors' needs.

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# Disclosure objectives and examples:
# Staff suggestion + Questions to ITCG members

**We suggest** creating hierarchical structure for text blocks to allow extraction of information at various levels of granularity. The elements would correspond to headline objectives and specific objectives for each area of content. Initial assessment indicates this approach would lead to creating:

- 6 elements – one for the headline objective for each of the six areas of content (allows entities to extract all data related to each content area, for example business model)
- 26 elements for requirements related to specific objectives (eg 4 elements related to business model).

We are also considering whether the IFRS Taxonomy should include elements related to examples of material information.

Have we identified an effective way to reflect the Exposure Draft proposals for disclosure objectives? Are there any other approaches you would advise us to consider, for example a dimensional approach?

Do you have suggestions on how to best reflect examples of material information in the IFRS Taxonomy? Which level of granularity do you consider most helpful for investors' analysis?

# Effects on digital reporting

## Key matters
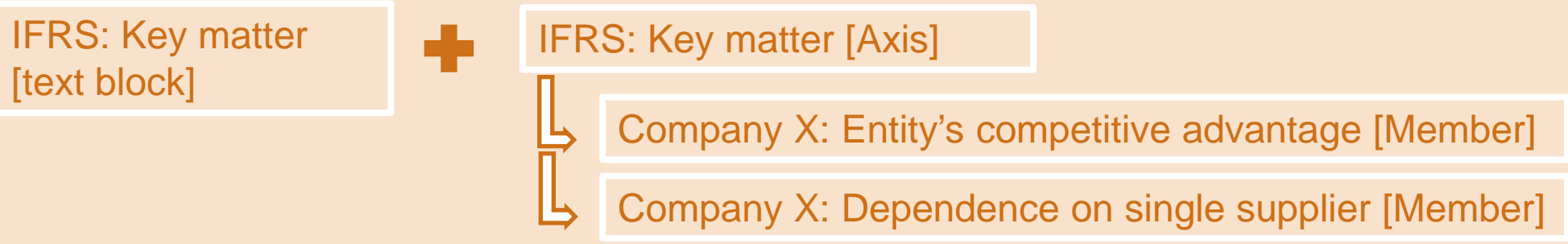
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# Key matters in IFRS Taxonomy

We expect investors might want to extract and analyse information by key matter.
- Disclosures about key matters are likely to include a lot of narrative information.
- Key matters are entity-specific and likely relate to more than one area of content (slide 15).

- **We do not suggest** including examples of key matters provided in the Exposure Draft in the IFRS Taxonomy because they are provided to illustrate possible variety in practice.

- **We suggest** creating a generic text block for key matter content and an Axis with entity-specific Members for key matters to allow investors to extract information by key matter.

- Using a dimensional approach naturally provides context for the entity-specific Members via their link to a defined Axis.

IFRS: Key matter [text block]

**+**

IFRS: Key matter [Axis]

Company X: Entity's competitive advantage [Member]

Company X: Dependence on single supplier [Member]

In your view, would tagging information by key matters be useful for investors? If so, have we identified an effective way to reflect the Exposure Draft proposals for key matters?

# Long-term prospects, intangibles and ESG

- Information about **key matters** in management commentary is likely to include information about matters of particular interest to investors, ie:
    - key matters that could affect the company's long-term prospects
    - key intangible resources and relationships
    - key environmental and social matters.
- The Exposure Draft provides *an appendix* with an overview of requirements and guidance to consider in reporting on such key matters. It also provides examples of application of those requirements and guidance in described fact patterns.

**We do not suggest** reflecting in the IFRS Taxonomy the requirements and guidance included in the appendix because the appendix largely reorganises the content from the main body of the document to help entities apply it. In addition, we expect various other frameworks might provide detailed requirements or guidance related to long-term prospects, intangibles and ESG matters. However, we think companies may tag information about these matters if a company considers them to be key matters.

Do you have any comments related to this approach?

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# Effects on digital reporting

## Metrics

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# Metrics in IFRS Taxonomy

We expect investors might want to extract and analyse information that relates to metrics.
- Metrics could be in numerical or textual format, eg production capacity or levels of risk.
- Metrics are entity-specific and are likely to relate to key matters discussed.
- Each metric is required to be accompanied by explanations.

- **We do not suggest** including in the IFRS Taxonomy the examples of metrics provided in the Exposure Draft because:
  - They are provided to illustrate possible variety of metrics in practice.
  - The methods entities use to calculate those metrics might be different so they would not be comparable.

- **We suggest** creating an Axis with entity-specific Members for metrics because we expect investors might want to extract and analyse information by metric.

- We considered 2 sets of elements for line items:
  1. Text block to capture all information related to each metric.
  2. Detailed elements to capture different types of information related to each metric.

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# Metrics in IFRS Taxonomy

**We suggest** creating both sets of elements: a text block to allow users to extract all information for each metric as well as detailed elements to allow users to extract different types of information about each metric.

Those detailed elements could be as follows:

a) Numeric and text element for the value of metric
b) Text element to explain method and inputs used to calculate metric
c) Text element to explain assumptions made and limitations of the method used
d) Text block to reconcile to the amount in related financial statements (see note below)

**We suggest** creating a text block for reconciliations to amounts in the financial statements to avoid problems with XBRL calculations. Currently calculations will not work if:
   **elements with dimensions** [Metric in management commentary tagged using *IFRS: Metric + Axis with entity-specific Members for metrics*]

   are used in calculation with **elements without dimension** [amount from financial statement tagged using *IFRS element without Axis*]

# Metrics in IFRS Taxonomy

- We also note that ITCG members previously indicated preference for:
  - Similar approach (Text block + detailed tagging) for similar concepts ie Management Performance Measures discussed in the Primary Financial Statements project.
  - Dimensional approach with entity-specific Members rather than alternative approach with placeholder line items that entity could rename for entity-specific concepts.

  Refer to agenda paper here: AP3A: Interaction between electronic reporting and the Primary Financial Statements project (ifrs.org)

  Refer to notes from the discussion here: ITCG meeting summary June 2019 (ifrs.org)

- Management Performance Measures were defined more narrowly than Metrics and could only be numerical values reflecting subtotals presented in primary financial statements.

Have we identified an effective way to reflect the Exposure Draft proposals for metrics?

# Summary of questions

# Questions to ITCG members
## (summary of questions on previous slides)

1. Do you agree with the analysis on slide 22 on how the IFRS Taxonomy could support **investors' needs** with respect to narrative reporting?

2. Have we identified an effective way to reflect the Exposure Draft proposals for **disclosure objectives**? Are there any other approaches you would advise us to consider, for example a dimensional approach? (slides 24-30)

   - Do you have suggestions on how to best reflect **examples of material information** in the IFRS Taxonomy? Which level of granularity do you consider most helpful for investors' analysis? (slides 27-30)

3. In your view, would tagging information by **key matters** be useful for investors? If so, have we identified an effective way to reflect the Exposure Draft proposals related to key matters? (slides 31-33)

   - Do you have any comments related to the approach for summary of **disclosures in Appendix** to the Exposure Draft? (slide 33)

4. Have we identified an effective way to reflect the Exposure Draft proposals for **metrics**? (slides 34-37)

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