

Snapshot

Management Commentary

This Snapshot provides an overview of the Exposure Draft *Management Commentary* published by the International Accounting Standards Board (Board).

The Board's objective:	To improve the scope and focus of management commentary that companies provide alongside their financial statements.
Project stage:	<p>The Board has published an Exposure Draft of the revised IFRS Practice Statement 1 <i>Management Commentary</i>.</p> <p>The revised Practice Statement would provide a comprehensive framework for preparing management commentary that meets investors and creditors' information needs and would replace the existing Practice Statement.</p> <p>The Board is seeking comments on the Exposure Draft.</p>
Next steps:	The Board will consider comments it receives on the Exposure Draft before deciding whether and how to finalise the revised Practice Statement.
Comment deadline:	23 November 2021

Why is the Board undertaking this project?

What is management commentary?

Management commentary is a report that complements a company's financial statements. It is often included in a company's annual report.

Management commentary is known by various names around the world, including management discussion and analysis (MD&A), strategic report, integrated report, or operating and financial review.

Management commentary is prepared for the company's investors and creditors. It can also be useful for other parties—such as the company's employees, government agencies or members of the public. However, management commentary is not prepared with the information needs of those other parties in mind.

What are the issues?

Shortcomings in practice

Investors and creditors have told the Board that management commentaries do not always provide information they need, and do not always present information in a readily understandable and useable way.

Evolving investors and creditors' needs

Many companies' prospects increasingly depend on intangible resources and relationships, and are affected by environmental, social and governance (ESG or sustainability) matters. As a result, investors and creditors need more information about these topics.

Innovations in narrative reporting

The landscape of narrative reporting frameworks is complex and is developing rapidly, making it difficult for companies to navigate applicable requirements and guidance.

What do investors and creditors say?

Not enough focus on matters that are important to the company's prospects, especially its long-term prospects.

Too much generic information and not enough company-specific information.

Information can be fragmented and unbalanced and often difficult to compare over time and across companies.

What is the Board aiming to achieve?

The Board is proposing a comprehensive new framework for management commentaries to give investors and creditors the information they need to assess companies' prospects over all time horizons, including in the long term.

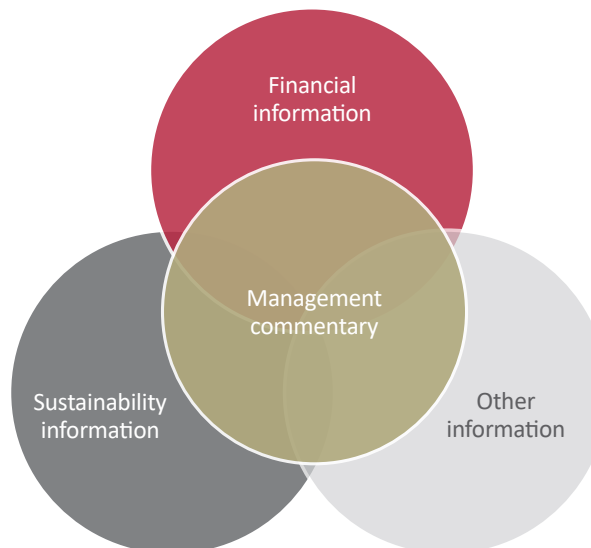
The Board's proposed framework represents a major overhaul of IFRS Practice Statement 1 *Management Commentary*.

Building on the innovations in narrative reporting, it is designed to provide a robust basis for companies to bring together, in a single report, the information that investors and creditors need to assess a company's prospects—including information about the company's intangible resources and relationships and about sustainability matters that affect the company.

Thus, management commentary would not only explain the financial performance and position reported in the company's financial statements. It would also provide insights into the factors that affect the company's ability to create value and generate cash flows, including in the long term.

Focal point for connectivity

The Board envisages that companies would be able to apply the new framework together with narrative reporting requirements or guidelines issued by other bodies for companies in specific industries or on specific topics, such as sustainability reporting. Such requirements could include standards set by a future International Sustainability Standards Board, the creation of which is being considered by the IFRS Foundation Trustees.



Who would apply the new framework?

Mandatory compliance

It would be for local lawmakers and regulators to decide whether to **require** companies to prepare management commentary that complies with the revised Practice Statement.

Voluntary compliance

Companies may **choose** to prepare management commentary complying with the revised Practice Statement even if they are not required to do so.

Financial statements can comply with IFRS Standards even if they are not accompanied by management commentary, or if the accompanying management commentary does not comply with the Practice Statement. The Board proposes that it should continue to be the case with the revised Practice Statement.

The Board's proposals at a glance

What is the Board proposing?

The Exposure Draft sets out:

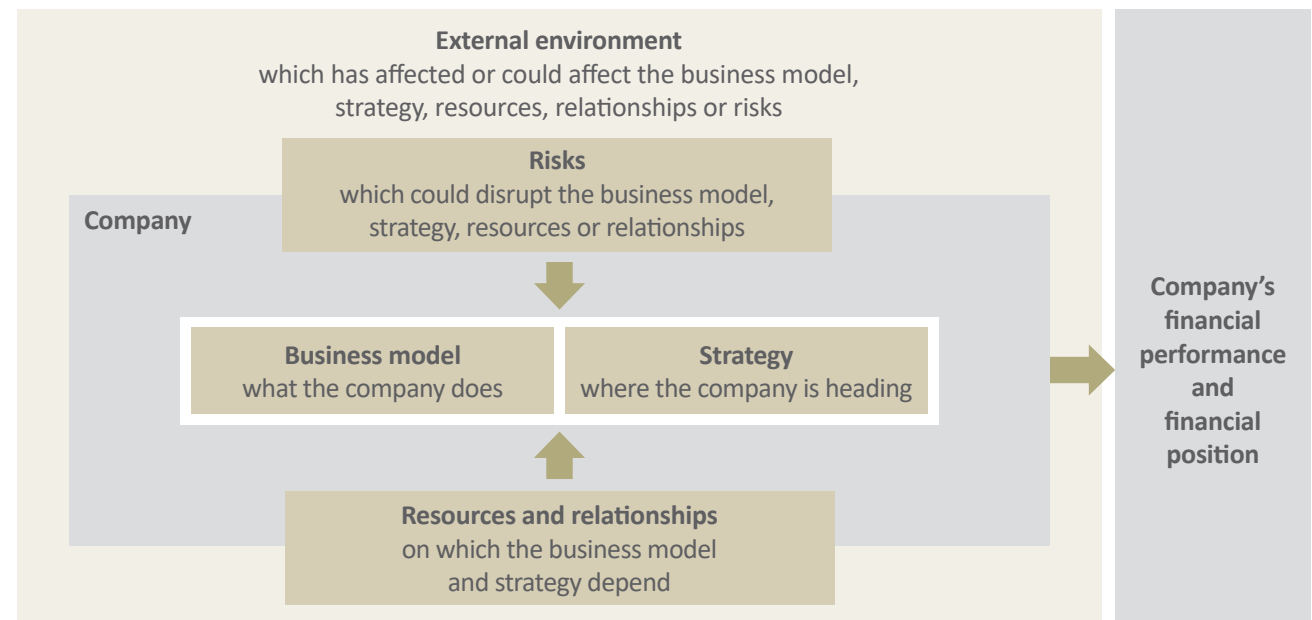
- (a) an objective for management commentary;
- (b) disclosure objectives for areas of content in management commentary;
- (c) a requirement to focus on key matters;
- (d) requirements and guidance on selecting and presenting information, including:
 - (i) guidance on making materiality judgements;
 - (ii) examples of material information;
 - (iii) requirements for metrics; and
 - (iv) requirements for information to possess specified attributes.

For a company to claim compliance with the revised Practice Statement, its management commentary must meet its objective and provide material information that meets the disclosure objectives for all areas of content.

What would be covered in a management commentary?

The Exposure Draft specifies six interrelated areas of content to be covered in a management commentary.

Figure 1—Relationships between areas of content



An objectives-based approach

Why is the Board proposing an objectives-based approach?

Investors and creditors have told the Board they need more company-specific information. That information varies from company to company. So the Board is not proposing to list information that management commentary should provide.

Instead, it is proposing to specify what objectives the information in management commentary should meet. This approach is designed to provide both:

- (a) sufficient **flexibility** for a company to be able to tell its unique story, focusing on what is important for the company's long-term prospects; and
- (b) an **effective basis** for regulators to enforce the revised Practice Statement and for auditors to assess compliance with the revised Practice Statement.

The Board's proposed approach is anchored in investors and creditors' information needs.

How does the Board's proposed approach work?

The Board proposes the objective of management commentary, supported by disclosure objectives for the areas of content and examples of material information.

Figure 2—An objectives-based approach



Proposed objective of management commentary

The Board proposed that management commentary should provide information that:

- (a) **enhances** investors and creditors' understanding of the company's financial performance and financial position reported in its financial statements; and
- (b) **provides insight** into factors that could affect the company's ability to create value and generate cash flows across all time horizons, including in the long term.

Information required by the objective:

- (a) is provided if it is **material** to investors and creditors in making their decisions; and
- (b) reflects **management's perspective** and is based on information used in managing the company.

Proposed disclosure objectives for areas of content

Table 1—Overview of disclosure objectives

Headline objectives		
Business model	Strategy	Resources and relationships
Management commentary shall provide information that enables investors and creditors to understand...		
how the company’s business model creates value and generates cash flows.	management’s strategy for sustaining and developing the company’s business model.	the resources and relationships on which the company’s business model and management’s strategy for sustaining and developing that model depend.
Risks	External environment	Financial performance and financial position
Management commentary shall provide information that enables investors and creditors to understand...		
the risks of events or circumstances that could disrupt: (a) the company’s business model; (b) management’s strategy for sustaining or developing that model; or (c) the company’s resources or relationships.	how the company’s external environment has affected or could affect: (a) the company’s business model; (b) management’s strategy for sustaining and developing that model; (c) the company’s resources or relationships; or (d) risks to which the company is exposed.	the company’s financial performance and financial position reported in the company’s financial statements.

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Assessment objectives		
Business model	Strategy	Resources and relationships
Information in management commentary shall provide a sufficient basis for investors and creditors to assess:		
<ul style="list-style-type: none"> (a) how effective the company’s business model is at creating value and generating cash flows; (b) how scalable and adaptable it is; and (c) how resilient and durable it is. 	<ul style="list-style-type: none"> (a) how effective the strategy is likely to be in developing the company’s ability to create value and generate cash flows; and (b) management’s ability to implement the strategy. 	<ul style="list-style-type: none"> (a) the extent to which the business model and management’s strategy depend on particular resources and relationships; and (b) the company’s ability to obtain the resources and maintain the relationships on which its business model and management’s strategy depend.
Risks	External environment	Financial performance and financial position
Information in management commentary shall provide a sufficient basis for investors and creditors to assess:		
<ul style="list-style-type: none"> (a) the extent of the company’s exposure to risks; and (b) how effectively management monitors and manages the company’s exposure to risks. 	<ul style="list-style-type: none"> (a) how factors and trends in the company’s external environment have affected or could affect the company; and (b) how effectively management monitors and responds or can respond to those factors and trends. 	<ul style="list-style-type: none"> (a) drivers of the company’s financial performance and financial position; (b) how the company’s financial performance and financial position compare with investors and creditors’ previous expectations; (c) the extent to which the financial performance and financial position reported in the company’s financial statement are indicative of the company’s ability to create value and generate cash flows in the future, including in the long term; and (d) the company’s financial resilience.

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Specific objectives		
Business model	Strategy	Resources and relationships
Information in management commentary shall enable investors and creditors to understand:		
<ul style="list-style-type: none"> (a) the range, nature and scale of the company's operations; (b) the company's cycle of creating value and generating cash flows; (c) the environmental and social impacts of the company's activities if those impacts have affected or could affect the company's ability to create value and generate cash flows, including in the long term; and (d) progress in managing the company's business model. 	<ul style="list-style-type: none"> (a) the drivers of the strategy, including the opportunities management has chosen to pursue; (b) the aims of the strategy; (c) milestones on the path towards those aims; (d) plans for reaching the milestones and achieving the aims; (e) the financial resources required to implement the strategy, and management's approach to allocating financial resources; and (f) progress in implementing the strategy. 	<ul style="list-style-type: none"> (a) the nature of the company's resources and relationships and how the company deploys them; (b) how the company obtains its resources and maintains its relationships; (c) factors that could affect the availability or the quality of the resources and relationships in the future, including in the long term; and (d) progress in managing the resources and relationships.
Risks	External environment	Financial performance and financial position
Information in management commentary shall enable investors and creditors to understand:		
<ul style="list-style-type: none"> (a) the nature of the risks to which the company is exposed; (b) the company's exposure to those risks; (c) how management monitors and manages the risks; (d) how management will mitigate disruption if it occurs; and (e) progress in managing risks. 	<ul style="list-style-type: none"> (a) the nature of factors and trends in the company's external environment; (b) how those factors and trends have affected or could affect the company; (c) how management monitors and plans to respond to those factors and trends; and (d) progress in responding to those factors and trends. 	<ul style="list-style-type: none"> (a) what factors have affected the company's financial performance and financial position in the reporting period or could affect them in the future, including in the long term; (b) how management has allocated financial resources in the reporting period; and (c) how the company's financial performance and financial position compare with forecasts or targets previously published by the company, if any.

Materiality and key matters

Material information

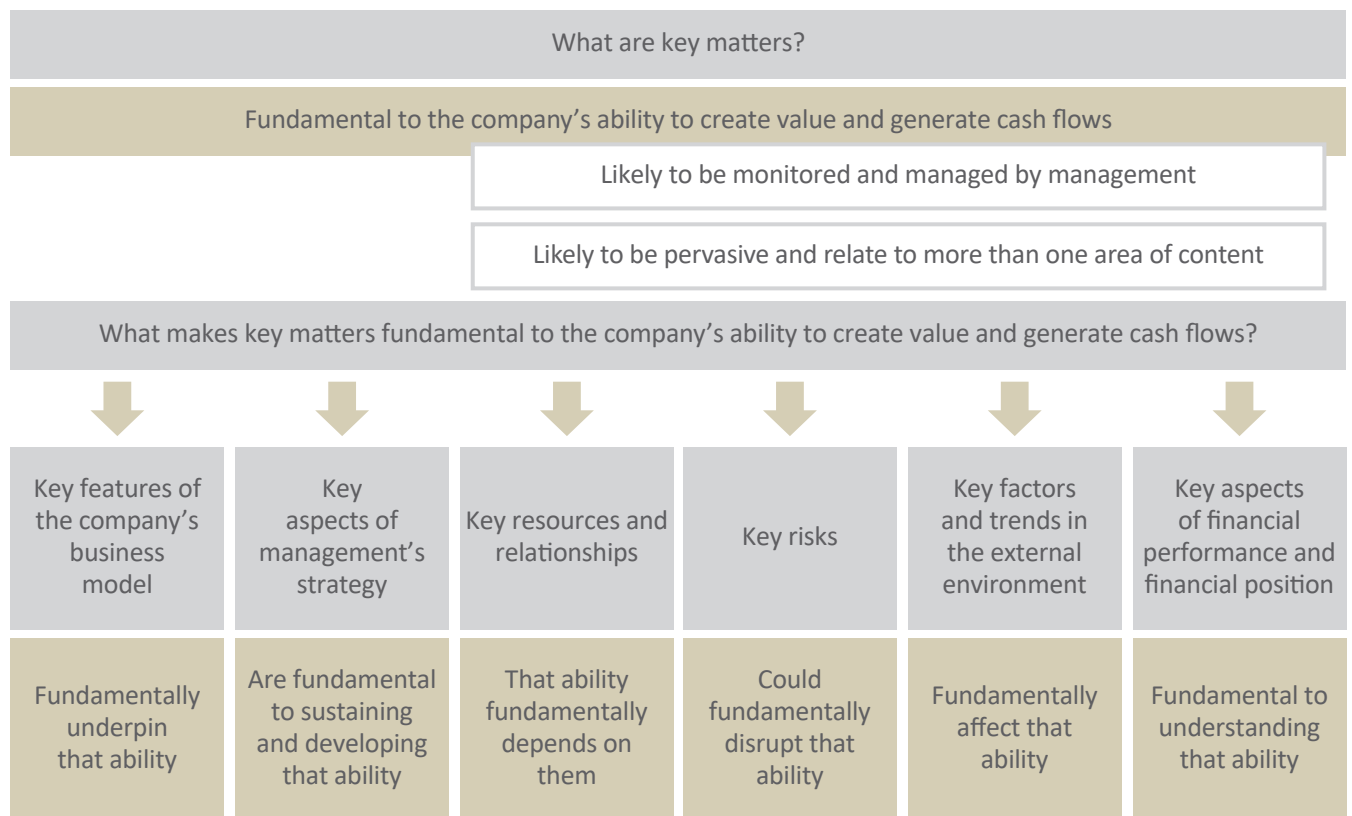
Information would be included in management commentary if it is material to **investors and creditors**. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of the management commentary and of the related financial statements.

Key matters

Much of material information in management commentary will relate to key matters—matters **fundamental to the company’s ability to create value and generate cash flows**. Identifying key matters would require management to apply judgement. Because key matters are so important for the company’s prospects, they are likely to:

- (a) be matters that management monitors and manages; and
- (b) be pervasive and to relate to more than one area of content in management commentary. For example, risks to a key feature of a business model—such as a competitive advantage—are likely to be key risks.

Figure 3—Overview of key matters by area of content



Identifying material information

Guidance and examples

To help management identify material information, the Exposure Draft proposes:

- (a) guidance on identifying key matters and material information;
- (b) examples of key matters for each area of content;
- (c) examples of metrics that management might use to monitor key matters and to measure progress in managing those matters for each area of content; and
- (d) examples of material information linked to specific disclosure objectives.

The information described in the examples is not always needed; nor is the information investors and creditors need limited to those examples. Material information would depend on the company and its circumstances. Management applies judgement in identifying that information.

Long-term prospects, intangibles and ESG matters

Investors and creditors are particularly interested in information about matters that could affect a company's long-term prospects, including information about intangible resources and relationships and sustainability matters.

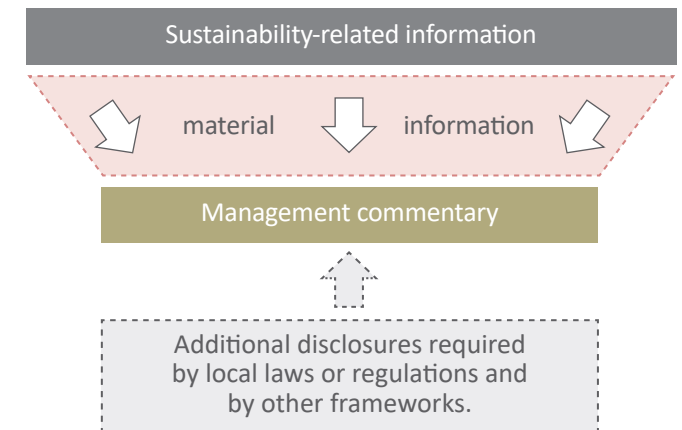
Requirements and guidance for reporting on such matters, including how to report applicable metrics, are set out throughout the Exposure Draft. To help companies report on such matters, the Exposure Draft includes an appendix that provides:

- (a) an overview of requirements and guidance that apply to reporting those matters; and
- (b) examples that show how companies might consider those requirements and guidance in identifying key matters and material information in various fact patterns.

Interaction with other reporting frameworks

Companies would be able to apply local laws or regulations as well as frameworks issued by other organisations, for example on sustainability, to help them identify material information for inclusion in management commentary.

Companies would also be permitted to include immaterial information required by those laws, regulations and frameworks as long as it does not obscure material information.



Metrics

Material information is likely to include metrics that management uses to monitor key matters and to measure progress in managing those matters.

Metrics are measures that management uses to monitor a quantitative or qualitative aspect of a company's financial or non-financial performance or position. Those measures are specific to the company and typically depend on the company's activities and the industry in which it operates. Those measures could be derived from information generated by the company or obtained from external sources, for example providers of market share statistics or customer surveys.

The Exposure Draft proposes requirements and guidance for metrics provided in management commentary.

Examples of metrics that may need to be included in management commentary

Metrics for business model may relate to:

- the scale of the company's operations—for example, production capacity or volumes
- environmental or social impacts of the company's activities—for example, greenhouse gas emissions

Metrics for strategy may relate to:

- progress towards long-term aims—for example, brand reputation scores
- progress towards milestones—for example, measures of product quality

Metrics for resources and relationships may relate to:

- how effectively a resource is deployed—for example, store revenue per unit of floor area
- the strength of a relationship—for example, customer retention statistics

Metrics for risks may relate to:

- exposure to a risk—for example, the level of reliance on a raw material
- the effectiveness of management's response—for example, number of safety incidents

Metrics for external environment may relate to:

- factors and trends—for example, market share statistics
- the effectiveness of management's response—for example, the proportion of revenue exposed to a trend

Metrics for financial performance and financial position may relate to:

- amounts presented or disclosed in the financial statements, such as line items, totals and subtotals
- measures derived from the amounts presented or disclosed in the financial statements

Attributes of information in management commentary

To be useful to investors and creditors, information in management commentary should possess specified attributes. Specifically, the Exposure Draft proposes that it should be complete, balanced, accurate and coherent. The Exposure Draft also sets out desired attributes of information. They are clarity and conciseness, comparability, and verifiability. To help companies provide such information, the Exposure Draft proposes guidance on how to provide information with those attributes. With the exception of coherence, the proposed attributes correspond to the characteristics of useful financial information set out in the *Conceptual Framework for Financial Reporting*.

Coherence

Investors and creditors say that information in management commentary is difficult to use if it is fragmented or cannot be reconciled with other information provided by the company. So the Board is proposing that information in management commentary should be coherent. It is also proposing that information should be provided in a way that it can be related to other information published by the company, in particular in the company's financial statements, and that any apparent inconsistencies are explained.

Required attributes of information

Completeness

Management commentary shall provide a complete depiction of the matters it addresses. A complete depiction of a matter requires all material information that is necessary for investors and creditors to understand the matter.

Balance

Information in management commentary shall be balanced—not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that investors and creditors will receive that information favourably or unfavourably.

Accuracy

Information in management commentary shall be accurate. Information can be accurate without being perfectly precise. The degree of precision needed depends on the nature of information and the nature of matters addressed.

Desired attributes of information

Clarity and conciseness

Information in management commentary is more useful if it is clear and concise—plain language is used as much as possible, only material information is included, duplication and 'boilerplate' disclosures are avoided.

Comparability

Information in management commentary is more useful if it is comparable—both with information provided by other companies (particularly those in the same industry) and information provided by the company in the past.

Verifiability

Information in management commentary is more useful if it is verifiable—that is, if it is possible to corroborate either the information itself or the inputs used to derive the information.

Information for respondents

The deadline for comments on the Exposure Draft is 23 November 2021.

All parties are invited to respond to the questions in the Exposure Draft. The Board will welcome responses even if respondents do not comment on all questions.

You can submit comments on our ‘Open for comment documents’ page at:

www.ifrs.org/projects/open-for-comment/

Stay informed

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Exposure Draft package

The Exposure Draft includes:

- questions for respondents; and
- the Board’s detailed proposals, in the format of a draft revised Practice Statement.

The Basis for Conclusions on the Exposure Draft includes:

- a summary of the Board’s considerations in developing its proposals; and
- an analysis of the expected effects of the proposals, including the effects on electronic reporting.

This document

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