STAFF PAPER

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Purpose of this paper

1. The purpose of this paper is to discuss what guidance should be included in the revised IFRS Practice Statement 1 *Management Commentary* (Practice Statement) on strategy. In particular, this paper discusses:
   (a) the disclosure objective for strategy; and
   (b) guidance supporting that disclosure objective.

2. This paper asks the Board for decisions on:
   (a) the disclosure objective for strategy; and
   (b) identifying the key aspects of strategy that would need to be addressed in management commentary. The paper does not ask the Board for decisions on other aspects of the supporting guidance but invites comments from the Board. The staff will consider those comments and will either address them in drafting the document or will present to the Board further analysis at a future meeting.

Structure of this paper

3. This paper is structured as follows:

   (a) summary of staff recommendations (paragraph 4);

   (b) summary of staff's research on strategy (paragraphs 5–27);

   (c) disclosure objective for strategy, including:

      (i) the headline objective (paragraphs 32–39);

      (ii) main assessments typically made by investors and creditors (paragraphs 40–45);

      (iii) types of information that needs to be provided (paragraphs 46–51);

   (d) possible guidance supporting the disclosure objective, including:

      (i) how to identify key aspects of management's strategy (paragraphs 57–60);

      (ii) what information to provide about management's strategy (paragraphs 61–76);

   (e) Appendix A— Extracts from Practice Statement 1 *Management Commentary* on strategy;

   (f) Appendix B—Summary of feedback on strategy received from the Management Commentary Consultative Group (MCCG);

   (g) Appendix C—Investors' and creditors' information needs in relation to strategy disclosures; and

   (h) Appendix D—Requirements and guidance on strategy disclosures issued by other standard-setters.

Summary of staff recommendations

4. The staff recommend that the revised Practice Statement:

   (a) specifies the disclosure objective for strategy as follows:

Management commentary shall provide information and analysis to help investors and creditors understand management's strategy for sustaining and developing the entity's ability to generate cash flows in the future.

That information and analysis helps investors and creditors assess:

(i) the potential impact of the strategy on the entity's ability to generate cash flows; and

(ii) the entity's ability to execute the strategy.

That information and analysis shall cover:

(iii) what drives management's strategy;

(iv) what management sets out to achieve in the long term;

(v) how management plans to achieve that; and

(vi) how management will monitor and measure success.

That information and analysis shall focus on the key aspects of management's strategy.

(b) specifies that the key aspects of management's strategy are those that will significantly affect the entity's ability to generate cash flows in the future.

Summary of staff's research on strategy

The existing Practice Statement

5. The existing Practice Statement identifies management's objectives and its strategies for meeting those objectives as an element of management commentary and explains that 'management commentary should communicate management's perspective of the entity's direction'[1]. The Practice Statement also refers to strategy in discussing principles, risks, results and prospects, and performance measures and indicators,

[1] Paragraph 17 of the Practice Statement

which highlights the interrelationships between those topics. The relevant extracts from the Practice Statement are included in Appendix A.

6. The Practice Statement includes an overall disclosure requirement on strategy (which can be viewed as a disclosure objective) but provides limited supporting guidance and examples.

7. Specifically, the Practice Statement states that: ‘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 results’[2]. It also identifies broad types of information about objectives and strategies that management may consider including in management commentary, including information about:

    (a) how success will be measured and over what time period;

    (b) any changes in objectives and strategies; and

    (c) the relationship between objectives, strategy, management actions and executive remuneration.

8. The guidance in the existing Practice Statement was intended to meet information needs of investors and creditors. The Board concluded that objectives and strategies needed to be addressed in management commentary because investors and creditors wish ‘to assess the strategies adopted by the entity and the likelihood that those strategies will be successful in meeting management’s stated objectives’[3].

Investors’ and creditors’ information needs and gaps in reporting practice

9. In developing recommendations on strategy, the staff performed research and outreach to understand investors’ and creditors’ information needs and to identify gaps in reporting practice.

[2] Paragraph 27 of the Practice Statement
[3] Paragraph BC48 of the Practice Statement

10. The staff's research and outreach confirmed that information about strategy is important for investors and creditors in their decision-making. For example, a 2018 CFA Institute member survey highlighted that the description of an entity's business model and management's strategy is the second on the list of commonly used information categories within corporate narrative reporting (see Appendix C, Table A.1). According to that survey, investors and creditors use information about strategy:

(a) as context for understanding information in the related financial statements;

(b) as input into their valuation models (including determining a discount rate),

(c) to assess the 'management quality' (or management stewardship); and

(d) to support their risk assessment (of both short and long-term risks).

11. As already highlighted in the previous discussions with the Board[4], a key area of concern about current reporting practices is that reports tend to focus on operational tactics and lack a long-term perspective, in particular in discussing strategy. In addition, the staff identified the following concerns related to discussion of strategy in narrative reports:

(a) lack of linkage of information in the reports, for example information about strategy, operating environment and risks and the entity's performance (see Appendix C, Table A.2 and Table B.2);

(b) limited discussion about risks to achieving entities' long-term objectives and how those risks are manages as well as about entities' progress in achieving its long-term objectives (see Appendix C, Table A.2);

(c) limited discussion about management's capital allocation strategies (see Appendix C, Table A.5);

(d) limited discussion of factors that could affect the entity in the long-term, for example key intangibles, environmental, social and governance matters ,

[4] See November 2017 Agenda Paper 28A and November 2018 Agenda Paper 15A.

and of how those matters are managed (see Appendix C, Table A.3, A.4 and Table B.4).

12. Those findings have been confirmed in the discussions with the Board's consultative groups. Specifically:

(a) in discussing gaps in reporting practice on strategy at the June 2018 joint meeting of the Global Preparers Forum (GPF) and the Capital Markets Advisory Committee (CMAC), members commented on the need to address entities' long-term goals, including providing insights into progress towards achieving those goals and into risks to achieving those goals. However, members stated that there are constraints on providing such information (for example, legal and competitive considerations) and that some such information can be difficult to assure. They also acknowledged the difficulty of defining long term.

(b) in discussing the disclosure objective for strategy at the March 2020 meeting, CMAC members confirmed that need information about the progress in implementing management's strategies and about associated risks (ie 'what could go wrong') as well as information about how the progress is measured. CMAC members stated that in evaluating management's strategy they consider:

(i) management's strategy relative to an entity's market or industry (eg using Porter's Five Forces[5] model);

(ii) management's past success in achieving its strategies (ie past performance);

(iii) management's current progress in achieving its existing strategies (ie current performance);

[5] Porter's Five Forces is a model that identifies and analyses five competitive forces that, according to the originator of the model, shape every industry and helps determine an industry's weaknesses and strengths. It is based on an original paper written by Michael Porter.

(iv) whether management's incentives are aligned with the entity's strategy; and

(v) allocation of resources and capital to support implementation of management's strategy.

(c) in discussing strategy at the April 2019 and December 2019 meetings of the Management Commentary Consultative Group (MCCG), the members agreed with the need to provide information about entities' long-term objectives and plans for achieving those objectives as well as about progress implementing the strategy. However, members of the MCCG also emphasised the need for discussion of strategy to cover all time horizons, including but not limited to a long term. They suggested that the revised Practice Statement may need to specifically refer to time horizons, including the long term.

13. In discussing information about ESG matters, members of MCCG and of CMAC noted that some such information is important for investors and creditors in their decision making. However, some MCCG members also noted environmental matters, social matters and governance matters are different in nature and various approaches may be required for reporting them in management commentary. In particular, a few MCCG members suggested that the revised Practice Statement does not need to provide guidance on reporting governance matters because this is typically covered by other reporting requirements and is outside the remit of management commentary. Some CMAC members also emphasised the need to focus on the matters that can affect the entity's ability to generate cash flows and the entity's prospects for further cash flows. Finally, CMAC members highlighted the need to address both risks and opportunities in discussing the management's strategy.

14. The staff further considered what is meant by 'long term' and identified the following approaches:

(a) some investors and creditors link the long term the entity's business or investment cycle (see Appendix C, Table A.4);

(b) some stakeholders view a short term as a period less than two years, a medium term as a period between two and seven years and a long term as a period exceeding 7 years (see Appendix C, Table B.1).

(c) some stakeholders that a long term is a period greater than 20 years (see Appendix C, Table B.3);

15. However, most stakeholders recognised that 'long term' could have different meanings depending on an entity's particular circumstances.

16. To conclude, staff's research and outreach suggest that investors and creditors need information about:

(a) management's long-term story (ie what management sets out to achieve in the long term);

(b) how management plans to achieve those goals, including resource and capital allocation;

(c) the risks and opportunities that inform and affect management's strategy;

(d) progress in implementing management' strategy as well as how management will monitor and measure success.

17. Appendix B provides further detail about feedback on strategy from members of the MCCG and explains how the staff considered the feedback in developing recommendations for this paper. Appendix C provides a summary of the staff's research on strategy.

Overview of other standard-setters' guidance

18. In developing recommendations on strategy, the staff reviewed reporting frameworks issued by other standard-setters to identify their requirements or guidance on disclosing management's strategy.

19. The staff's review covered responses from 24 national standard-setters to the staff's request for information about the requirements and commonly applied non-mandatory guidance on management commentary in their jurisdiction. The staff also reviewed

the EU Non-financial Reporting Directive (2014/95/EU) and the related European Commission Guidelines on non-financial reporting, and the International Integrated Reporting <IR> Framework (<IR> Framework) because some of the respondent jurisdictions either require or encourage management to use them in preparing management commentary.

20. The national frameworks reviewed by the staff provide various degrees of guidance on describing strategy:

(a) some do not specifically refer to strategy (for example, US, Mexico, Russia);

(b) some ask management for a brief description of the entity's strategy, but leave it for management to decide what should be included in that description (for example, Spain, Portugal, Japan);

(c) some include high-level guidance on the aspects of strategy that management should consider discussing in management commentary (for example, <IR> Framework, European Commission Guidelines, UK, Australia);

(d) one framework does not require a description of strategy but includes guidance for entities that choose to report on it voluntarily (Germany).

21. The majority of the frameworks reviewed by the staff do not define 'strategy'; however, they tend to describe strategy in terms of 'where', 'what' and 'how'. For example, the <IR> Framework refers to 'where does the organization want to go and how does it intend to get there' and the UK FRC Guidance on a strategic report states that a description of strategy (together with business model and purpose) should explain 'what an entity does and how and why it does it.'

22. The staff have also reviewed definitions or descriptions of strategy in other sources and identified the following definitions[6]:

(a) 'Strategy is the creation of a unique and valuable position, involving a different set of activities'[7].

(b) Strategy is 'a method, or approach, to realize the effective business model the company seeks to establish by optimally allocating and leveraging various business resources and relationships of the company'[8].

(c) 'Strategy is how a company achieves its goals by allocating its scarce resources to gain a sustainable competitive advantage'[9].

23. The descriptions and definitions of strategy discussed above suggest a strong link between strategy, business model and resources and relationships. In other words, strategy relates to how management intends to develop the business model in the future, including using key resources and relationships to implement that strategy.

24. Some of the frameworks reviewed by the staff provide guidance on aspects of strategy that should be discussed, including one or more of the following (see Appendix D, Table A):

(a) purpose, vision or mission;

(b) objectives or strategic objectives; and

(c) goals, plans or operational strategies.

25. Other examples of disclosures in relation to strategy discussed in the frameworks reviewed by the staff include (see Appendix D, Table B):

[6] The definitions reflect three different perspective being a) academic; b) business; and c) economic (ie economist).
[7] Harvard Business Review article, 'What Is Strategy?' by Michael E. Porter.
[8] The Japanese Institute of Certified Public Accountants(JICPA): How can corporate reporting practice support long-term oriented behaviour of institutional investors? ,2017 – See Appendix C.
[9] Evans, Vaughan. FT Essential Guide to Developing a Business Strategy (Financial Times Series).

(a) what drives management's strategy (eg market trends and factors, risks and opportunities and assumptions underlying that strategy);

(b) factors on which the achievement of strategy depends (eg resources and relationships);

(c) progress in meeting the long-term objectives and challenges an entity is facing in implementing the strategy; and

(d) performance measures and indicators (for example key performance indicators or lead indicators) that would help investors and creditors assess the entity's progress implementing its strategy and achieving its objectives.

26. Most of the frameworks reviewed by the staff do not specify the time horizon to be covered when describing the entity's strategy. A few frameworks ask for an indication of the time frames used by management in discussing objectives in management commentary, so that it is clear over what period success in achieving those objectives should be assessed. For example, the <IR Framework> provides the following guidance:

> The future time dimension to be considered in preparing and presenting an integrated report will typically be longer than for some other forms of reporting. The length of each time frame for the short, medium and long term is decided by the organization with reference to its business and investment cycles, its strategies, and its key stakeholders' legitimate needs and interests. Accordingly, there is no set answer for establishing the length for each term.

27. An summary of those frameworks that provide requirements or guidance on strategy disclosures as reviewed by the staff is provided in Appendix D. The staff note that many of the frameworks reviewed discuss management of risks as part of the entity's strategy. The staff plan to discuss risk as a separate area of content (see Agenda Paper 15B *Disclosure Objectives* presented at the March 2020 Board meeting).

Disclosure objective for strategy

28. As noted in paragraph 6, the existing Practice Statement includes a high-level disclosure requirement that could be viewed as a disclosure objective: '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 results.'

29. However, that requirement may not be sufficiently prominent or specific to help preparers identify information that needs to be provided to meet this implied objective. In addition, this requirement can be seen as lacking emphasis on the long-term perspective which may have contributed to the identified gaps in the reporting practice. As noted in paragraph 11, entities sometimes focus on short-term operational tactics rather than on long-term objectives and strategies. Therefore, the staff propose including in the revised Practice Statement a comprehensive disclosure objective that emphasises a long-term view. The staff's approach to developing disclosure objectives is set out in Agenda Paper 15A *Introduction to disclosure objectives* (Agenda Paper 15A).

30. Based on the design of disclosure objectives set out in Agenda Paper 15A, the proposed strategy disclosure objective has been structured as follows:

Design element **(Agenda Paper 15A)**	**Strategy disclosure objective**
(a) the main principle or a headline objective	Management commentary shall provide information and analysis to help investors and creditors understand management's strategy for sustaining and developing the entity's ability to generate cash flows in the future.
(b) a description of the main assessments that investors and creditors typically make	That information and analysis helps investors and creditors assess:

	(i) the potential impact of the strategy on the entity's ability to generate cash flows; and (ii) the entity's ability to execute the strategy.
(c) a high-level description of types of information that should be provided to help investors and creditors make those assessments	That information and analysis should cover: (a) what drives management's strategy; (b) what management sets out to achieve in the long term; (c) how management plans to achieve that; and (d) how management will monitor and measure success. That information and analysis should focus on the key aspects of management's strategy.

31. As highlighted in Agenda Paper 15A, the strategy disclosure objective is designed to support the overall objective of management commentary by helping management identify information and analysis about management's strategy that need to be reflected in management commentary to help investors and creditors:

(a) assess the entity's prospects for future cash flows;

(b) assess management's stewardship of the entity's economic resources;

(c) better understand the entity's performance and position as depicted in the related financial statements; and

(d) gain insight into factors that could affect the entity's prospects.

The headline objective

32. The proposed headline objective states that 'management commentary shall provide information and analysis to help investors and creditors understand management's strategy for sustaining and developing the entity's ability to generate cash flows in the future.'

33. In developing the disclosure objective for strategy, the staff considered what information investors and creditors need about management's strategy to help them make assessments of the entity's prospects for future cash flows and of management's stewardship of the entity's economic resources.

34. Strategy can generally be defined as 'a plan of action designed to achieve a long-term or overall aim.'[10] In the context of management commentary, as highlighted by the staff's research and outreach, strategy fundamentally relates to management's how management intend to sustain and develop the business model in future including leveraging key resources and relationships and reflects consideration of opportunities and threats. Specifically, the feedback from the Board's consultative groups as well as the staff's review of guidance provided by other standard-setters and of reports and surveys discussing investors and creditors' information needs suggest that:

    (a) strategy is often described in terms of 'where', 'what' and 'how'. In particular:

        (i) Where does an entity want to go in the future?

        The concept of 'where' is often associated with an entity's purpose, mission or vision (ie an overall aim).

        (ii) What does an entity want to achieve in the future?

        The concept of 'what' is often associated with the terms 'objectives' or 'strategic objectives' (ie long-term aims).

[10] As defined in the 'Oxford English Dictionary'.

(iii) How does an entity intend to get there or how does an entity intend to achieve its stated future aims?

The concept of 'how' is often associated with the term 'operational 'plans'.

(b) strategy is linked to how management intends to sustain and develop the entity's business model in the future (and leverage the entity's resources and relationships) and so it is directly linked with how the entity will generate cash flows in the future; and

(c) strategy over the long term and the entity's progress in achieving long-term objectives is particularly important to investors.

35. In the light of those findings, as well as the overall objective of management commentary, the staff think that the headline objective for strategy should refer to the entity's ability to generate cash flows in the future. The staff think that such a headline objective provides an appropriate starting point for the overall disclosure objective on strategy for the following reasons:

(a) it is future-orientated because it includes an explicit reference to the *future*;

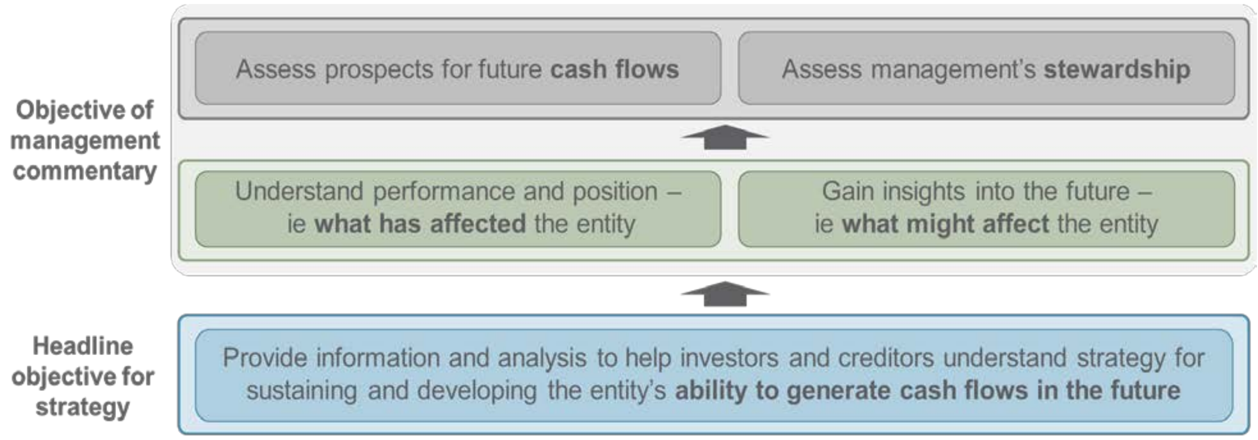
(b) it supports a long-term view by referring to the entity's *ability* to generate cash flows;

(c) it reflects the notion of management's stewardship because it refers to *sustaining and developing* the entity; and

(d) is closely aligned with the overall objective of management commentary and disclosure objective for business model because it refers to generating *cash flows*.

36. The relationship between the headline disclosure objective for strategy and the overall objective of management commentary is illustrated in Figure 1.

Figure 1



37. As noted in paragraph 12(b), the staff's proposed headline objective was discussed at the March 2020 CMAC meeting. Some CMAC members expressed particular support for a reference to generating cash flows and indicated that the focus on cash flows was particularly important for their analysis. They also suggested that the notion of generating cash flows was clearer than the notion of value creation and would therefore, in their view, facilitate more focused discussion in management commentaries.

38. The staff considered whether the headline disclosure objective for strategy should also include a reference to value creation, similar to the disclosure objective on business model. However, in this instance, the staff concluded that a reference to the 'ability to generate cash flows' is appropriate and sufficient. As noted in paragraph 35, strategy relates to sustaining and developing the entity's business model. Business model is described in terms of creating value for the entity and *converting that value into cash flows* [emphasis added]. In other words, although creating value is a foundation of the entity's ability to generate cash flows, the ultimate goal of a profit-oriented entity is to

generate cash flows. Given that strategy is looking into the future, the staff think that focussing on that ultimate goal of the entity's business model expressed in terms of the *ability* to generate cash flows is appropriate.

39. The staff also considered whether the disclosure objective should refer to 'sustaining and developing' the entity's ability to generate cash flows or whether it should instead focus only on developing that ability. The staff concluded that the focus on both 'sustaining' and 'developing' is appropriate because it would apply to entities in various stages of their growth cycle from a start-up/entrepreneurial enterprise to mature multi-national entities. Entities at various stages of their life cycles and in various circumstances may have a different focus of their strategy.

Main assessments typically made by investors and creditors

40. As explained in Agenda Paper 15A, the staff's proposed design for disclosure objectives includes supporting the main principle stated in the headline objective by a description of the main assessments that investors and creditors typically make using the information in that area of content. This is intended to help preparers identify information that investors and creditors require in a particular area of content.

41. As noted in paragraph 8, the existing Practice Statement explains that investors and creditors wish 'to assess the strategies adopted by the entity and the likelihood that those strategies will be successful in meeting management's stated objectives'. The staff's research and outreach confirmed that those assessments play an important role in investors and creditors' analysis. The staff therefore think that the revised Practice Statement should retain references to those assessments and clarify that there are two distinct aspects to those assessments.

42. Firstly, investors and creditors assess whether management's strategy is appropriate for the entity's circumstances and whether it is likely to effective (in other words, is this a good strategy). An investor will assess the appropriateness or effectiveness of an entity's strategy by reference to its potential impact on the entity's ability to generate cash flows. For example, as noted in paragraph 12(b)(i), one CMAC member

highlighted that management’s strategy is assessed in relative terms (ie how effective management’s strategy is likely to be relative to the entity’s market or industry.

43. Secondly, investors assess whether the strategy is achievable. In other words, while the first assessment is about the potential *impacts* on cash flows, the second assessment is about the *probability* of those impacts. As noted in paragraphs 12(b) and 13, in discussing strategy members of CMAC and MCCG highlighted that management’s ability to execute the strategy was important. One MCCG member noted that it was particularly important as it is directly linked to management’s stewardship. One CMAC member also highlighted the need to assess whether management’s incentives are aligned with the entity’s strategy.

44. Furthermore, management’s ability to execute its strategies is another key theme identified in the reports and surveys discussing information needs of investors and creditors (see paragraph 10).

45. To conclude, the feedback from the consultative groups and the staff’s research confirmed that the key assessments investors perform in relation to strategy include:

    (a) the potential impact of the strategy on the entity’s ability to generate cash flows; and

    (b) the entity’s ability to execute the strategy.

Types of information that need to be provided

46. In their research and outreach, the staff explored the main types of information and analysis that investors and creditors would need for their assessments of strategy described in paragraph 45.

47. As noted in paragraph 16, investors and creditors want to know what is driving management’s strategy (eg risks, opportunities, market trends or factors and assumptions that inform and underly the strategy) and the staff therefore think that such information should be required. The existing Practice Statement already

highlights that 'information about how management intends to address market trends and the threats and opportunities those market trends represent provides users of the financial reports with insight that may shape their expectations about the entity's future performance' (see paragraph 25 (a)). Another important factor that determines the direction in which management is taking the entity is the entity's purpose (see paragraph 34(a)(i)).

48. As noted in paragraph 34, investors and creditors also want to understand *what* management wants to achieve in the long term. Therefore, the staff think that management commentary should provide information about management's long-term aims. In the existing Practice Statement, the entity's long-term aims are referred to as objectives, the staff do not propose changing this term. This particular aspect of the disclosure objective for strategy is designed to further emphasise the long-term perspective.

49. As highlighted in paragraph 34, investors and creditors also want to understand '*how* an entity intends to achieve its stated long-term aims or objectives'. To help them understand that, the staff think that management commentary should describe management's plans for achieving those long-term objectives. The existing practice Statement does not use the term 'plans' and instead refers to strategies for achieving objectives. However, for clarity and in order distinguish various aspects of strategy from each other and from management's strategy as a whole, the staff uses the term plans. This is consistent with the overall definition of strategy which refers to 'a plan of action designed to achieve a long-term or overall aim'.

50. As noted in paragraph 34, investors and creditors wish to know how management will monitor and measure the progress in relation to implementing the strategy. The existing Practice Statement already includes a requirement to 'explain how success will be measured'. Discussions with the Board's consultative groups and review of other standard-setters' requirements and guidance have highlighted that information about how management will monitor and measure success (for example, milestones,

KPIs and links to management renumeration) is important to investors and creditors. Therefore, the staff think that such information should be required in management commentary.

51. As previously discussed with the Board, one of the gaps in current reporting practice relates to boilerplate disclosures and lack of focus. Therefore, the staff think that the revised Practice Statement should require as part of the disclosure objective on strategy that information and analysis on management's strategy should focus on the key aspects of management's strategy.

Question 1 for the Board

The staff recommend that the revised Practice Statement specifies the disclosure objective for strategy as follows:

(a) Management commentary shall provide information and analysis to help investors and creditors understand management's strategy for sustaining and developing the entity's ability to generate cash flows in the future.

(b) that information and analysis helps investors and creditors assess:

(i) the potential impact of the strategy on the entity's ability to generate cash flows; and

(ii) the entity's ability to execute the strategy.

(c) that information and analysis shall cover:

(i) what drives management's strategy;

(ii) what management sets out to achieve in the long term;

(iii) how management plans to achieve that; and

(iv) how management will monitor and measure success.

That information and analysis shall focus on the key aspects of management's strategy.

Do you agree with these recommendations?

Guidance supporting the disclosure objective

52. As explained in Agenda Paper 15A, the disclosure objective is intended to help management identify information and analysis that needs to be included in management commentary to meet investors’ and creditors’ information needs.

53. To help preparers apply the disclosure objective for strategy, the staff considered what supporting guidance could be included in the revised Practice Statement on:

    (a) identifying ‘key’ aspects of the entity’s strategy (paragraphs 57–60); and

    (b) information that might be provided for each type of information identified in the disclosure objective:

        (i) what drives management’s strategy (paragraph 61);

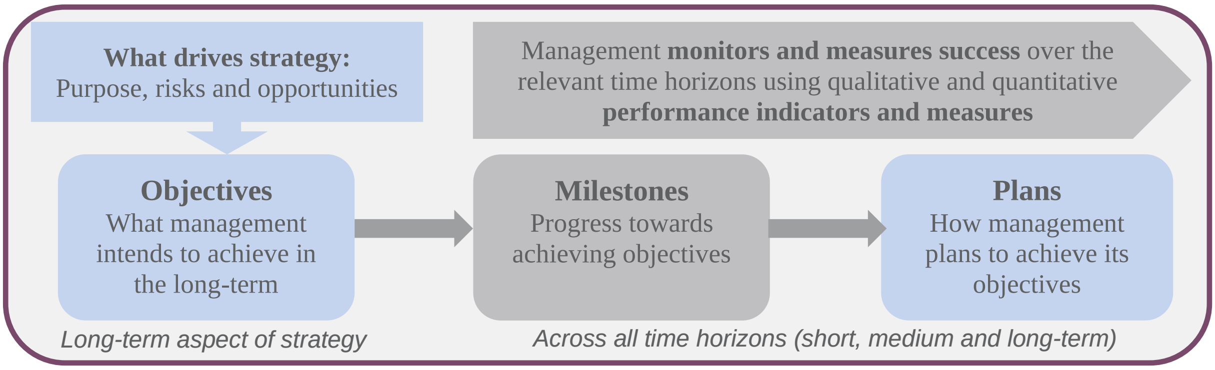
        (ii) what management sets out to achieve in the long term (paragraphs 62–64);

        (iii) how management plans to achieve that (paragraphs 65–72); and

        (iv) how management will monitor and measure success (paragraphs 73–76).

54. The supporting guidance will discuss what information entities should consider including in management commentary in order to meet the disclosure objectives and when and how they should provide that information.

55. Overall, the main ‘building blocks’ of information to be provided can be illustrated as follows:



56. In developing that supporting guidance, the staff considered the guidance included in the existing Practice Statement, the guidance published by other standard-setters, the gaps in practice and information needs of investors and creditors identified by the staff and the feedback received in outreach activities. As previously discussed with the Board, the staff aim to develop supporting guidance that is principle-based but provides sufficient detail to support application of the revised Practice Statement and assurability of management commentaries. Collectively, this information complements the financial statements by providing insight into management's strategy for sustaining and developing the entity's ability to generate cash flows over time, its progress in implementing it, and the potential impact on future financial performance not yet captured by the financial statements.

Identifying 'key' aspects of strategy

57. In July 2019, the Board tentatively approved guidance on making materiality judgements in preparing management commentary. Generally, information is considered material if it can reasonably be expected to affect investors and creditors' assessment of the prospects for future cash flows and of management's stewardship of the entity's economic resources.

58. That guidance applies to all information in management commentary. To help apply that guidance in identifying material information about management's strategy, the staff suggest providing guidance on identifying 'key' aspects of management's strategy, information about which is likely to be material to investors' and creditors' assessments.

59. To make assessments of the entity's prospects for future cash flows and of management's stewardship, investors and creditors need to understand the management's strategy for sustaining and developing the entity's ability to generate cash flows in the future. Accordingly, the staff recommend that the revised Practice Statement should specify that the key aspects of the entity's strategy are those that will significantly affect the entity's ability to generate cash flows in future.

60. The revised Practice Statement could also provide guidance to help preparers identify those key aspects. In the light of the main assessments that investors and creditors are expected to make based on the information about the entity's strategy, examples of possible key aspects of an entity's strategy are:

(a) important long-term objectives that explain how the entity intends to sustain and develop the entity's ability to generate cashflows, for example how the entity intends to create a significant competitive advantage or seize a particular opportunity;

(b) important milestones towards achieving the long-term objectives;

(c) important plans that reflect priorities for action and enable an entity to achieve the important milestones and objectives;

(d) allocation of resources to support execution of long-term objectives; or

(e) a system of incentives to support execution of long-term objectives.

Note on next steps – sensitive information

- In the outreach performed, the staff heard a concern that information about key aspects of management's strategy is commercially sensitive and that providing such information in management commentary may harm an entity's competitive position. The staff note that this is a cross-cutting issue that may arise for various areas of content in management commentary. This issue also arises for some information required to be provided in financial statements. However, the staff acknowledge that this issue is more prevalent for management commentary and will consider whether the revised Practice Statement should provide guidance on sensitive information as the project progresses.

Question 2 for the Board
The staff recommend that the revised Practice Statement specifies that the key aspects of management's strategy are those that will significantly affect the entity's ability to generate cash flows in the future. Do you agree with this recommendation?

What information to provide?

What drives management's strategy

61. As discussed in paragraph 30, the staff think that in describing what drives management's strategy, including any changes to strategy over the reporting period, management could cover the following:

(a) **Opportunities**: Investors have highlighted the importance of discussing opportunities that management chose to pursue and its rationale for doing so. That information is useful both for assessing management's stewardship of the entity's economic resources and assessing how the pursuit of such opportunities might shape the entity's future financial performance and its future cash flows. Management commentary may discuss various types of opportunities that management chooses to pursue for example opportunities arising from:

(i) *an entity's operating environment*:

Market trends and other factors may give rise to opportunities.

Link to other areas of content –operating environment

- Management monitor the entity's operating environment to identify trends and factors that may result in opportunities. It may be necessary to link the discussion of an entity's operating environment and the discussion of management's strategy and the opportunities management chose to pursue.

(ii) *plans to manage/mitigate a particular risk*:

Plans to mitigate a particular risk may result in opportunities if management chooses to mitigate the risk in an innovative way that results in a competitive advantage.

Link to other areas of content – risks

- Management monitors and manages risks and as part of that process management may identify opportunities for developing the entity's business model.
  When that is the case, it may be necessary to link the discussion of an entity's risk and how that risk is managed and the discussion about opportunities for developing the entity's business model.

In disclosing the opportunities and any associated risks, management commentary could provide the following information:

(i) describe the opportunity (and the associated risk if necessary) and the entity's rationale for pursuing the opportunity;

(ii) how the opportunity has informed one or more of the management's stated objectives (ie what management wants to achieve in the long-term); and

(iii) a brief description of management's process for identifying such opportunities (and associated risks).

(b) **Purpose:** As described in Agenda Paper 15B, the staff have used the term 'purpose' to refer to the entity's description of why the entity exists. If an entity has a particular stated purpose, the purpose will have typically informed management's strategy. Accordingly, management commentary should explain the link between the entity's stated purpose and management's strategy. Specifically, management commentary should explain how an entity's purpose will be delivered and how various aspects of management's strategy, including objective, plans and management renumeration are aligned with the entity's stated purpose.

(c) **Assumptions made in setting management's strategy:** In setting out its strategy, management would need to anticipate changes in entity's operating environment (for example, competition and customer demand), how this will impact the entity and assess whether the entity is equipped to deal with those changes. Such assumptions may be based, for example, on commonly accepted indicators in the entity's industry. Accordingly, management commentary may need to explain what assumptions have been made (and the basis for such assumptions) and to which time horizon such assumptions relate.

What management sets out to achieve in the long term

62. Objectives relate to what management intends to achieve in the long-term. Objectives may be financial or non-financial in nature and are typically high-level and directional. Objectives can relate to, for example, creating a distinct competitive position, maintaining a reputation for quality, or building expertise in a new field or developing a cutting-edge environment strategy to address climate change. This future position is intended to ensure that an entity's ability to generate cash flows is sustained and developed over the long term. The staff do not propose that the revised Practice Statement defines a long term. However, management may need to explain in management commentary the time horizon used in setting the entity's long-term objectives.

63. In discussing key objectives, management commentary could:

(a) describe the objective;

(b) explain how the objective is intended to sustain or develop an entity's ability to generate cashflows in the long term;

(c) explain what the entity's specific long-term horizon is, possibly with a reference to the entities business or investment cycle; and

(d) include a brief description of management's process for setting the objective.

64. Collectively, objectives provide insight into management's strategy for sustaining and developing the entity's ability to generate cash flows in the long-term.

Note on next steps–forecasts and targets

- Paragraph 18 of the existing Practice Statement states that 'management should provide forward-looking information through narrative explanations or through quantified data, which may—but are not required to—include projections or forecasts.'
- The staff plan to address in a future paper whether and when forecasts and targets should be required in particular circumstances.

How management plans to achieve long-term objectives

65. Management commentary should describe how management plans achieve the objectives for maintain or developing the entity's business model. Plans are determined based on an entity's objectives and supported by its milestones.

66. In setting long-term objectives, management may identify quantitative or qualitative milestones by which management intends to measure progress towards achieving the objective. Milestones are a key measure of an entity's success in achieving its objectives. When an entity has completed a number of plans, a particular milestone will be achieved, therefore milestones are intended to link objectives and plans and highlight the key progress points.

67. Description of milestones and plans in management commentary could include:

(a) an overview of features of the business model that management plans to change in order to achieve the long-term objectives;

(b) a description of resources and capital allocation plans to support implementation of management's objectives;

(c) an explanation of how each plan and milestone is linked to one or more of the stated objectives and to each relevant entity's specific time horizon being the short, medium or long-term.

(d) A brief description of management's process for identifying such plans and milestones

68. In describing management's plans for achieving long-term objectives, the description of time horizons and resource and capital allocation are particularly important.

Time horizons

69. The staff propose that management commentary explains which of management's plans and associated milestones relate to the short, medium and long term. Management commentary could also describe how the entity defines a short, medium and long term with reference to the business (and investment) cycle of the entity and the associated strategies.

Resource and capital allocation plans

70. The staff's research[11] and outreach highlighted that information about resource and capital allocation is important for investors and creditors in their analysis.

71. Resources are addressed in Agenda Paper 15D *Resources and Relationship*s. Under the possible supporting guidance on resources discussed in that paper, an entity could explain how resources are allocated to achieve particular objectives.

72. However, investors place particular emphasis on capital allocation which refers to an entity's financial resources and encompasses aspects of both investment and funding strategies. Capital allocation approaches include mergers and acquisitions, investment in organic growth, repurchase of own shares, paying down debt and paying dividends.

[11] See Appendix D.

Accordingly, in order to meet the expressed information needs of investors and creditors management commentary would need to address an entity's plans for capital allocation.

Note on next steps–capital allocation and links to investment and funding strategies:

- As described in Agenda Paper 15D, financial resources are expected to be key for any entity because their availability will affect the entity's ability to access other resources. Although supporting guidance on what information to provide on key resources and relationships is expected to be helpful in describing an entity's financial resources, the staff will also consider whether additional guidance on financial resources, liquidity and financing strategy would be helpful.
- Capital allocation is a collective term often used to refer to investment, funding and liquidity strategies. Capital allocation will be addressed in a future paper.

How management will monitor and measure success

73. Management commentary could provide insights about the progress in achieving long-term objectives by discussing the achievement of important milestones.

74. Management commentary could also explain how intends to monitor and measure success for completing plans and milestones using qualitative or quantitative performance measures and indicators.

Note on next steps–performance measures and indicators

- The use of performance indicators and measures relate predominately to performance, position and progress. The staff plan to address this topic in a future paper.

75. In addition, management commentary could include useful information and analysis such as information about:

    (a) Cumulative performance: The cumulative performance in achieving a long-term objective, over a number of years, is relevant performance information and could be monitored and disclosed over that period.

    (b) Trends: Trend information and analysis is important for understanding the implementation of management's strategy. Where there have been changes to strategic objectives or KPIs, these would also need to be explained in management commentary.

    (c) Variance information: Over and under-performance against key variances should be explained.

76. Finally, management commentary could demonstrate how success is monitored by linking the discussion of managements remuneration to the entity's objectives, milestones and plans. This is an existing requirement of the Practice Statement and the importance of that information has been confirmed in the staff's research and outreach.

Link to other areas of content – performance, position and progress

- Progress in achieving an entity's objectives, milestones and plans is to be discussed in the content area performance, position and progress.

- Management commentaries should link how management monitors and measures progress disclosed in the strategy content area and the actual progress reported and discussed in performance, position and progress if it elects to follows the logic and content structure set out in the practice statement.

Question 3 for the Board
Paragraphs 61–76 provide staff's discussion of the guidance supporting the disclosure objective for strategy that could be included in the revised Practice Statement. Do you have any questions or comments on that discussion?

Appendix A— Extracts from Practice Statement 1 *Management Commentary* on strategy

Principles

14 Management commentary should provide information to help users of the financial reports to *assess* the performance of the entity and the actions of its management relative to stated strategies and plans for progress. That type of commentary will help users of the financial reports to understand, for example:
(a) the entity's risk exposures, its strategies for managing risks and the effectiveness of those strategies;
(b) how resources that are not presented in the financial statements could affect the entity's operations; and
(c) how non-financial factors have influenced the information presented in the financial statements.

Forward-looking information

17 Management commentary should communicate management's perspective of the entity's direction. Such information does not predict the future, but instead sets out management's objectives for the entity and its strategies for achieving those objectives. The extent to which management commentary looks forward will be influenced by the regulatory and legal environment within which the entity operates.

Presentation

22 Management commentary should be clear and straightforward. The form and content of management commentary will vary between entities, reflecting the nature of their business, the strategies adopted by management and the regulatory environment in which they operate.

Elements of management commentary

24 Although the particular focus of management commentary will depend on the facts and circumstances of the entity, management commentary should include information that is essential to an understanding of:
(a) the nature of the business;
(b) management's objectives and its strategies for meeting those objectives**;**
(c) the entity's most significant resources, risks and relationships;
(d) the results of operations and prospects; and
(e) the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.

25 The elements are not listed in a specific order. They are, however, related and should not be presented in isolation. Management should provide its perspective on the business and its analysis of the interaction of the elements to help users to understand the entity's financial statements and to understand management's objectives and strategies for achieving those objectives.
[…]

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 results. For example, information about how management intends to address

market trends and the threats and opportunities those market trends represent provides users of the financial reports with insight that may shape their expectations about the entity's future performance. Management should also explain how success will be measured and over what period of time it should be assessed.

28 Management should discuss significant changes in an entity's objectives and strategies from the previous period or periods. Discussion of the relationship between objectives, strategy, management actions and executive remuneration is also helpful.

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. Management should distinguish the principal risks and uncertainties facing the entity, rather than listing all possible risks and uncertainties.

32 Management should disclose its principal strategic, commercial, operational and financial risks, which are those that may significantly affect the entity's strategies and progress of the entity's value. The description of the principal risks facing the entity should cover both exposures to negative consequences and potential opportunities. Management commentary provides useful information when it discusses the principal risks and uncertainties necessary to understand management's objectives and strategies for the entity. The principal risks and uncertainties can constitute either a significant external or internal risk to the entity.

Results and prospects

Results

35 Management commentary should include explanations of the performance and progress of the entity during the period and its position at the end of that period. Those explanations provide users of the financial reports with insight into the main trends and factors affecting the business. In providing those explanations, management should describe the relationship between the entity's results, management's objectives and management's strategies for achieving those objectives. In addition, management should provide discussion and analysis of significant changes in financial position, liquidity and performance compared with those of the previous period or periods, as this can help users to understand the extent to which past performance may be indicative of future performance.

Prospects

36 Management should provide an analysis of the prospects of the entity, which may include targets for financial and non-financial measures. This information can help users of the financial reports to understand how management intends to implement its strategies for the entity over the long term. When targets are quantified, management should explain the risks and assumptions necessary for users to assess the likelihood of achieving those targets.

Performance measures and indicators

37 Performance measures are quantified measurements that reflect the critical success factors of an entity. Indicators can be narrative evidence describing how the business is managed or quantified measures that provide indirect evidence of performance. 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.

Appendix B—Summary of feedback on strategy received from the Management Commentary Consultative Group (MCCG)

In April 2019, the MCCG discussed the staff's original proposals on strategy. The original proposals discussed three components or aspects for the description of management's strategy —purpose, objectives and plans (long, medium and short-term aspects of strategy respectively). The original staff proposals also included specific requirements on 'funding strategies' and 'culture.'

In the revised proposals reflected in this paper:

- the staff present recommendations for guidance on objectives and plan only, and
- objectives have been described as the long-term aspect of management's strategy while plans are linked to the relevant time horizons to which they relate (ie can be short, medium and long-term).

The revised proposals continue to emphasise the long-term. The specific references to culture and funding strategies are discussed below.

The following table summarises the feedback received from members of the MCCG on the proposed guidance and explains how the feedback has been considered in the staff's revised proposals for guidance on strategy:

MCCG input[12]	How staff have considered the input from MCCG
<u>Overall Comments on Disclosure Objectives:</u> Overall, members were supportive of including disclosure objectives for the content elements subject to simplifying the wording, linking to the overall objective of management commentary and preventing duplication between the objectives for various disclosure objectives. There was a suggestion that the proposed disclosure objectives need to refer to both risks and opportunities.	The staff preceded with including disclosure objectives based on the support of the MCCG. In particular: Risk is a separate content area; accordingly has its own disclosure objective. Opportunities are discussed as part of strategy given that there are a multitude of opportunities in entities' operating environment but investors are interested in those seized or pursed by management and its rationale for selecting such opportunities. To ensure a neutral discussion, the staff propose to highlight that management commentary is prepared applying the principle of faithful representation. Accordingly, any discussion of opportunities in the course of selection and implementing an entity's strategy may be accompanied by a discussion of the risk associated with the strategy (and vice versa).
<u>Environmental, Social, and Governance Concerns (ESG):</u> Suggestions when discussing guidance on ESG matters, included guidance on environmental matters, on social matters and on governance matters should be provided separately rather than under a single ESG heading because they are different in nature and various approaches may be required for reporting them in management commentary. It would be helpful to provide application guidance and illustrative examples of how the guidance is expected to be applied.	The staff have discussed that investors are interested in such reporting in this paper; however, it is a cross-cutting issue that will be addressed in drafting.

[12] From paragraphs 24-28 of the meeting summary of the April 2019 MCCG meeting and paragraph 53¬54 of the meeting summary of the MCCG December 2019 meeting.

MCCG input[12]	How staff have considered the input from MCCG
<u>Time horizons:</u> Suggestion that the Practice Statement may need to specifically refer to time horizons, particularly the long term related to both risk and strategy. A few members suggested that it would be helpful to investors and creditors if management explained its entity's time horizons, because the understanding of 'long-term' differed between entities.	The staff propose that the need for information for investors and creditors to assess management's strategy for sustaining and developing the entity's ability to *generate cash flows in future* should be explicit in the guidance on the objective of management commentary, and that this should be reflected in the requirements on each of the content elements where applicable. The staff do not propose to specify the short, medium, and long term because they will be different for each entity. What matters for the management commentary is that information is provided where it is key, irrespective of the timing of the matter to which it relates. Specific supporting guidance to be included in the proposals regarding time horizons.
<u>Standing data versus changes:</u> Suggestion that requirements should be clear they also address the existing strategy, and not only changes to strategy or to the business model	The staff propose a separate requirement to describe changes in strategy and business model from what was reported in the previous management commentary, to distinguish that requirement from the requirements to discuss the existing business model and strategy.
<u>Liquidity and Funding Strategies:</u> Suggestion that the Practice Statement should address liquidity strategy, and in discussing both funding and liquidity strategies, require that management specifies the period assessed and discusses entity's ability to meet future commitments A follow up suggestion (based on the revised proposals for December 2019) that there may be too much emphasis on 'working capital' in the staff's proposals for liquidity, which may not be applicable to or monitored by some companies, for example in the banking sector.	The staff agree that the need to address funding and liquidity considerations should be made explicit in the requirements for the discussion of financial resources (ie discussed under resources and relationships). However, as highlighted in Agenda Paper 15D, this topic will be addressed at a future meeting. The staff would like to highlight two key proposal associated with liquidity consideration: • Based on the discussion with the Consultative Group, the staff think that the Practice Statement should not require management to provide their conclusion on the entity's ability to meet its future commitments, but that management should provide information to help investors and creditors assess that ability. The staff will consider the emphasis on working capital in developing guidance to be outline in a future paper.

MCCG input[12]	How staff have considered the input from MCCG
Management's compensation: Suggestion that discussion of management compensation should be linked to long-term strategy	The staff propose an explanation of the extent to which management's compensation arrangements align with the execution of the entity's objectives, milestones and plans – i.e. not limited to long term strategy. The staff noted that this was identified as one of the ways to assess management's ability to execute the strategy by investors.
Feedback on culture: Suggestion that culture is important to discuss, especially where critical to the industry. However, an explicit requirement for culture to be discussed in isolation (or as part of strategy) could result in boilerplate disclosure. A solution was proposed to discuss culture under human resources and relationships; thereby addressing the above concern.	Following mixed feedback received from the Consultative Group and in other outreach, the staff propose to remove an explicit requirement to discuss the role of the entity's culture in supporting its strategy. However, the staff think that some of the proposals included in the overview of the staff's proposals would help management provide a meaningful insight into an entity's culture, for example, the requirement to explain how management's compensation arrangements align with the execution of the entity's strategy, and explanations and analysis of progress in managing the entity's key relationships. In addition, human resources and relationships are discussed as part of resources and relationships as set out in Agenda Paper 15D; and a description of culture will be suggested if it is important to maintaining or strengthening the entity's relationships.
Segment level information: **O**ne member commented that besides understanding the overarching strategy for the entity at a consolidated group level, investors and creditors need equivalent information on the different segments and on how capital flows between segments.	As described in Agenda Paper 15B, an entity would describe its operating structure as part of disclosure about its business model. The description of the entity's operating structure in management commentary must be reconcilable to operating segments disclosure in the entity's financial statements. Therefore, in linking its disclosure of business model to its strategy, an entity would explain which objectives, milestones and plans relate to the respective segments. As discussed in the March 2020 Agenda Paper 15A management commentary should derive from information that is important to management in managing the business. It cannot be assumed that information about segmental cash flows is always available and important for the entity's management. Therefore, the staff think that the revised Practice Statement cannot require management commentary to provide information on segmental cash flows nor links such cashflows to its strategy.
Resource and capital allocation: One member commented that the need to discuss resource and capital allocation was not sufficiently evident from the proposals.	The revised strategy disclosure objective includes required information. One of the sets of required information is how management plans to achieve its strategy [in other words, its objectives] with specific reference to resource and capital allocation. There will also be a reference to detailed supporting guidance. .

MCCG input[12]	How staff have considered the input from MCCG
Commercially sensitive information One member asked how this would be addressed in the Practice Statement	Commercial sensitive information is a cross cutting topic and therefore will be addressed in a future paper.
Distinction between business model and strategy: Suggestion by a member to include illustrative examples to explain the distinction between business model and strategy if the Practice Statement requires separate discussion of those content areas in management commentary would be helpful.	Staff to consider proposal during drafting. However, it is noted that the existing Practice statement states: 'The elements are not listed in a specific order. They are, however, related and should not be presented in isolation. Management should provide its perspective on the business and its analysis of the interaction of the elements to help investors and creditors to understand the entity's financial statements and to understand management's objectives and strategies for achieving those objectives.' The staff do not intend to change this linkage principle although wording clarifications will be made.

Note: The MCCG was invited to provide input on the use of 'purpose' in the entity's proposals. The feedback is included in paragraph 36-40 of the December 2019 meeting summary. The overall consensus was that the Practice Statement should include purpose. However, the use of purpose in management commentary is discussed in detailed in Agenda Paper 15B.

Appendix C—Investors' and creditors' information needs in relation to strategy disclosures

As highlighted in paragraph 9 of this paper, to identify gaps in current management commentary reporting practice and to better understand what information about management's strategy investors and creditors need, the staff reviewed recent publications on strategy reporting, particularly those with an investor focus.

The staff summarise below pieces of research that were helpful in identifying investors' and creditors' information needs, gaps in reporting practice and how management commentary should address these needs and gaps.

A. Investor surveys to illustrate investors' and creditors' needs and gaps in reporting practice

Organisation	Survey	Reference	Summary of relevant findings, recommendations or conclusions (*quotation marks are used for direct quotes*)
1. CFA Institute	CFA Institute Members Survey Report—Usefulness of Key Performance Indicators and Other Information Reported Outside Financial Statements—June 2018.	• 'Headline finding' in the Executive Summary (Page 2) Note: Based on Table 1: *Extent to which information within different sections is applied* (Page 8)	• Among respondents, the two most commonly applied categories of narrative reporting are: 1 – operational metrics; and 2 - contextualizing strategy and business model descriptions.
		• Member survey finding in Section 2 *Investor feedback on narrative reporting sections* (Pages 8, 9) • Extract from *Table 2 Reasons for applying information within corporate reports* (Page 9)	• Members (% of those surveyed) reported using the descriptions of business model and strategy for: o assessment of management quality (56%) o valuation (52%) o assessment of short-term risk (32%) o assessment of long-term risk (60%) o financial statement context (41%).

Organisation	Survey	Reference	Summary of relevant findings, recommendations or conclusions (*quotation marks are used for direct quotes*)
2. PwC	Global Investor Survey on Corporate Reporting—November 2017 Obtained feedback from 554 global investment professionals, including 301 buy-side investment professionals.	PwC referred to 'global findings' in the introduction. The findings were not numbered. The numbers below reflect the order in which the findings were presented.	
		• Global Finding 3 (Page 3)	• 84% said that 'understanding management's view of potential risks and their mitigation strategies is important for [their] analysis and decision making.'
		• Global Finding 4 (Page 3)	• 66% said that 'disclosure in an annual report about strategy, risks and opportunities and other value drivers can have a direct impact on the discount rate used in [their] analysis.'
		• Global Finding 6 (Page 4)	• 37% said that they believe that 'companies do a good job in linking strategic goals, risks, key performance indicators and financial statements.'
		• Global Finding 8 (Page 4)	• 38% said that they have 'enough trust in the information companies report on strategic goals, risks and key performance indicators for [them] to be confident in [their] analysis and decision making.'
3. EY	Does your nonfinancial reporting tell your value creation story? —November 2018 Obtained feedback from 260 buy-side investors.	• Key Finding (Page 5–7)	• There is an increasing reliance on ESG reporting: 'In a significant increase from the 2017 EY survey, nearly all investors who responded to the survey (97%) say they conduct an evaluation of target companies' nonfinancial disclosures (ie ESG disclosure); leaving just 3% of respondents now saying they conduct little or no review.'
		• Key Finding (Page 5–7)	• ESG reporting plays a pivotal role in decision making: 'Nearly all respondents (96%) say that such ESG information has played a pivotal role. In interviews related to the survey, investors emphasised that ESG disclosures are an important factor in

Organisation	Survey	Reference	Summary of relevant findings, recommendations or conclusions (*quotation marks are used for direct quotes*)
			appropriate market valuation.'
4. Aviva Investors *(Global asset manager with £356 billion managed across classes)*	Investment Research: Time for a brave new world?—September 2017 (*Survey of 342 sell-slide analysts*)	• Recommendation (Page 5)	• 'Companies should proactively articulate their integrated long-term strategy for value creation, including the risks and opportunities presented by broader, non-financial factors.'
		• Survey finding (Page 10)	• 'At the very least, we consider 'long term' as the investment cycle of the business in question. For many companies, such as pharmaceutical companies and oil and gas companies, the success or failure of their strategies are likely to manifest themselves over many years, often decades. Therefore, for many companies, looking out 12 months or even 24 months will not be sufficient to encompass all relevant information for investment decision-making.'
		• Survey finding (Page 11)	• 92% of mainstream sell-side analysts and 76% of ESG sell-side analysis think strategy is an important factor 'for constructing an investment case'.
		• Survey finding (Page 3, 24)	• 'Analysts do not routinely see companies and management telling the long-term story or building ESG performance into their overall strategy.'
5. International Corporate Governance Network (ICGN) *(Investor-led*	ICGN viewpoint on Capital Allocation—September 2019	• Observation (Page 2)	• 'A company's ability to clearly articulate its capital allocation framework, including key principles and their alignment with the company's strategic priorities, expectations for return on investment, governance and decision-making process are critical to investors' ability to assess management's strategy and long-term value-creation capacity.'

Organisation	Survey	Reference	Summary of relevant findings, recommendations or conclusions (*quotation marks are used for direct quotes*)
organisation representing $US 54 trillion under management)		• Conclusions and recommendations (Page 6)	• 'ICGN believes that development and communication of the long-term strategy and capital allocation framework is critical for ensuring full understanding of management decisions by investors—shareholders and bondholders.'

B. Investor publications/organisations addressing short-term focus in management commentary

Organisation/Publication	Reference	Summary of relevant findings, recommendations or conclusions (*Note: quotation marks are used if it is a direct quote*)
1. Focusing Capital on the Long Term (FCLT) Global: Straight talk for the long term How to improve the investor-corporate dialogue—March 2015 *FCLT Global is an initiative founded by the Canada Pension Plan Investment Board (C$420 billion under management) and McKinsey & Company.*	• Recommendation no. 2 (Page 5) and Figure: *Questions to ask while developing medium and long-term metrics* (Page 6)	• 'A well-articulated strategy must include metrics that allow companies and investors to track progress against longer-term strategic objectives and assess the company's ability to deliver value over an extended time horizon.' The report suggests that short term is any period less than two years; medium term is any time period between two and seven years and long term is any time period exceeding 7 years.

Organisation/Publication	Reference	Summary of relevant findings, recommendations or conclusions (*Note: quotation marks are used if it is a direct quote*)
2. PwC: A foot in the past and an eye to the future: *The importance of forward-looking information in company reporting*—November 2016 Report includes findings from 2016 survey, *Redefining business success in a changing world: Global survey of investor and CEO views*	• Principle 7: *Be clear on financial prospects* (Page 26)	• PwC recommends that companies: o ‘Use a broad range of measures to ensure investors understand the full picture. o Provide specific targets, milestones or target ranges for performance. o Consider the use of both short and longer-term timeframes to encourage longer-term investment. o Be clear on why management believe this performance is both desirable and achievable. o Provide a clear link to market information on growth, opportunities and uncertainties.’
3. Institute of Chartered Accountants in England and Wales (ICAEW): Long-term investment and accounting: overcoming short-term bias—April 2016 *Public Policy Paper as part of its Information for Better Markets Initiative*	• Discussion points from: o Section 1: Defining the ‘long-term’ (Page 3) o Section 3: Long-term data series (Page 5)	• The report defines the long term as 20 years or more, acknowledging this as an arbitrary measure. • The report asserts that investors are interested in information about an entity’s medium term to long-term future performance because: o ‘a single year’s results can be misleading; o looking at a number of years gives the user an idea of trends in the firm’s performance; and o a longer period makes sure that the picture of the firm’s performance includes how it performs at different points in the business cycle.’
4. Japanese Institute of Certified Public Accountant (JIPCA): How can corporate reporting practice support	• Discussion point about investors’	• ‘The medium- to long-term productivity and growth potential of a company depend largely on the future business model of the company. An effective business model can be described as mechanism for creating the values for

Organisation/Publication	Reference	Summary of relevant findings, recommendations or conclusions (*Note: quotation marks are used if it is a direct quote*)
long-term oriented behaviour of institutional investors? —May 2017 *JIPCA is a global accounting body which regularly publishes research*	needs. • Section 3 Corporate reporting that supports long-term oriented behaviours of institutional investors (Page 3)	the society at large in the future economic, social and competitive environments by taking advantage of the company's competence and generating profits, and hence a financial return for the investors. For the investors to understand the future business model of the company, the corporate mission, vision and values are essential. Success of the business model depends on the strategy of the company. We defined the strategy in this report as a method, or approach, to realize the effective business model the company seeks to establish by optimally allocating and leveraging various business resources and relationships of the company including human, physical, financial and other capitals. It is without saying that the *intangible resources are getting more and more important for businesses.'*

Appendix D–Requirements and guidance on strategy disclosures issued by other standard-setters

The staff reviewed reporting frameworks issued by other standard-setters to identify themes reflected in their requirements or guidance on strategy disclosures. The staff's review covered responses from 24 national standard-setters to the staff's request for information about requirements and commonly applied non-mandatory guidance in their jurisdictions.[13] The staff also reviewed EU Non-financial Reporting Directive (2014/95/EU) and the related European Commission Guidelines on non-financial reporting, and the International Integrated Reporting <IR> Framework, because some jurisdictions require or encourage management to refer to these sources in preparing management commentary.

The following tables summarise, for the frameworks that provide requirements or guidance on strategy disclosures:

a) different terminology used to describe aspects of strategy; and
b) the strategy-related matters discussed and the headings under which they are discussed.

[13] See Appendix A of November 2018 Agenda Paper 15B *Summary of research into the objective of management commentary* for further details.

A. Different terminology used to describe aspects of strategy

Guidelines or requirements	Purpose Vision/mission (Where is the entity going?)	Objectives/strategic objectives/policies (What does the entity want to achieve in the long-term?)	Goals/operational strategies/plans
ASIC (Australian Securities and Investments Commission): Regulatory Guide 247 *Effective disclosure in an operating and financial review*	✗	✓ Business strategies	✓ Plans
CPA Canada: *Management's Discussion and Analysis*:	✗	✓ Objectives and strategies referred to interchangeably	
European Commission: Guidelines on non-financial reporting	✗	✓ Objectives and strategy	✓ Policies and plans
[UK] FRC Guidance on the Strategic Report	✓ Purpose	✓ Objectives	✓ Strategy to achieve objectives
International Integrated Reporting <IR> Framework	✓ Mission and vision	✓ Strategic objectives	✓ Strategies and resource allocation plans

B. Strategy-related matters discussed, and the headings under which they are discussed

Guidelines or requirements	Risk and opportunities or other factors that drive an entity's strategy	Factors on which the achievement of strategy depends (eg resources and relationships)	Progress in meeting the objectives	Measures that would allow investors and creditors to assess the entity's progress against its strategy or objectives
ASIC (Australian Securities and Investments Commission): Regulatory Guide 247 *Effective disclosure in an operating and financial review*	✔ Discussed under Prospects	✔ Refers to factors, and covers resources and relationships in examples but does not refer to them explicitly in guidance	✔ Covered through continuous disclosure requirements on entity's results	
CPA Canada: *Management's Discussion and Analysis*:	✔ Discussed under Business model	✔ Discussed under Capability to deliver results	✔ Discussed under Strategic perspective and KPI discussion	✔ Discussed under Results and outlook and Key Performance measures and indicators
European Commission: Guidelines on non-financial reporting	✔ Discussed under Principal risks and their management	✔ Discussed under Key Principles and through examples in the guidelines	✔ Discussed under Policies and Outcome sections	✔ Discussed under Key performance indicators
[UK] FRC Guidance on the Strategic Report	✔ Discussed under Strategic management and Business environment	✔ Discussed under Business environment	✔ Discussed under Strategic management and Business Performance	
International Integrated Reporting <IR> Framework	✔ Discussed under Risks and Opportunities and Outlook	✔ Discussed under Strategy and resource allocation, and discussion of resources and relationships as 'capitals'	✔ Discussed under Performance	