

May 2021

IFRS[®] Practice Statement
Exposure Draft ED/2021/6

Management Commentary

Comments to be received by 23 November 2021

IASB[®]

 IFRS[®]

Exposure Draft

Management Commentary

Comments to be received by 23 November 2021

Exposure Draft ED/2021/6 *Management Commentary* is published by the International Accounting Standards Board (Board) for comment only. Comments need to be received by **23 November 2021** and should be submitted by email to commentletters@ifrs.org or online at <https://www.ifrs.org/projects/open-for-comment/>.

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MANAGEMENT COMMENTARY

CONTENTS

	from page
INTRODUCTION TO THE EXPOSURE DRAFT	4
INVITATION TO COMMENT	9
[DRAFT] IFRS PRACTICE STATEMENT 1 <i>MANAGEMENT COMMENTARY</i>	18
APPROVAL BY THE BOARD OF EXPOSURE DRAFT <i>MANAGEMENT COMMENTARY</i> PUBLISHED IN MAY 2021	121
BASIS FOR CONCLUSIONS (see separate booklet)	

Introduction to the Exposure Draft

What is the purpose of this Exposure Draft?

- IN1 In this Exposure Draft, the International Accounting Standards Board (Board) sets out its proposals for revised IFRS Practice Statement 1 *Management Commentary* (Practice Statement). The revised Practice Statement would supersede the existing Practice Statement, issued in 2010.
- IN2 The purpose of this Exposure Draft is to obtain feedback on the Board's proposals.

What is management commentary?

- IN3 Management commentary is a report that complements an entity's financial statements. It provides management's insights into factors that have affected the entity's financial performance and financial position and factors that could affect the entity's ability to create value and generate cash flows in the future.
- IN4 Management commentary is prepared to meet the information needs of an entity's investors and creditors. Other parties—for example, the entity's employees, government agencies or members of the public—might also find management commentary useful. However, those other parties might have additional information needs and meeting such needs is not an objective of management commentary.
- IN5 Management commentary is known by various names, including management's discussion and analysis, operating and financial review and strategic report.

Who would apply the Practice Statement?

- IN6 Financial statements can comply with IFRS Standards even if they are not accompanied by management commentary or if they are accompanied by management commentary that does not comply with the existing Practice Statement. The Board proposes that this should continue to be the case with the revised Practice Statement.
- IN7 It would be for local lawmakers and regulators to decide whether to require entities within their jurisdiction to comply with the Practice Statement. Some entities may choose to comply even if they are not required to do so.

Why is the Board proposing to revise the Practice Statement?

- IN8 The information needs of investors and creditors have evolved since the Board issued the existing Practice Statement in 2010. The Board's research indicates that management commentaries do not always provide investors and creditors with the information they need. For example, management commentaries sometimes:

MANAGEMENT COMMENTARY

- (a) fail to focus on matters important to the entity's prospects, by failing to provide material information about such matters or by obscuring such information with immaterial information about less important matters.
- (b) contain too much generic information and not enough entity-specific information.
- (c) focus on short-term matters and provide insufficient discussion of matters, such as systemic risks or strategic challenges, that could affect the entity's long-term prospects.
- (d) provide insufficient information about the entity's intangible resources and relationships and about environmental, social and governance (ESG) matters affecting the entity. Intangible resources and relationships and environmental and social matters increasingly affect many entities' ability to create value and generate cash flows, and information about their effects increasingly interests investors and creditors.
- (e) are fragmented or are difficult to reconcile to information in the entity's financial statements or to information in other reports the entity has published.
- (f) provide information that is difficult to compare with information the entity provided in previous periods or with information provided by other entities with similar activities.
- (g) are incomplete or unbalanced. For example, management commentary may lack information investors and creditors need to fully understand the implications of matters discussed, or may place undue emphasis on positive aspects of the entity's performance.

What does the Board aim to achieve?

IN9 The Board's main aim in revising the Practice Statement is to develop comprehensive requirements that focus on information that investors and creditors need and guidance to help management identify that information and present it clearly. The Board's aim is to develop requirements and guidance that would provide both:

- (a) sufficient flexibility—for management commentary to focus on matters that are fundamental to the entity's ability to create value and generate cash flows, and to provide material entity-specific information about those matters and management's responses to them; and
- (b) sufficient discipline—to facilitate external assurance of management commentary (for example, external audit or other external review), enable local lawmakers and regulators to mandate the Practice Statement and strengthen their ability to enforce compliance with it.

- IN10 The Board envisages that entities could apply the Practice Statement alongside local laws or regulations whose objective is similar to that of the Practice Statement. Where local laws or regulations specify only general requirements, an entity could apply the Practice Statement requirements and guidance to help it comply with those laws or regulations. Conversely, where local laws or regulations are detailed and prescribe disclosure of specific information, an entity could include all of that information in its management commentary even if some of the information is not required by the Practice Statement.
- IN11 The Board also envisages that entities could apply the Practice Statement in conjunction with narrative reporting requirements or guidelines issued by other bodies for use by entities in specific industries or addressing specific topics, such as environmental, social or other sustainability matters. Such requirements or guidelines could help management identify information it might need to provide to meet the requirements of the Practice Statement. Thus, management commentary could be an appropriate location for information about environmental and social matters that is material to investors and creditors.
- IN12 In developing its proposals, the Board has sought to consolidate recent innovations in the rapidly developing and complex landscape of narrative reporting. It has reviewed narrative reporting frameworks, requirements and guidelines developed by national standard-setters and by other organisations with an interest in narrative reporting or in specific topics, such as sustainability reporting. The Board has also consulted various types of stakeholders from various jurisdictions, in particular through its Management Commentary Consultative Group and through other bodies that advise the Board.

What are the proposals?

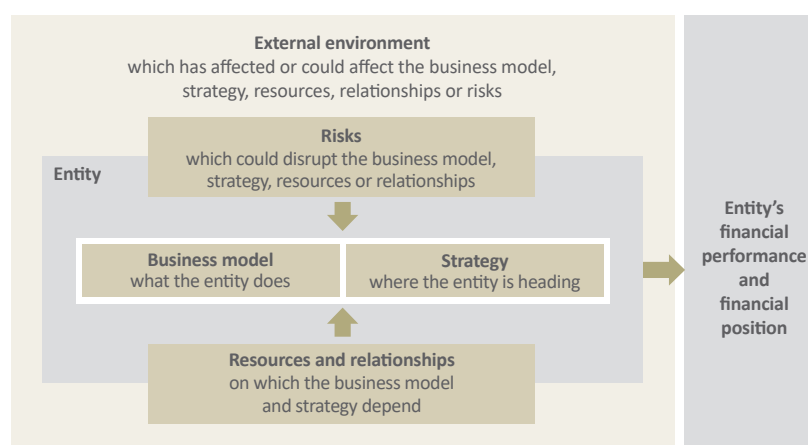
- IN13 The Board proposes an objectives-based approach that specifies an objective for management commentary, supported by:
- (a) a requirement for management commentary to provide information that is material to investors and creditors, and to focus on key matters – that is, matters that are fundamental to the entity’s ability to create value and generate cash flows, including in the long term.
 - (b) requirements to provide information that meets specified disclosure objectives. The disclosure objectives derive from the information needs of investors and creditors, and include descriptions of the assessments that rely on information provided in management commentary.
 - (c) guidance that provides examples of possible key matters and of information, including metrics, that management commentary might need to provide to meet the disclosure objectives.
 - (d) requirements for information to possess specified attributes—for example, completeness, balance and accuracy—and guidance to help management identify information that possesses those attributes.

MANAGEMENT COMMENTARY

- IN14 The proposed disclosure objectives cover six areas of content:
- (a) the entity's business model—how the entity creates value and generates cash flows;
 - (b) management's strategy for sustaining and developing that business model, including the opportunities management has chosen to pursue;
 - (c) the resources and relationships on which the business model and strategy depend, including resources not recognised as assets in the entity's financial statements;
 - (d) risks that could disrupt the business model, strategy, resources or relationships;
 - (e) factors and trends in the external environment that have affected or could affect the business model, strategy, resources, relationships or risks; and
 - (f) the entity's financial performance and financial position—including how they have been affected or could be affected in the future by the matters discussed for the other areas of content.

IN15 Figure 1 illustrates the relationships between the six areas of content.

Figure 1—Relationships between the six areas of content in management commentary



IN16 The proposed requirements and guidance would apply to matters that have already affected the entity's financial performance or financial position as well as those that could affect the entity in the future, including in the long term. Such matters could include matters relating to the entity's intangible resources and relationships—including resources not recognised as assets in the entity's financial statements—and environmental and social matters. Appendix B provides an overview of requirements and guidance proposed in the Exposure Draft that management is likely to need to consider in deciding what information it needs to provide about such matters. Appendix B also provides examples presenting fact patterns and then showing how

management might consider the requirements and guidance in the fact patterns described.

How do the proposals interact with the IFRS Foundation Trustees' project on sustainability reporting?

- IN17 The Board envisages that entities could apply the Practice Statement in conjunction with narrative reporting requirements or guidelines addressing specific topics, such as sustainability matters.
- IN18 The Trustees of the IFRS Foundation are considering whether the Foundation should play a role in the development of sustainability reporting standards. In April 2021, the Trustees published proposals to amend the Foundation's constitution to enable the Foundation to create a board for setting IFRS sustainability standards.¹ In the future, entities might be able to apply standards issued by that board to help them identify some of the information needed to comply with the Practice Statement.

What happens next?

- IN19 The Board will consider the comments it receives on the proposals in this Exposure Draft before deciding whether and how to revise the existing Practice Statement.

¹ Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*

Invitation to comment

Introduction

The Board invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. You do not need to respond to all the questions. Your comments are most helpful if they:

- (a) answer the questions as stated;
- (b) indicate the specific paragraphs or topics to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternative the Board should consider, if applicable.

The Board also welcomes views on whether the proposals are drafted clearly, and whether any of the wording would be difficult to translate.

Deadline

The Board will consider all comments received in writing by 23 November 2021.

How to comment

Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

Questions

Part A—General requirements

Chapter 2 specifies requirements for identifying management commentary and the related financial statements, for authorising management commentary and for including a statement of compliance.

Question 1—The financial statements to which management commentary relates

Paragraph 2.2 proposes that management commentary identify the financial statements to which it relates. That paragraph further proposes that, if the related financial statements are not prepared in accordance with IFRS Standards, the management commentary would disclose the basis on which the financial statements are prepared.

The Exposure Draft does not propose any restrictions on the basis of preparation of the related financial statements (for example, it does not propose a requirement that financial statements be prepared applying concepts similar to those underpinning IFRS Standards).

Paragraphs BC34–BC38 explain the Board’s reasoning for these proposals.

- (a) Do you agree that entities should be permitted to state compliance with the revised Practice Statement even if their financial statements are not prepared in accordance with IFRS Standards? Why or why not?
- (b) Do you agree that no restrictions should be set on the basis of preparation of such financial statements? Why or why not? If you disagree, what restrictions do you suggest, and why?

Question 2—Statement of compliance

- (a) Paragraph 2.5 proposes that management commentary that complies with all of the requirements of the Practice Statement include an explicit and unqualified statement of compliance.

Paragraphs BC30–BC32 explain the Board’s reasoning for this proposal.

Do you agree? Why or why not?

- (b) Paragraph 2.6 proposes that management commentary that complies with some, but not all, of the requirements of the Practice Statement may include a statement of compliance. However, that statement would be qualified, identifying the departures from the requirements of the Practice Statement and giving the reasons for those departures.

Paragraph BC33 explains the Board’s reasoning for this proposal.

Do you agree? Why or why not?

Chapter 3 sets out the objective of management commentary.

Question 3—Objective of management commentary

Paragraph 3.1 proposes that an entity's management commentary provide information that:

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

Paragraph 3.2 proposes that the information required by paragraph 3.1 be provided if it is material. Paragraph 3.2 states that, in the context of management commentary, 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 that management commentary and of the related financial statements.

Paragraphs 3.5–3.19 explain aspects of the objective, including the meaning of 'ability to create value'.

Paragraphs BC42–BC61 explain the Board's reasoning for these proposals.

Do you agree with the proposed objective of management commentary? Why or why not? If you disagree, what do you suggest instead, and why?

Part B and Appendix B—Areas of content

Chapters 4–11 specify six areas of content for management commentary, and require management commentary to provide information that meets disclosure objectives for each of those areas of content. Those chapters also require management commentary to focus on key matters.

Requirements and guidance proposed in this Exposure Draft would apply to reporting on matters that could affect the entity’s long-term prospects, on intangible resources and relationships, and on environmental and social matters. Appendix B provides an overview of requirements and guidance that management is likely to need to consider in deciding what information it needs to provide about such matters.

Question 4—Overall approach

The Exposure Draft proposes an objectives-based approach that:

- (a) specifies an objective for management commentary (see Chapter 3);
- (b) specifies six areas of content for management commentary and, for each area of content, disclosure objectives that information provided in management commentary is required to meet (see Chapters 5–10);
- (c) gives examples of information that management commentary might need to provide to meet the disclosure objectives (see Chapter 15); but
- (d) does not provide a detailed and prescriptive list of information that management commentary must provide.

Paragraphs BC69–BC71 explain the Board’s reasoning for proposing this approach.

Do you expect that the Board’s proposed approach would be:

- (a) capable of being operationalised – providing a suitable and sufficient basis for management to identify information that investors and creditors need; and
- (b) enforceable – providing a suitable and sufficient basis for auditors and regulators to determine whether an entity has complied with the requirements of the Practice Statement?

If not, what approach do you suggest and why?

Question 5—Design of disclosure objectives

The proposed disclosure objectives for the areas of content comprise three components – a headline objective, assessment objectives and specific objectives. Paragraph 4.3 explains the role of each component. Paragraphs 4.4–4.5 set out a process for identifying the information needed to meet the disclosure objectives for the areas of content and to meet the objective of management commentary.

Paragraphs BC72–BC76 explain the Board’s reasoning for these proposals.

- (a) Do you agree with the proposed design of the disclosure objectives? Why or why not? If you disagree, what do you suggest instead, and why?
- (b) Do you have general comments on the proposed disclosure objectives that are not covered in your answers to Question 6?

Question 6—Disclosure objectives for the areas of content

Chapters 5–10 propose disclosure objectives for six areas of content. Do you agree with the proposed disclosure objectives for information about:

- (a) the entity's business model;
- (b) management's strategy for sustaining and developing that business model;
- (c) the entity's resources and relationships;
- (d) risks to which the entity is exposed;
- (e) the entity's external environment; and
- (f) the entity's financial performance and financial position?

Why or why not? If you disagree, what do you suggest instead, and why?

Question 7—Key matters

Paragraphs 4.7–4.14 explain proposed requirements for management commentary to focus on key matters. Those paragraphs also propose guidance on identifying key matters. Chapters 5–10 propose examples of key matters for each area of content and examples of metrics that management might use to monitor key matters and to measure progress in managing those matters.

Paragraphs BC77–BC79 explain the Board's reasoning for these proposals.

- (a) Do you agree that the Practice Statement should require management commentary to focus on key matters? Why or why not? If you disagree, what do you suggest instead, and why?
- (b) Do you expect that the proposed guidance on identifying key matters, including the examples of key matters, would provide a suitable and sufficient basis for management to identify the key matters on which management commentary should focus? If not, what alternative or additional guidance do you suggest?
- (c) Do you have any other comments on the proposed guidance?

Question 8—Long-term prospects, intangible resources and relationships and ESG matters

Requirements and guidance proposed in this Exposure Draft would apply to reporting on matters that could affect the entity’s long-term prospects, on intangible resources and relationships, and on environmental and social matters. Appendix B provides an overview of requirements and guidance that management is likely to need to consider in deciding what information it needs to provide about such matters. Appendix B also provides examples showing how management might consider the requirements and guidance in identifying which matters are key and which information is material in the fact patterns described.

Paragraphs BC82–BC84 explain the Board’s reasoning for this approach.

- (a) Do you expect that the requirements and guidance proposed in the Exposure Draft would provide a suitable and sufficient basis for management to identify material information that investors and creditors need about:
- (i) matters that could affect the entity’s long-term prospects;
 - (ii) intangible resources and relationships; and
 - (iii) environmental and social matters?

Why or why not? If you expect that the proposed requirements and guidance would not provide a suitable or sufficient basis for management to identify that information, what alternative or additional requirements or guidance do you suggest?

- (b) Do you have any other comments on the proposed requirements and guidance that would apply to such matters?

Question 9—Interaction with the IFRS Foundation Trustees’ project on sustainability reporting

Paragraphs BC13–BC14 explain that the Trustees of the IFRS Foundation have published proposals to amend the Foundation’s constitution to enable the Foundation to establish a new board for setting sustainability reporting standards. In the future, entities might be able to apply standards issued by that new board to help them identify some information about environmental and social matters that is needed to comply with the Practice Statement.

Are there any matters relating to the Trustees’ plans that you think the Board should consider in finalising the Practice Statement?

Part C—Selection and presentation of information

Chapters 12–15 contain additional requirements and guidance on the selection of information to include in management commentary and on the presentation of that information.

Question 10—Making materiality judgements

Chapter 12 proposes guidance to help management identify material information.

Paragraphs BC103–BC113 explain the Board’s reasoning in developing that proposed guidance.

Do you have any comments on the proposed guidance?

Question 11—Completeness, balance, accuracy and other attributes

- (a) Chapter 13 proposes to require information in management commentary to be complete, balanced and accurate and discusses other attributes that can make that information more useful. Chapter 13 also proposes guidance to help management ensure that information in management commentary possesses the required attributes.

Paragraphs BC97–BC102 and BC114–BC116 explain the Board’s reasoning for these proposals.

Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

- (b) Paragraphs 13.19–13.21 discuss inclusion of information in management commentary by cross-reference to information in other reports published by the entity.

Paragraphs BC117–BC124 explain the Board’s reasoning for these proposals.

Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

Question 12—Metrics

Chapter 14 proposes requirements that would apply to metrics included in management commentary.

Paragraphs BC125–BC134 explain the Board’s reasoning for these proposals.

Do you agree with these proposals? Why or why not? If not, what do you suggest instead and why?

Question 13—Examples of information that might be material

Material information needed to meet the disclosure objectives set out in Chapters 5–10 will depend on the entity and its circumstances. Chapter 15 proposes examples of information that might be material.

Paragraphs BC80–BC81 explain the Board’s reasoning for these proposals.

Do you expect that the proposed examples would help management to identify material information that management commentary might need to provide to meet disclosure objectives for information about:

- (a) the entity’s business model;
- (b) management’s strategy for sustaining and developing that business model;
- (c) the entity’s resources and relationships;
- (d) risks to which the entity is exposed;
- (e) the entity’s external environment; and
- (f) the entity’s financial performance and financial position?

If not, what alternative or additional examples do you suggest? Do you have any other comments on the proposed examples?

Other comments

Question 14—Effective date

Paragraph 1.6 proposes that the Practice Statement would supersede IFRS Practice Statement 1 *Management Commentary* (issued in 2010) for annual reporting periods *beginning* on or after the date of its issue. This means that the Practice Statement would be effective for annual reporting periods *ending* at least one year after the date of its issue.

Paragraphs BC135–BC137 explain the Board’s reasoning for this proposal.

Do you agree with the proposed effective date? Why or why not? If not, what effective date do you suggest and why?

Question 15—Effects analysis

- (a) Paragraphs BC139–BC177 of the Basis for Conclusions accompanying the Exposure Draft analyse the expected effects of the proposals in this Exposure Draft.

Do you have any comments on that analysis?

- (b) Paragraphs BC18–BC22 discuss the status of the Practice Statement. They note that it would be for local lawmakers and regulators to decide whether to require entities within their jurisdiction to comply with the Practice Statement.

Are you aware of any local legal or regulatory obstacles that would make it difficult for entities to comply with the Practice Statement?

Question 16—Other comments

Do you have any other comments on the proposals set out in the Exposure Draft?

[Draft] IFRS Practice Statement 1 *Management Commentary*

Chapter		from page
1	Using this [draft] Practice Statement	19
	PART A—GENERAL REQUIREMENTS	
2	Identification, authorisation and statement of compliance	22
3	Objective of management commentary	23
	PART B—AREAS OF CONTENT	
4	Introduction to Part B	29
5	Business model	35
6	Strategy	39
7	Resources and relationships	42
8	Risks	45
9	External environment	48
10	Financial performance and financial position	51
11	Overview of disclosure objectives	55
	PART C—SELECTION AND PRESENTATION OF INFORMATION	
12	Making materiality judgements	59
13	Completeness, balance, accuracy and other attributes	63
14	Metrics	73
15	Examples of information that might be material	78
	APPENDICES	
A	Defined terms	94
B	Long-term prospects, intangible resources and relationships and ESG matters	96

Chapter 1—Using this [draft] Practice Statement

In this chapter

Purpose and status of this [draft] Practice Statement

Effective date

Introduction

- 1.1 [Draft] IFRS Practice Statement 1 *Management Commentary* is set out in paragraphs 1.2–15.28 and appendices A and B. Terms defined in Appendix A are in **bold** the first time they appear in each chapter of this [draft] Practice Statement.

Note

Notes explain a requirement in further detail or provide context for a requirement.

Illustration

Illustrations describe particular circumstances and show how an entity might apply a requirement in those circumstances. Management of an entity would judge how to apply the requirement in that entity's circumstances.

Link

Links highlight relationships between requirements.

Purpose and status of this [draft] Practice Statement

- 1.2 This [draft] Practice Statement applies to **management commentary** that complements **general purpose financial statements** prepared in accordance with IFRS Standards or on another basis. It sets out requirements for that management commentary and explains how those requirements can be met.
- 1.3 This [draft] Practice Statement does not specify which entities are required to prepare management commentary, how frequently entities should do so or the level of external assurance to which management commentary should be subjected.
- 1.4 Some entities might be required by local laws or regulations to publish management commentary that complies with this [draft] Practice Statement and other entities might choose to do so.
- 1.5 This [draft] Practice Statement is not an IFRS Standard. Financial statements can comply with IFRS Standards even if they are not accompanied by management commentary or if they are accompanied by management commentary that does not comply with this [draft] Practice Statement.

Effective date

- 1.6 This [draft] Practice Statement supersedes IFRS Practice Statement 1 *Management Commentary* (issued in December 2010) for annual **reporting periods** beginning on or after [the date of its issue]. Earlier application is permitted. If an entity applies this [draft] Practice Statement for an earlier period, it shall disclose that fact.

PART A—GENERAL REQUIREMENTS

Chapter 2—Identification, authorisation and statement of compliance

In this chapter

Identifying management commentary and the related financial statements

Authorisation of management commentary

Statement of compliance

Identifying management commentary and the related financial statements

- 2.1 An entity may provide **management commentary** as a stand-alone report or with other information as part of a larger report. An entity shall identify the management commentary clearly and distinguish it from other information provided in the same report or in other reports published by the entity.
- 2.2 Management commentary shall identify the financial statements to which it relates. If the management commentary is not part of the same report as the related financial statements, it shall explain how to access those financial statements. If the related financial statements are not prepared in accordance with IFRS Standards, the management commentary shall disclose the basis on which the financial statements are prepared.
- 2.3 Management commentary shall identify the **reporting period** that it and the related financial statements cover.

Note

Management commentary covers the same period as the financial statements to which it relates.

Authorisation of management commentary

- 2.4 An entity shall state the date on which the management commentary was authorised for issue and identify the body(s) or individual(s) who gave that authorisation.

Statement of compliance

- 2.5 Management commentary that complies with all of the requirements of this [draft] Practice Statement shall include an explicit and unqualified statement of compliance.
- 2.6 Management commentary that complies with some, but not all, of the requirements of this [draft] Practice Statement may include a statement of compliance. However, that statement shall be qualified, identifying the departures from the requirements of this [draft] Practice Statement and giving the reasons for those departures.

Chapter 3—Objective of management commentary

In this chapter
The objective of management commentary
Supporting explanations
Complementing financial statements
Focus on information needs of investors and creditors
Future cash flows and value creation
Long-term time horizon
Material information
Management's perspective

The objective of management commentary

- 3.1 An entity's **management commentary** shall provide information that:
- enhances **investors and creditors'** understanding of the entity's financial performance and financial position reported in its financial statements; and
 - provides insight into factors that could affect the entity's ability to **create value** and generate cash flows across all time horizons, including in the long term.

Link

Management commentary can meet its objective only if the related financial statements are available whenever the management commentary is available, and on the same terms. Paragraph 2.2 requires management commentary to explain how to access the financial statements if they are not part of the same report as the management commentary.

- 3.2 Information required by paragraph 3.1 shall be provided if it is **material**. In the context of management commentary, 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.
- 3.3 Information in management commentary influences investors and creditors' decisions by influencing their assessments of:
- the entity's prospects for future cash flows; or
 - management's stewardship of the entity's resources—how efficiently and effectively management has used and protected the entity's resources.

Note

The decisions that investors and creditors make on the basis of management commentary and of the related financial statements include decisions about buying, selling or holding equity or debt instruments in the entity, providing resources to the entity or exercising rights to vote on the actions of the entity's management.

- 3.4 To meet its objective, management commentary shall provide information required to meet the disclosure objectives set out in Part B and that possesses the attributes required by Chapter 13.

Supporting explanations**Complementing financial statements**

- 3.5 An entity's management commentary provides information that complements information in the entity's financial statements, thus enhancing investors and creditors' understanding of the entity's financial performance and financial position reported in those financial statements.
- 3.6 Management commentary explains factors that have affected the entity's financial performance and financial position or that could affect them in the future. Accordingly, management commentary includes more discussion, analysis, **forward-looking information** and non-financial information than is included in the financial statements.

Focus on information needs of investors and creditors

- 3.7 An entity's management commentary is prepared for its existing and potential investors, lenders and other creditors (investors and creditors). These investors and creditors can be assumed to have a reasonable knowledge of business and economic activities. However, they might not have knowledge of the entity's specific business and activities.
- 3.8 The objective of management commentary focuses on the information needs of investors and creditors. Other parties – for example, the entity's employees, government agencies or members of the public – might also find management commentary useful. However, those other parties might have additional information needs and meeting such needs is not an objective of management commentary.
- 3.9 The objective is to provide information that meets the common information needs of investors and creditors, not to meet specialised information needs unique to particular investors or creditors.

Note

Investors and creditors have various information needs and general purpose financial reports cannot meet all those needs.

Future cash flows and value creation

Prospects for future cash flows

3.10 An entity's management commentary provides information that helps investors and creditors assess the entity's prospects for future cash flows. In making their assessment, investors and creditors estimate the present value of the entity's future cash flows. This estimate involves assessing whether the net cash inflows are likely to provide the entity with a return that compensates it sufficiently for both the time that elapses before those cash flows occur (the time value of money) and the uncertainty in the amount and timing of the cash flows (risk). To support that assessment, management commentary provides information that helps investors and creditors understand:

- (a) factors that could affect the amount or timing of the entity's future cash flows; and
- (b) factors affecting the uncertainty in the amount or timing of those cash flows.

Note

In assessing the entity's prospects for future cash flows, investors and creditors consider all cash flows, regardless of whether the cash will be paid out to investors and creditors—for example, as dividends or interest—or retained in the entity's business.

Ability to create value

3.11 In this [draft] Practice Statement, 'ability to create value' refers to an entity's ability to create or preserve value for itself and hence for its investors and creditors. Some people refer to the value an entity creates for itself as 'enterprise value'.

3.12 An entity's activities create value if they enhance or preserve the present value of the entity's future cash flows. Conversely, an entity's activities erode value if they reduce the net present value of the entity's future cash flows.

Note

- (a) Creating value is a precursor to generating cash flows. Activities that can create value include investment in know-how, expanding a customer base or increasing production capacity. These activities might require a net cash outflow in the short term but can enhance the entity's prospects for future cash flows in the long term.
- (b) Conversely, some activities might increase cash inflows in the short term but can erode value in the long term. For example, producing goods in a way that damages the entity's reputation might increase sales in the short term but can damage the entity's sales prospects in the long term.

- 3.13 In this [draft] Practice Statement, 'value' refers to the value an entity creates for itself and hence for its investors and creditors. The term does not refer to the value an entity's activities might create or erode for other parties—for example, customers, suppliers, employees or society in general. However, management commentary includes material information about the impacts of an entity's activities on other parties if those impacts could affect the entity's ability to create value for itself.

Long-term time horizon

- 3.14 In assessing an entity's prospects for future cash flows, investors and creditors consider both the present value of the cash flows they estimate the entity will generate over a selected forecast period, and the present value of the cash flows they estimate the entity will generate indefinitely after that period (the terminal value). Accordingly, investors and creditors need information that provides insights into factors that could affect their assessment of the entity's ability to create value and generate cash flows across all time horizons, including in the long term.

Note

Information provided in management commentary might relate to events that span more than one time horizon. This [draft] Practice Statement does not require such information to be split by time horizon. Neither does it prescribe timescales for periods management might choose to label as, for example, short-term, medium-term or long-term.

Material information

- 3.15 To meet its objective, management commentary provides material information about factors affecting the entity's ability to create value and generate cash flows.

MANAGEMENT COMMENTARY

- 3.16 It is likely that much of that information will relate to **key matters**, that is matters that are fundamental to the entity's ability to create value and generate cash flows. Accordingly, Part B of this [draft] Practice Statement includes requirements for management commentary to focus on key matters.
- 3.17 However, material information does not necessarily relate to a key matter. Material information is included in management commentary even if it does not relate to a key matter.

Link	
(a)	Paragraphs 4.7–4.14 describe types of key matters and provide guidance on identifying key matters. Chapters 5–10 provide examples of possible key matters.
(b)	Chapter 12 provides guidance on identifying material information.

Management's perspective

- 3.18 An entity's management commentary provides management's perspective of the factors that have affected the entity's financial performance and financial position, or that could affect the entity's ability to create value and generate cash flows in the future:
- (a) information in management commentary derives from information used by management—for example, **metrics** management uses to monitor aspects of the entity's performance and position;
 - (b) management commentary focuses on **key matters** identified by management, and management applies its judgement to identify information about these matters that is material to investors and creditors; and
 - (c) the insights provided about the causes or implications of a matter reflect management's views of these causes or implications.
- 3.19 By providing management's perspective, information in management commentary helps investors and creditors assess both the entity's prospects for future cash flows and management's stewardship of the entity's resources.

PART B—AREAS OF CONTENT

Chapter 4—Introduction to Part B

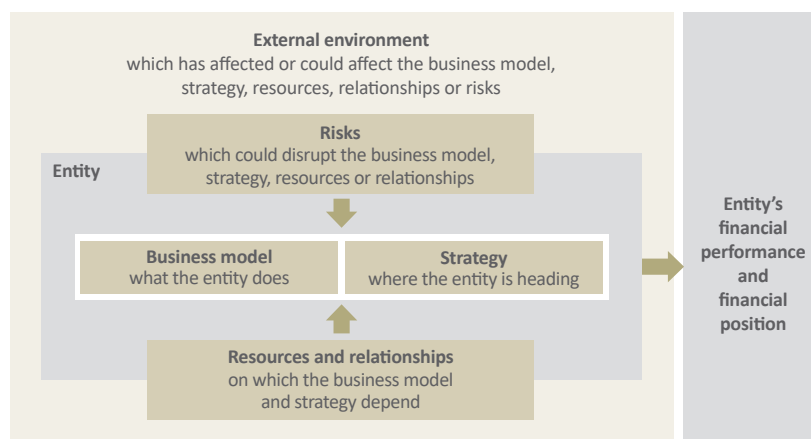
In this chapter
Areas of content
Disclosure objectives
Key matters
Metrics
Information about long-term prospects, intangible resources and relationships and ESG matters

Areas of content

- 4.1 Chapters 5–10 specify six areas of content to be included in **management commentary**:
- (a) the entity’s business model—how the entity **creates value** and generates cash flows;
 - (b) management’s strategy for sustaining and developing that business model, including the opportunities management has chosen to pursue;
 - (c) the resources and relationships on which the business model and strategy depend, including resources not **recognised** as assets in the entity’s financial statements;
 - (d) risks that could disrupt the business model, strategy, resources or relationships;
 - (e) factors and trends in the external environment that have affected or could affect the business model, strategy, resources, relationships or risks; and
 - (f) the entity’s financial performance and financial position—including how they have been affected or could be affected in the future by the matters discussed for the other areas of content.

4.2 Figure 1 illustrates the relationships between the six areas of content.

Figure 1—Relationships between the six areas of content in management commentary



Disclosure objectives

4.3 Chapters 5–10 require management commentary to provide information that meets disclosure objectives specified for each area of content. The disclosure objectives in each chapter comprise:

- a headline objective—describing the overall information needs of **investors and creditors** for the area of content;
- assessment objectives—describing the assessments that rely on information provided for the area of content; and
- specific objectives—describing the detailed information needs of investors and creditors for the area of content.

4.4 To identify the information needed to meet the disclosure objectives for the areas of content, management:

- identifies the information needed to meet the specific objectives.
- evaluates whether that information provides a sufficient basis for the assessments described in the assessment objectives. If it does not provide a sufficient basis, management identifies additional information needed to meet the assessment objectives.
- evaluates whether the information needed to meet the specific objectives and the assessment objectives is sufficient to meet the headline objectives. If the information is insufficient, management identifies additional information needed to meet the headline objectives.

- 4.5 Management evaluates whether the information needed to meet the disclosure objectives for the areas of content is sufficient to meet the objective of management commentary set out in paragraph 3.1. If the information is insufficient, management identifies additional information needed to meet that objective.

Note

- (a) The areas of content are interrelated. Information provided to help meet the disclosure objectives for one area might also help meet the disclosure objectives for other areas. For example, an analysis of an entity's dependence on a resource—for example, a commodity—could help investors and creditors understand the entity's exposure to risks relating to that resource, for example, commodity price volatility. Information can help meet more than one disclosure objective without being duplicated in several sections of the management commentary.
- (b) Management applies the requirements and guidance in Part C in deciding how to select, organise and present the information required to meet the disclosure objectives. Management may apply the structure and headings used in this [draft] Practice Statement. However, it is not required to do so.

- 4.6 Chapter 11 shows the disclosure objectives for all the areas of content next to each other.

Key matters

- 4.7 Chapters 5–10 require management commentary to focus on the following **key matters**—matters that are fundamental to the entity's ability to create value and generate cash flows, including in the long term:
- (a) key features of the entity's business model—those that fundamentally underpin that ability;
 - (b) key aspects of management's strategy—those that are fundamental to sustaining and developing that ability;
 - (c) key resources and relationships—those on which that ability fundamentally depends;
 - (d) key risks—those that could fundamentally disrupt that ability;
 - (e) key factors and trends in the external environment—those that have fundamentally affected or could fundamentally affect that ability; and
 - (f) key aspects of the entity's financial performance and financial position—those that are fundamental to understanding that ability.

- 4.8 Because key matters are fundamental to the entity’s ability to create value and generate cash flows, it is likely that much of the information that is **material** to investors and creditors will relate to key matters.

Link

In identifying material information about key matters, management applies the guidance in Chapter 12.

- 4.9 Identifying key matters requires management to apply judgement. Because key matters are fundamental to the entity’s ability to create value and generate cash flows, they are likely to be matters that management monitors and manages.

- 4.10 Other indications that a matter might be key include that the matter has been:

- (a) discussed with the entity’s board or other governing body;
- (b) discussed in the entity’s capital markets communications—for example, in presentations to investors and creditors; or
- (c) raised by the entity’s customers, suppliers, employees or other stakeholders.

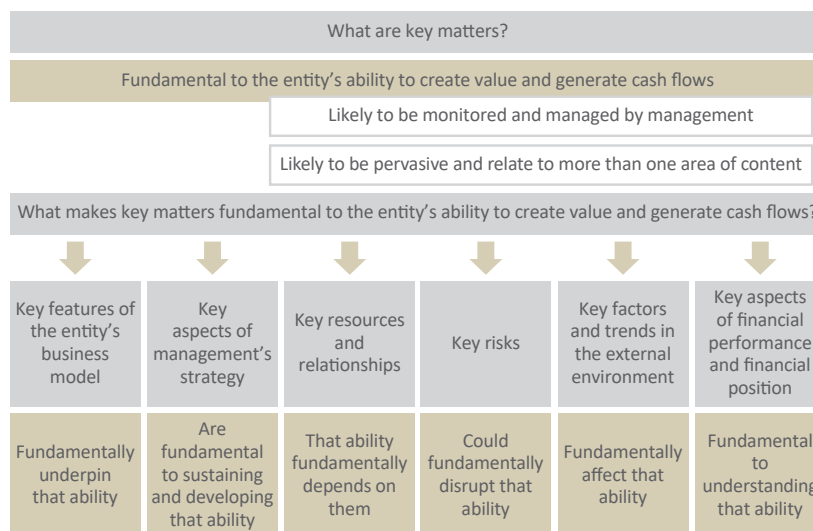
- 4.11 Key matters are likely to be pervasive and to relate to more than one area of content.

Illustration

If a competitive advantage is a key feature of an entity’s business model, management’s plan for sustaining that competitive advantage is likely to be a key aspect of its strategy for sustaining and developing the entity’s business model. Risks of events or circumstances that could fundamentally erode the competitive advantage are likely to be key risks.

4.12 Figure 2 provides an overview of the descriptions and characteristics of key matters.

Figure 2—Descriptions and characteristics of key matters



4.13 Key matters are specific to the entity. Some matters might not be key for the entity even though investors and creditors would generally expect them to be key for entities operating in the industry or jurisdiction in which the entity operates. In such cases, management considers whether any information about the matter is material. Material information is likely to include an explanation of why the matter is not key for the entity.

Illustration

An entity manufactures goods. Management knows that investors and creditors generally expect the key risks for manufacturers of goods of this type to include exposure to fluctuations in the price of a scarce commodity. Management has concluded that such fluctuations are not a key risk for the entity. The management commentary explains that conclusion and provides data to support the explanation.

4.14 Chapters 5–10 provide examples of possible key matters.

Metrics

4.15 For each area of content, material information is likely to include **metrics** that management uses to monitor key matters and to measure progress in managing those matters. Chapters 5–10 provide examples of such metrics.

Link

Chapter 14 sets out requirements that apply to metrics reported in management commentary.

Information about long-term prospects, intangible resources and relationships and ESG matters

- 4.16 Investors and creditors are particularly interested in information about matters that could affect an entity's long-term prospects. Such matters could include matters relating to the entity's intangible resources and relationships –including resources not recognised as assets in the entity's financial statements –and environmental, social and governance (ESG) matters.
- 4.17 Management commentary provides material, entity-specific information about such matters to meet its overall objective set out in Chapter 3 and the disclosure objectives set out in Chapters 5–10.

Link

Appendix B provides an overview of requirements and guidance in this [draft] Practice Statement that management is likely to need to consider in deciding what information it needs to provide about matters that could affect the entity's long term prospects, about the entity's intangible resources and relationships and about ESG matters.

Chapter 5—Business model

In this chapter

Disclosure objectives

Key features of the entity's business model

Metrics

Introduction

- 5.1 An entity's business model is the integrated set of processes by which the entity seeks to **create value** and generate cash flows, including in the long term. Information about an entity's business model provides a context for understanding other information in **management commentary**, and information in the related financial statements.
- 5.2 An entity's business model is a matter of fact. It is observable through the entity's actions.
- 5.3 An entity could have more than one business model, or various operations within a single business model.

Illustration

- (a) Management might view a vertically-integrated entity as having a single business model. If so, management commentary would describe operations within that model and explain dependencies between those operations and synergies gained from integrating them.
- (b) Management might view a conglomerate as having several business models: the business model of its corporate office—acquiring, maintaining, developing and disposing of business units—and the business models of key business units within the conglomerate. Management commentary for that entity would provide information about each business model.

- 5.4 An entity's business model can evolve as management responds to internal and external factors and trends. Management commentary provides information about the entity's business model that operated during the **reporting period** and explains whether, how and why that model has changed since the previous reporting period.

Link

Chapter 6 sets out requirements that apply to information about management's aims and plans for sustaining and developing the entity's business model in the future, including information about the opportunities that management has chosen to pursue.

Disclosure objectives

- 5.5 Management commentary shall provide information that enables **investors and creditors** to understand how the entity's business model creates value and generates cash flows.

Note

If the entity has more than one business model, management commentary provides information about each business model. If the entity has various operations within a single business model, management commentary provides information about each of those operations and explains their interactions. Management commentary provides information about the entity's business model in a way that allows investors and creditors to relate that information to information about operating segments in the entity's financial statements.

- 5.6 Information in management commentary shall provide a sufficient basis for investors and creditors to assess:
- (a) how effective the entity'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.

Note

The scalability of the entity's business model refers to its ability to accommodate growth, and adaptability to its ability to change in response to new circumstances. Resilience refers to the business model's ability to withstand or recover from shocks or difficult conditions, and durability to its ability to remain effective in the long term.

- 5.7 The information about the entity's business model shall enable investors and creditors to understand:
- (a) the range, nature and scale of the entity's operations;
 - (b) the entity's cycle of creating value and generating cash flows;

Note

An entity's cycle of creating value and generating cash flows involves integrated processes by which the entity obtains inputs to its operations, transforms those inputs into outputs, sells those outputs, delivers them to customers and collects cash.

- (c) the environmental and social impacts of the entity's activities if those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term; and

Note

The environmental and social impacts of an entity's activities could include their impact on the natural environment, on the economies of the regions in which the entity operates, on groups of people or on society in general. Some such environmental or social impacts could affect the entity's ability to create value and generate cash flows. For example, future regulatory action or societal pressure could curtail the entity's activities that have adverse impacts on the natural environment or could impose additional costs on the entity.

Link

Chapter 9 sets out requirements that apply to information about the effects or potential effects on the entity of factors and trends in the external environment. Such effects could include the effects or potential effects on the entity of factors and trends in the natural environment (for example, the effects of climate change or climate-related regulation) or in the social landscape (for example, an increased focus on the entity's human resources practices).

- (d) progress in managing the entity's business model.

Key features of the entity's business model

- 5.8 Management commentary shall focus on key features of the entity's business model. Key features are features that fundamentally underpin the entity's ability to create value and generate cash flows.
- 5.9 Features of an entity's business model that management identifies as key could include:
- (a) features that underpin the entity's value proposition to its customers – for example, product development (which might be a key feature of a business model that relies on frequent renewal of the entity's product base) or after-sales service quality (which might be a key feature of a business model that relies on customer retention);

- (b) features that differentiate the entity's products or services to provide the entity with a competitive advantage—for example, technology adapted to meet individual customers' needs;
- (c) features that changed during the reporting period or will need to change for the entity to sustain its ability to create value and generate cash flows in the future—for example, a process that has been or will need to be modified to comply with forthcoming environmental regulations; or
- (d) features that may create uncertainty about the entity's ability to create value and generate cash flows in the future, including in the long term—for example, dependence on a single supplier or on a single customer.

Note

Management commentary provides information about the entity's business model in a way that allows investors and creditors to relate that information to other information in management commentary, and to information in the entity's financial statements.

Metrics

- 5.10 **Material** information about the entity's business model is likely to include **metrics** that management uses to monitor key features of the model and to measure progress in managing those features. Such metrics could include measures relating to:
- (a) the scale of the entity's operations—for example, its production capacity or its production volumes;
 - (b) the inputs involved in those operations—for example, the volumes of raw materials used;
 - (c) environmental or social impacts of the entity's activities—for example, greenhouse gas emissions; and
 - (d) the effects of the environmental or social impacts of the entity's activities on the entity's ability to create value and generate cash flows—for example, brand reputation scores.

Examples of information that might be material

- 5.11 Chapter 15 provides examples of information about the entity's business model that might be material, depending on the entity and its circumstances.

Chapter 6—Strategy

In this chapter

Disclosure objectives

Key aspects of management's strategy

Metrics

Introduction

- 6.1 **Investors and creditors** need information not only about an entity's business model, but also about management's strategy for sustaining and developing that model in the short, medium and long terms. Such a strategy can include:
- (a) aims, which provide a direction for the entity, including in the long term—for example, an aim to create a distinct competitive position, establish a reputation for quality or develop expertise in a new field;
 - (b) milestones on the path towards those aims; and
 - (c) plans for reaching the milestones and achieving the aims.
- 6.2 A strategy might relate to other **key matters** discussed in **management commentary**. For example, it might relate to an emerging risk, developments in the entity's regulatory environment or an opportunity to exploit a new resource.
- 6.3 A strategy is by its nature forward-looking. Nevertheless, information about past progress in implementing the strategy, or information about how the strategy has changed and why, is useful in assessing how likely management is to achieve its aims in the future.

Disclosure objectives

- 6.4 Management commentary shall provide information that enables investors and creditors to understand management's strategy for sustaining and developing the entity's business model.

Note

Management commentary provides information about strategy across all time horizons, including in the long term. For example, management commentary might discuss management's long-term aims, medium-term milestones on the path towards those aims and short-term plans for achieving those milestones.

- 6.5 Information in management commentary shall provide a sufficient basis for investors and creditors to assess:
- (a) how effective the strategy is likely to be in maintaining and developing the entity's ability to **create value** and generate cash flows; and

(b) management’s ability to implement the strategy.

6.6 The information about management’s strategy for sustaining and developing the entity’s business model shall enable investors and creditors to understand:

(a) the drivers of the strategy, including the opportunities management has chosen to pursue;

Note

The drivers of management’s strategy for sustaining and developing the entity’s business model could include, for example, (i) the entity’s stated purpose; (ii) opportunities that management has chosen to pursue in the short, medium or long term (for example, short-term opportunities to exploit a competitive advantage or save costs or long-term opportunities arising from changing customer needs or other changes in the external environment); (iii) risks (for example, an emerging competitive threat to the entity’s market position or factors that could restrict the availability of a resource or the entity’s access to a resource); or (iv) successes and failures in implementing the strategy set in previous periods.

(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.

Link

Some information about financial resource requirements and allocation needed to meet the disclosure objectives might be available in another report published by the entity, for example, the related financial statements. That information may be included in management commentary by cross-referring to the other report. See paragraphs 13.19–13.21.

Key aspects of management’s strategy

6.7 Management commentary shall focus on key aspects of the strategy. Key aspects are aspects that are fundamental to sustaining and developing the entity’s ability to create value and generate cash flows in the future, including in the long term.

6.8 Aspects of the strategy that management identifies as key could include those that relate to:

(a) fulfilling the entity’s stated purpose;

MANAGEMENT COMMENTARY

- (b) enhancing features of the entity's business model;
- (c) preserving or enhancing the entity's access to resources or relationships, or preserving or enhancing the quality of those resources or relationships;
- (d) reducing the entity's exposure to risks;
- (e) pursuing an opportunity; or
- (f) responding to a factor or trend in the entity's external environment.

Metrics

6.9 **Material** information about management's strategy for sustaining and developing the entity's business model is likely to include **metrics** that management uses to monitor key aspects of that strategy and to measure progress in implementing the strategy. Such metrics could include measures relating to:

- (a) progress towards long-term aims—for example, market share statistics or brand reputation scores;
- (b) progress towards milestones—for example, measures of product quality or customer retention statistics; and
- (c) allocation of financial resources—for example, amounts invested in research and development.

Examples of information that might be material

6.10 Chapter 15 provides examples of information about management's strategy that might be material, depending on the entity and its circumstances.

Chapter 7—Resources and relationships

In this chapter

Disclosure objectives

Key resources and relationships

Metrics

Introduction

- 7.1 The operation of an entity's business model and the implementation of management's strategy for sustaining and developing that model depend on the entity's resources and relationships.
- 7.2 Examples of an entity's resources are:
- (a) operating sites and other infrastructure;
 - (b) rights over unextracted or unharvested natural resources;
 - (c) raw or manufactured materials or commodities;
 - (d) intangible resources, such as know-how or other intellectual capital, customer information, brands or reputation;
 - (e) human resources; and
 - (f) cash and other financial resources.
- 7.3 Resources include, but are not restricted to, those **recognised** as assets in the entity's financial statements.

Illustration

Resources include internally generated intangible resources that do not meet the criteria in IFRS Standards for recognition as assets in an entity's financial statements.

- 7.4 Examples of an entity's relationships are:
- (a) relationships with parties directly involved in the entity's cycle of creating value and generating cash flows—for example, with suppliers, employees, contractors, distributors, customers and capital providers; and
 - (b) wider relationships—for example, with governments, regulators, non-governmental organisations or local communities.

Disclosure objectives

- 7.5 **Management commentary** shall provide information that enables **investors and creditors** to understand the resources and relationships on which the entity's business model and management's strategy for sustaining and developing that model depend.

MANAGEMENT COMMENTARY

- 7.6 Information in management commentary shall provide a sufficient basis for investors and creditors to assess:
- (a) the extent to which the business model and management's strategy depend on particular resources and relationships; and
 - (b) the entity's ability to obtain the resources and maintain the relationships on which its business model and management's strategy depend.
- 7.7 The information about the entity's resources and relationships shall enable investors and creditors to understand:
- (a) the nature of the entity's resources and relationships and how the entity deploys them;
 - (b) how the entity 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.

Note

Managing the entity's resources and relationships includes obtaining and maintaining those resources and relationships as well as developing, enhancing and replacing them as the entity's needs evolve.

Key resources and relationships

- 7.8 Management commentary shall focus on the entity's key resources and relationships. Key resources and relationships are those on which the entity's ability to **create value** and generate cash flows fundamentally depends.
- 7.9 Resources or relationships that management identifies as key could include:
- (a) resources that provide the entity with a competitive advantage—for example, a group of specialist employees, unique know-how or an exclusive right;
 - (b) relationships—for example, with related parties or an exclusive supplier—that provide the entity with access to resources that cannot readily be substituted; or
 - (c) resources or relationships that create concentration risk for the entity—for example, a raw material that can be sourced only from one region, a manufacturing component for which there is no viable alternative or for which the entity relies on a small number of suppliers, or a resource whose availability is constrained by environmental changes.

- 7.10 A key resource or relationship is not necessarily a single item or a relationship with one other party. It may be a type of resource or relationship, such as a workforce, or a category within a type, such as a group of employees with specialist skills within a workforce. If only a category of a resource or relationship is key, management commentary focuses on that category, not on the whole type.

Metrics

- 7.11 **Material** information about the entity's resources and relationships is likely to include **metrics** that management uses to monitor key resources and relationships and to measure progress in managing them. Such metrics could include measures relating to:
- (a) the quantity of a resource used during the **reporting period**, or the scale of its use—for example, the rate of consumption of a natural resource;
 - (b) the quantity of a resource remaining at the end of the reporting period—for example, oil or mineral reserves;
 - (c) the effectiveness with which the entity has deployed a resource or relationship, which could include:
 - (i) measures of utilisation—for example, hotel room occupancy; or
 - (ii) measures of productivity—for example, store revenue per unit of floor area;
 - (d) the strength of a relationship—for example, customer retention statistics or employee engagement survey scores; and
 - (e) progress in enhancing a resource or developing a relationship—for example, regulatory approval of a new drug or new technology, or growth in customer numbers or in customer satisfaction scores.

Examples of information that might be material

- 7.12 Chapter 15 provides examples of information about the entity's resources and relationships that might be material, depending on the entity and its circumstances.

Chapter 8—Risks

In this chapter

Disclosure objectives

Key risks

Metrics

Introduction

- 8.1 To gain insight into factors that could affect an entity's ability to **create value** and generate cash flows, **investors and creditors** need to understand the risks of events or circumstances that could in the short, medium or long term disrupt the entity's business model, management's strategy for sustaining and developing that model, or the entity's resources and relationships.

Link

Paragraph 6.6 requires **management commentary** to provide information that enables investors and creditors to understand the opportunities that have driven management's strategy for sustaining and developing the entity's business model.

- 8.2 The source of such risks could be external—for example, political instability—or internal—for example, the failure of a business process or an unintended consequence of a change in strategy. The source of a risk could be a one-off event, gradually changing circumstances or a group of events or circumstances that would cause disruption if they were all to occur.

Disclosure objectives

- 8.3 Management commentary shall provide information that enables investors and creditors to understand the risks of events or circumstances that could disrupt:
- the entity's business model;
 - management's strategy for sustaining or developing that model; or
 - the entity's resources or relationships.
- 8.4 Information in management commentary shall provide a sufficient basis for investors and creditors to assess:
- the extent of the entity's exposure to risks; and
 - how effectively management monitors and manages the entity's exposure to risks.

Note

The extent of the entity's exposure to risks refers to the likelihood of future disruption and the potential effect of that disruption on the entity's ability to create value and generate cash flows.

- 8.5 The information about risks shall enable investors and creditors to understand:
- (a) the nature of the risks to which the entity is exposed;
 - (b) the entity'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.

Link

Some information about risks needed to meet the disclosure objectives might be available in another report published by the entity, such as the related financial statements or a corporate governance report. That information may be included in management commentary by cross-reference to the other report if including the information in this way rather than directly within the management commentary does not make the management commentary less clear. See paragraphs 13.19–13.21.

Key risks

- 8.6 Management commentary shall focus on the key risks to which the entity is exposed. Key risks are risks of events or circumstances that could fundamentally disrupt the entity's ability to create value and generate cash flows, including in the long term.
- 8.7 Risks that management identifies as key could include risks of events or circumstances that in the short, medium or long term might:
- (a) fundamentally disrupt the entity's business model—for example, cause the entity to lose a competitive advantage;
 - (b) fundamentally disrupt management's strategy for sustaining and developing the business model—for example, prevent the entity from fulfilling its purpose;
 - (c) fundamentally disrupt a resource or relationship—for example, disrupt the entity's supply chains for essential components or damage the entity's reputation; or
 - (d) threaten the entity's existence—for example, cause a permanent collapse in demand for the entity's product range.

- 8.8 If a risk has the potential to cause fundamental disruption, that risk could be a key risk even if disruption is unlikely, or even if disruption could occur only in the long term.

Link

Paragraph 12.8 discusses factors that management needs to consider in assessing whether information about a possible future event with an uncertain outcome is **material**.

- 8.9 Local laws or regulations might require management commentary to include information about particular risks regardless of whether those risks are key risks for the entity and regardless of whether information about them is material. Paragraph 13.18 requires any immaterial information included in management commentary to be provided in a way that avoids obscuring material information. To meet this requirement, material information about key risks needs to be made prominent and distinguishable from immaterial information about other risks provided to satisfy local laws or regulations.

Metrics

- 8.10 Material information about risks is likely to include **metrics** that management uses to monitor key risks and to measure progress in managing them. Such metrics could include measures relating to:
- (a) the entity's exposure to a risk—for example, its level of reliance on a raw material;
 - (b) the effectiveness of management's actions to reduce the entity's exposure to a risk—for example, numbers of safety incidents; and
 - (c) management's plans to mitigate the effects of potential disruption—for example, quantities of buffer inventories held.

Examples of information that might be material

- 8.11 Chapter 15 provides examples of information about risks that might be material, depending on the entity and its circumstances.

Chapter 9—External environment

In this chapter

Disclosure objectives

Key factors and trends in the entity's external environment

Metrics

Introduction

- 9.1 An entity's external environment encompasses:
- (a) its direct environment—the industries and markets in which the entity interacts with its customers, suppliers, and competitors; and
 - (b) the wider environment including the legal, regulatory and economic environment; the political, technological, social and cultural landscape; and the natural environment.
- 9.2 An entity can be affected by factors in its external environment (for example, the existence of a competitive threat) and by trends in these factors (for example, emerging changes in consumer preferences).

Link

Chapter 5 sets out requirements that apply to information about the environmental and social impacts of the entity's activities if those impacts have affected or could affect the entity's ability to **create value** and generate cash flows, including in the long term.

- 9.3 Information about factors and trends in an entity's external environment provides insights into their effects on the entity's business model, on management's strategy for sustaining and developing that model, on the entity's resources and relationships, and on the risks to which the entity is exposed.
- 9.4 Factors and trends that might affect an entity include those relating to:
- (a) market forces or market disruption—for example, competition, supply and demand and the bargaining power of suppliers and customers;
 - (b) economic and political conditions—for example, commodity prices and economic and political stability;
 - (c) laws and regulations—for example, industry regulations, tax law and health and safety regulations;
 - (d) society—for example, demographic, lifestyle or cultural changes;
 - (e) the natural environment and related regulation—for example, resource availability, pollution or climate-related regulation; or

MANAGEMENT COMMENTARY

- (f) technology—for example, the emergence of alternative environmentally-friendly technologies or solutions to customer needs.

Disclosure objectives

- 9.5 **Management commentary** shall provide information that enables **investors and creditors** to understand how the entity's external environment has affected or could affect:
 - (a) the entity's business model;
 - (b) management's strategy for sustaining and developing that model;
 - (c) the entity's resources or relationships; or
 - (d) risks to which the entity is exposed.
- 9.6 Information in management commentary shall provide a sufficient basis for investors and creditors to assess:
 - (a) how factors and trends in the entity's external environment have affected or could affect the entity; and
 - (b) how effectively management monitors and responds or can respond to those factors and trends.
- 9.7 The information provided about factors and trends in the entity's external environment shall enable investors and creditors to understand:
 - (a) the nature of those factors and trends;
 - (b) how the factors and trends have affected or could affect the entity;
 - (c) how management monitors and plans to respond to those factors and trends; and
 - (d) progress in responding to those factors and trends.

Key factors and trends in the entity's external environment

- 9.8 Management commentary shall focus on key factors and trends in the entity's external environment. Key factors and trends are factors and trends that have had, or could have, a fundamental effect on the entity's ability to create value and generate cash flows, including in the long term.
- 9.9 Factors or trends management identifies as key could include those that relate to:
 - (a) the entity's business model—for example, social or political factors that have restricted or could restrict the entity's ability to operate in a market;
 - (b) management's strategy for sustaining or developing the entity's business model—for example, trends that have created or could create a market opportunity;

- (c) the entity's resources or relationships—for example, changes in customer preferences that have affected or could affect customer loyalty; or
- (d) the risks to which the entity is exposed—for example, a local or regional trend towards more protectionist trade policies that create risks to the entity's supply chains.

Link

Paragraph 12.8 discusses factors that management needs to consider in assessing whether information about a possible future event with an uncertain outcome is **material**.

- 9.10 In some cases, the effects of one factor or trend might be indistinguishable from the effects of another factor or trend. Information about interrelated factors or trends may be clearer and more concise if those factors or trends and their effects are discussed collectively, rather than in isolation.

Metrics

- 9.11 Material information about factors and trends in the entity's external environment is likely to include **metrics** that management uses to monitor key factors and trends and to measure progress in responding to them. Such metrics could include measures of:
- (a) the factors and trends—for example, external market share statistics, industry benchmarks, results of customer surveys; and
 - (b) the effectiveness of management's responses to those factors and trends—for example, the proportion of the entity's revenue exposed to demographic reductions in demand.

Examples of information that might be material

- 9.12 Chapter 15 provides examples of information about factors and trends in the entity's external environment that might be material, depending on the entity and its circumstances.

Chapter 10—Financial performance and financial position

In this chapter
Disclosure objectives
Key aspects of the entity's financial performance and financial position
Metrics

Introduction

- 10.1 An entity's financial performance is reported in its financial statements by:
- the income and expenses **recognised** in its statement of comprehensive income; and
 - the cash flows recognised in its statement of cash flows.
- 10.2 An entity's financial position is reported by the assets, liabilities and equity recognised in its statement of financial position.
- 10.3 Information in **management commentary** about an entity's financial performance and financial position complements information provided in the related financial statements. Accordingly, management commentary provides more discussion, analysis, **forward-looking information** and non-financial information than is included in the entity's financial statements to explain the entity's financial performance and financial position reported in those financial statements.

Disclosure objectives

- 10.4 Management commentary shall provide information that enables **investors and creditors** to understand the entity's financial performance and financial position reported in the entity's financial statements.

Link

Management commentary focuses on explaining the amounts presented and disclosed in the entity's financial statements. Paragraphs 13.29–13.30 discuss the need for coherence between the information in management commentary and information in the related financial statements. Paragraph 13.17(b) discusses the need for management commentary to avoid unnecessary duplication of information provided in the related financial statements.

- 10.5 Information in management commentary shall provide a sufficient basis for investors and creditors to assess:
- drivers of the entity's financial performance and financial position;

- (b) how the entity’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 entity’s financial statements are indicative of the entity’s ability to **create value** and generate cash flows in the future, including in the long term; and
- (d) the entity’s financial resilience.

Note

An entity’s financial resilience is its ability to withstand one type of threat—threats to its liquidity or solvency—including in the long term.

Link

Paragraph 5.6(c) requires information that provides a sufficient basis for investors and creditors to assess the resilience of the entity’s business model to shocks or difficult conditions of any type.

10.6 The information about the entity’s financial performance and financial position shall enable investors and creditors to understand:

- (a) what factors have affected the entity’s financial performance and financial position in the **reporting period** or could affect them in the future, including in the long term;

Note

Factors that have affected the entity’s financial performance and financial position in the reporting period or could affect them in the future are likely to include **key matters** discussed in other areas of content in management commentary. In particular, progress in managing those key matters is likely to have affected the financial performance and financial position reported in the entity’s financial statements, or to affect them in the future. **Metrics** used by management to monitor those key matters and to measure progress in managing them reflect the entity’s non-financial performance and non-financial position and help investors and creditors to understand the entity’s financial performance and financial position reported in the entity’s financial statements.

- (b) how management has allocated financial resources in the reporting period; and
- (c) how the entity’s financial performance and financial position compare with forecasts or targets previously published by the entity, if any.

Link

Paragraphs 14.14–14.17 set out additional requirements that apply to forecasts and targets.

Key aspects of the entity's financial performance and financial position

- 10.7 Management commentary shall focus on key aspects of the entity's financial performance and financial position. Key aspects are aspects that are fundamental to understanding the entity's ability to create value and generate cash flows.
- 10.8 Aspects of an entity's financial performance and financial position that management identifies as key could include:
- (a) categories of income, expenses, profit or loss, or cash flows, or specific income, expenses or cash flows within those categories—for example, revenue for segments of the business or for categories of customer, gross profit, investment income, financing expenses, tax expenses, or cash flows from operating activities; or
 - (b) categories of assets, liabilities or net assets, or specific assets and liabilities within those categories—for example, infrastructure plant and equipment, working capital, net debt or environmental rehabilitation obligations.

Note

The key aspects of an entity's financial performance and financial position will depend on the industry in which the entity operates. For example, research and development expenses could be a key aspect of the financial performance of a pharmaceutical entity.

Metrics

- 10.9 **Material** information about an entity's financial performance and financial position is likely to include metrics management uses to monitor and measure key aspects of that financial performance and financial position. Such metrics could include:
- (a) amounts presented in the entity's financial statements, such as line items, totals and subtotals;
 - (b) amounts disclosed in the notes to its financial statements; and
 - (c) measures taken or derived from amounts presented or disclosed in the financial statements.

Link

Paragraph 14.6 sets out requirements that apply to metrics derived by adjusting amounts presented or disclosed in the entity's financial statements.

- 10.10 To explain an entity's financial performance or financial position, management commentary might provide analyses that involve adjusting amounts reported in the entity's financial statements to exclude the effects of some events or circumstances. For example, a constant currency analysis could present performance comparisons that exclude the effects of currency variations, a pro forma analysis could present 'like for like' performance comparisons that exclude the effects of new stores or acquired businesses, or a bridge analysis could identify the components of performance variances between the current and previous reporting periods. Any such analyses provided in management commentary form part of the management commentary and therefore need to possess the attributes required by Chapter 13. The analyses need to provide a balanced picture of the entity's financial performance or financial position, precise descriptions of the adjustments made and all the information necessary for investors and creditors to understand those adjustments.

Examples of information that might be material

- 10.11 Chapter 15 provides examples of information about the entity's financial performance and financial position that might be material, depending on the entity and its circumstances.

Chapter 11—Overview of disclosure objectives

In this chapter
Overview of headline objectives
Overview of assessment objectives
Overview of specific objectives

11.1 Table 11.1 shows the disclosure objectives for all the areas of content next to each other.

Table 11.1—Overview of disclosure objectives set out in Chapters 5–10

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

EXPOSURE DRAFT—MAY 2021

Assessment objectives		
Business model	Strategy	Resources and relationships
Information in management commentary shall provide a sufficient basis for investors and creditors to assess:		
<p>(a) how effective the entity's business model is at creating value and generating cash flows;</p> <p>(b) how scalable and adaptable it is; and</p> <p>(c) how resilient and durable it is.</p>	<p>(a) how effective the strategy is likely to be in maintaining and developing the entity's ability to create value and generate cash flows; and</p> <p>(b) management's ability to implement the strategy.</p>	<p>(a) the extent to which the business model and management's strategy depend on particular resources and relationships; and</p> <p>(b) the entity's ability to obtain the resources and maintain the relationships on which its business model and management's strategy depend.</p>
Risks	External environment	Financial performance and financial position
Information in management commentary shall provide a sufficient basis for investors and creditors to assess:		
<p>(a) the extent of the entity's exposure to risks; and</p> <p>(b) how effectively management monitors and manages the entity's exposure to risks.</p>	<p>(a) how factors and trends in the entity's external environment have affected or could affect the entity; and</p> <p>(b) how effectively management monitors and responds or can respond to those factors and trends.</p>	<p>(a) drivers of the entity's financial performance and financial position;</p> <p>(b) how the entity's financial performance and financial position compare with investors and creditors' previous expectations;</p> <p>(c) the extent to which the financial performance and financial position reported in the entity's financial statements are indicative of the entity's ability to create value and generate cash flows in the future, including in the long term; and</p> <p>(d) the entity's financial resilience.</p>

MANAGEMENT COMMENTARY

Specific objectives		
Business model	Strategy	Resources and relationships
Information in management commentary shall enable investors and creditors to understand:		
(a) the range, nature and scale of the entity's operations;	(a) the drivers of the strategy, including the opportunities management has chosen to pursue;	(a) the nature of the entity's resources and relationships and how the entity deploys them;
(b) the entity's cycle of creating value and generating cash flows;	(b) the aims of the strategy;	(b) how the entity obtains its resources and maintains its relationships;
(c) the environmental and social impacts of the entity's activities if those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term; and	(c) milestones on the path towards those aims;	(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 entity's business model.	(d) plans for reaching the milestones and achieving the aims;	(d) progress in managing the resources and relationships.
	(e) the financial resources required to implement the strategy, and management's approach to allocating financial resources; and	
	(f) progress in implementing the strategy.	
Risks	External environment	Financial performance and financial position
Information in management commentary shall enable investors and creditors to understand:		
(a) the nature of the risks to which the entity is exposed;	(a) the nature of factors and trends in the entity's external environment;	(a) what factors have affected the entity's financial performance and financial position in the reporting period or could affect them in the future, including in the long term;
(b) the entity's exposure to those risks;	(b) how those factors and trends have affected or could affect the entity;	(b) how management has allocated financial resources in the reporting period; and
(c) how management monitors and manages the risks;	(c) how management monitors and plans to respond to those factors and trends; and	(c) how the entity's financial performance and financial position compare with forecasts or targets previously published by the entity, if any.
(d) how management will mitigate disruption if it occurs; and	(d) progress in responding to those factors and trends.	
(e) progress in managing risks.		

PART C—SELECTION AND PRESENTATION
OF INFORMATION

Chapter 12—Making materiality judgements

In this chapter

Identifying information that might be material

Assessing whether information is material

Aggregation

Introduction

- 12.1 Paragraph 3.2 requires **management commentary** to provide **material** information. That paragraph also explains that, in the context of management commentary, 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.
- 12.2 Identifying material information requires management to apply judgement. In judging whether a piece of information is material, management considers the entity's specific circumstances, as well as whether investors and creditors need that information and why they need it.

Identifying information that might be material

- 12.3 To identify information that might be material, management applies the requirements and guidance in Part B and Chapter 15.

Note

Part B sets out disclosure objectives for information in management commentary and Chapter 15 suggests examples of information that management commentary might need to include to meet those objectives. Management applies judgement in deciding whether the information described in the examples in Chapter 15 is material in the entity's circumstances. Similarly, management applies judgement to identify material information not covered by the examples in Chapter 15.

- 12.4 Indications that information might be material include that it:

- (a) relates to a **key matter**;

Link

Key matters are explained in paragraphs 4.7–4.14.

- (b) is derived from information that management uses for managing the business—for example, information discussed with the entity's board or considered by management in setting strategy, allocating resources or assessing the entity's performance; or

- (c) has been included in the entity's capital markets communications—for example, in presentations to investors and creditors.
- 12.5 If management has a type of information it knows entities with similar activities commonly provide to investors and creditors, it considers whether that information would be material in the context of the entity's management commentary. However, because materiality judgements depend on an entity's circumstances, information is not material solely because other entities provide that type of information, and information may be material even if other entities do not provide that type of information.
- 12.6 Narrative reporting requirements or guidelines published by, for example, an industry body or an organisation with an interest in sustainability reporting could help management identify information that might be material. This is more likely to be the case if the requirements or guidelines have a reporting objective that, like the objective of management commentary set out in this [draft] Practice Statement, focuses on the information needs of investors and creditors. If the requirements or guidelines have a different reporting objective, they might not specify all information about a matter that is material to investors and creditors or, conversely, might specify some information that is not material to investors and creditors.

Assessing whether information is material

- 12.7 Information about a matter may be material because of the nature or magnitude of that matter, or a combination of both, judged in relation to the entity's circumstances. Accordingly, making materiality judgements involves considering both quantitative and qualitative factors.

Note

Qualitative factors management considers in making materiality judgements are characteristics of a matter that, if present, make information about that matter more likely to influence the decisions of investors or creditors. They include characteristics specific to the entity—for example, the involvement of a related party of the entity—or to the context in which the entity operates, for example, its location or industry.

- 12.8 Some matters discussed in management commentary relate to possible future events that have not affected the entity's financial performance or financial position, are not reported in the entity's financial statements and have uncertain outcomes. In judging whether information about such possible future events is material, management considers:
- (a) the potential effects of the events on the amount and timing of the entity's future cash flows, including in the long term (the possible outcome); and
- (b) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

Note

- (a) Information about an uncertain future event is more likely to be judged material if both the potential effects are significant and the event is likely to occur. However, information about an unlikely event might be material if the potential effects are so significant that the information could reasonably be expected to influence the decisions of investors and creditors.
- (b) Investors and creditors' assessments of future cash flows take account of the time value of money. Accordingly, if a possible future event is expected to affect an entity's cash flows only many years in the future, information about that event is usually less likely to be judged material than information about a possible future event with similar effects that are expected to occur sooner.

- 12.9 Materiality judgements need to be reassessed each **reporting period**. Because of changes in the entity's individual circumstances, or in the wider environment, some types of information included in previous periods' management commentary might no longer be material, and some types of information not previously included might have become material.

Aggregation

- 12.10 Information in management commentary generally aggregates more detailed information available to management. If that information is aggregated too much, material information might be omitted. If it is not aggregated enough, material information might be obscured by immaterial information.
- 12.11 Factors to consider in judging how much to aggregate information include:

- (a) the possibility that items of information that are not material individually might be material when aggregated with similar items; and

Illustration

An entity might be exposed to several sources of risks, each of which could cause the same type of disruption—for example, disruption of the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—in this example, the risk of supply chain disruption from any source—might be material.

- (b) the possible need to disaggregate information reported in the financial statements—for example, if that disaggregation is necessary for management commentary to provide an understandable explanation of the factors affecting an amount reported in the financial statements.

Chapter 13—Completeness, balance, accuracy and other attributes

In this chapter
Completeness
Balance
Accuracy
Clarity and conciseness
Comparability
Verifiability
Coherence

Introduction

- 13.1 For **management commentary** to meet its objective, the information it provides needs to be complete, balanced and accurate.
- 13.2 That information is more useful to **investors and creditors** if it is also:
- clear and concise;
 - comparable with information provided by the entity in previous periods, and with information provided by other entities; and
 - provided in a way that enhances its verifiability.
- 13.3 The completeness, clarity and comparability of information in management commentary all rely on that information being provided as a well-integrated, coherent whole.

Completeness

- 13.4 Management commentary shall provide a complete depiction of the matters it addresses. Providing a complete depiction of a matter means providing all **material** information about the matter – not necessarily all information about the matter that is available to management. A complete depiction of a matter includes all material information necessary for investors and creditors to understand the matter, including all material descriptions and explanations.

Illustration

- (a) A complete depiction of the potential effects of a possible future event includes information to help investors and creditors assess not only the probability of the event and the possible magnitude of the associated cash flows, but also the timing of those cash flows and the uncertainty in their amount and timing.
- (b) If a future event has a range of possible outcomes, a complete depiction of that event includes information to help investors and creditors assess both the upper and the lower boundaries of the range, and understand the likelihood of the various outcomes within the range.
- (c) If the potential effects of a possible future event are sensitive to small changes in a variable—for example, the future price of a commodity—a complete depiction of that event includes information to help investors and creditors assess the potential effects of that event for the range of outcomes that management regards as reasonably possible.
- (d) If management commentary includes a statistic from an external source—for example, a statistic about the size of a market—material information about that statistic may include its source, the period it covers and the population for which it was measured.
- (e) If management commentary reports an amount based on an estimate, a complete depiction of that amount includes an explanation of the estimation process and its limitations.

- 13.5 If information is material, it shall be included in management commentary even if it was provided in a previous period's management commentary or is available in another report published by the entity.

Link

Information provided in a previous period's management commentary or in another report published by the entity may be included in the current period's management commentary by cross-reference if including the information this way (rather than directly) satisfies the criteria set out in paragraphs 13.19–13.21.

MANAGEMENT COMMENTARY

- 13.6 Information in management commentary shall reflect events that occur between the end of the **reporting period** and the date on which the management commentary is authorised for issue.

Illustration

Management commentary about an entity's sales reflects significant changes to the entity's order book, or the loss of key customer or distributor relationships, since the end of the reporting period.

Note

If management commentary is authorised for issue after the related financial statements are authorised for issue, the management commentary includes material information about events that have occurred in the intervening period. Those events will not have been considered in preparing the financial statements. To ensure the information about them is clear, that information may need to be distinguished from information about events that were considered in preparing the financial statements.

Balance

- 13.7 Information in management commentary shall be balanced. Information is balanced if it is 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.
- 13.8 Achieving overall balance requires balance in the selection of matters to discuss in management commentary.

Illustration

Management commentary is not balanced if, for example, it:

- (a) omits discussion of an unfavourable matter—for example, a competitive threat; or
- (b) gives more prominence to information about favourable matters than to information about unfavourable matters, or vice versa.

- 13.9 Achieving overall balance also requires balance in the selection of information to provide about the matters discussed, and in the presentation of that information.

Illustration

Information about a matter discussed in management commentary is not balanced if, for example, it:

- (a) includes estimates or forecasts based on optimistic or pessimistic assumptions about the range and probability of possible outcomes, instead of neutral assumptions;
- (b) obscures favourable or unfavourable information—for example, by aggregating information that shows a negative trend with information that shows a positive trend;
- (c) exaggerates favourable or unfavourable information—for example, by curtailing the number of comparative periods for which information is provided, so that a trend is not shown;
- (d) omits information required for balance—for example, by attributing an improvement in an aspect of the entity's financial performance to management's actions without also identifying external contributing factors, by quantifying only one end of a range of outcomes for a matter, or by quantifying both ends of the range without disclosing that the outcomes at one end are more likely than those at the other end; or
- (e) uses unduly positive or negative language, leading to a biased tone.

- 13.10 Some matters discussed in management commentary—for example, management targets or plans—are aspirational. A balanced discussion of such matters covers both management's aspirations and factors that could prevent management from achieving those aspirations.

Accuracy

- 13.11 Information in management commentary shall be accurate.
- 13.12 Information can be accurate without being perfectly precise in all respects. The degree of precision needed and attainable, and factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:
- (a) factual information is free from material error;
 - (b) descriptions are precise;

MANAGEMENT COMMENTARY

- (c) estimates, approximations and forecasts are clearly identified as such;
- (d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;
- (e) assertions are reasonable and based on information of sufficient quality and quantity; and
- (f) information about management's judgements about the future faithfully reflects both those judgements and the information on which they are based.

Clarity and conciseness

- 13.13 Information in management commentary shall be clear and concise.
- 13.14 For management commentary to be clear, it needs to use plain language, and avoid jargon and unnecessary technical terminology.

Note

Some information might be communicated to investors and creditors most clearly using industry-specific or other specialist terms if these terms are defined clearly and used consistently.

- 13.15 The clearest form of presentation depends on the nature of the information, and might sometimes include tables, graphs or diagrams in addition to narrative text. If graphs or diagrams are used, additional text or tables might be necessary to avoid obscuring material detail.

Illustration

Narrative discussion of changes in the entity's financial performance might be clearest if a tabular format is used to present the current period and comparative amounts.

- 13.16 Clarity might be further enhanced by distinguishing information about developments in the reporting period from 'standing' information that remains unchanged, or changes little, from one period to the next—for example, by separately highlighting features of the entity's business model that have changed since the previous reporting period.
- 13.17 For management commentary to be concise, it needs to:
- (a) avoid generic information, sometimes called 'boilerplate', that is not specific to the entity;
 - (b) avoid duplication of information within management commentary, or unnecessary duplication of information also provided in the related financial statements; and

- (c) use simple, clear language and short, clearly structured sentences and paragraphs.

Note

An entity's management commentary is designed to complement the entity's financial statements. Most information in an entity's financial statements is not duplicated in its management commentary. Information is duplicated there only if necessary to meet the objective of management commentary and the disclosure objectives for the areas of content set out in this [draft] Practice Statement or to provide coherence between the management commentary and financial statements.

- 13.18 Perfectly concise management commentary would include only material information. Any immaterial information included in management commentary shall be provided in a way that avoids obscuring material information.

Illustration

To comply with local laws, regulations or other requirements, management commentary might include information that management would judge to be immaterial applying the definition of material and the guidance in this [draft] Practice Statement. If such information is included, it is provided in a way that avoids obscuring material information.

Material information included by cross-reference

- 13.19 Information required by this [draft] Practice Statement might be available in another report published by the entity. That information may be included in management commentary by cross-reference to the other report if including the information in this way rather than directly within the management commentary does not make the management commentary less clear.

Note

Including information in management commentary by cross-reference to another report can reduce duplication and hence make management commentary more concise. Including information by cross-reference might also make management commentary clearer, for example, by separating information about developments in the reporting period from standing information that remains unchanged, or changes little, from one period to the next—an entity could publish standing information in a separate report, with management commentary including that information by cross-reference to that report. However, including information by cross-reference to another report fragments management commentary, so including extensive information by cross-reference can make management commentary less clear.

- 13.20 If material information in another report is included in management commentary by cross-reference to that other report, that information becomes part of the management commentary. This means that, for example:
- (a) information included by cross-reference needs to comply with the requirements of this [draft] Practice Statement. For example, it needs to be complete, balanced and accurate.
 - (b) the report in which the information is located needs to be available whenever the management commentary is available, and on the same terms.
 - (c) the body(s) or individual(s) who authorise the management commentary for issue take the same degree of responsibility for information included by cross-reference as they do for information included directly within the management commentary.
- 13.21 If management commentary includes information by cross-reference to another report:
- (a) management commentary shall identify the report clearly and explain how to access it;
 - (b) the cross-reference shall be to a precisely specified part of that report;
 - (c) the information included by cross-reference shall be as up to date as if it had been included in the management commentary directly; and
 - (d) if the information is in a report for a period ending before the end of the reporting period covered by the management commentary, the management commentary shall:
 - (i) state the cut-off date for that information; and

- (ii) if necessary to meet the requirements of this [draft] Practice Statement, provide further information up to the end of the period covered by the management commentary.

Comparability

- 13.22 This [draft] Practice Statement requires management commentary to provide material information that is complete, balanced and accurate. That information is more useful to investors and creditors if it is also comparable, that is if it can be compared with:
- (a) information provided by the entity in previous periods; and
 - (b) information provided by other entities, in particular those with similar activities or operating within the same industry.
- 13.23 Accordingly, information in management commentary shall be provided in a way that enhances comparability without omitting material information.

Link

Paragraphs 14.7–14.10 set out requirements for providing information with **metrics** to enhance the comparability of those metrics.

Verifiability

- 13.24 Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiable information is more useful to investors and creditors than information that is not verifiable. Verifiability helps give investors and creditors confidence that the information is complete, balanced and accurate.
- 13.25 Information in management commentary shall be provided in a way that enhances its verifiability. Verifiability can be enhanced by, for example:
- (a) including information that can be corroborated by comparing it with other information available to investors and creditors about the business, about other businesses or about the external environment; and
 - (b) providing information about inputs and methods of calculation used to produce estimates or approximations.
- 13.26 Some material information—for example, some explanations and **forward-looking information**—might not be verifiable. Material information is included in management commentary even if it is not verifiable. To help investors and creditors decide whether to use such information, management commentary shall describe the underlying assumptions and methods of producing the information as well as other factors that help support it.

Coherence

- 13.27 The completeness, clarity and comparability of information in management commentary all rely on that information being presented as a well-integrated, coherent whole.
- 13.28 If a matter discussed for one area of content in management commentary has implications for other areas of content, management commentary shall include the information necessary for investors and creditors to assess those implications.

Illustration

A trend in the external environment could have implications for an entity's business model, for management's strategy for sustaining and developing that model, for the entity's resources and relationships, for risks to which the entity is exposed, or for the entity's financial performance or financial position. Management commentary includes the information necessary for investors and creditors to assess those implications.

- 13.29 Some information in management commentary might be understood best in the context of information in another part of the management commentary, or in the context of information in the related financial statements. For management commentary to be coherent, such information shall be presented in a way that explains that context and the relationships between the related pieces of information.

Illustration

An entity's management commentary might include information about management's strategy to expand a section of the entity's customer base and, in a separate discussion of the entity's relationships, a description of that section of the customer base. The information about the strategy includes a reference to that description.

- 13.30 Coherence also requires that:
- (a) an entity's management commentary provides information in a way that allows investors and creditors to relate that information to information in the entity's financial statements; and

Illustration

Management commentary analyses information about an entity's operations in a way that enables investors and creditors to relate that information to, for example, segment information disclosed in the entity's financial statements.

- (b) management commentary explains areas of apparent inconsistency between information provided in the management commentary and other information provided by the entity—for example, in investor presentations, on the entity’s website or in other publicly available communications.

Chapter 14—Metrics

In this chapter

Requirements that apply to all metrics

Additional requirements that apply to forecasts and targets

Introduction

- 14.1 **Metrics** are measures used to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position.
- 14.2 Examples of metrics are:
- (a) measures of the entity's income, expenses, cash flows, assets, liabilities or equity;
 - (b) measures of the scale of the entity's operations—for example, regional production capacity;
 - (c) measures of the entity's environmental impacts—for example, greenhouse gas emissions;
 - (d) indicators of progress in developing intangible resources—for example, regulatory approvals received; and
 - (e) indicators of the strength of the entity's relationships—for example, customer retention statistics or brand reputation scores.
- 14.3 **Material** information is likely to include metrics. Those metrics could be derived from metrics that management uses to monitor **key matters** and to measure progress in managing those matters. They typically depend on the entity's activities and the industry in which it operates. They could be derived from information generated by the entity or obtained from external sources, for example, providers of market share statistics or customer surveys.

Requirements that apply to all metrics

Clarity and accuracy

- 14.4 This [draft] Practice Statement requires information in **management commentary** to be clear and accurate. For information about a metric to be clear and accurate, the metric needs to be described clearly and precisely.
- 14.5 Consequently, if a metric included in management commentary is not presented or disclosed in the entity's financial statements, management commentary shall:
- (a) label and define the metric and its scope using a meaningful, clear and precise name and description;

Illustration

A metric that relates to a single category of customers is labelled and described in a way that clearly identifies its scope—that is, the population of customers to which it relates.

- (b) explain how the metric contributes to understanding the matter being discussed, unless its contribution is clear without explanation; and
- (c) explain the method used to calculate the metric and the inputs to the calculation, including assumptions made and limitations of the method.

14.6 If a metric of financial performance or financial position included in management commentary is derived by adjusting measures presented or disclosed in the entity’s financial statements, management commentary shall:

- (a) label the metric using a name that is not misleading and that clearly differentiates the metric from the measure presented or disclosed in the financial statements;
- (b) reconcile the amount reported for the metric to the most directly comparable amount presented or disclosed in the financial statements, identifying and explaining each reconciling item; and
- (c) present the metric no more prominently than the measure to which it is reconciled.

Link

Some metrics might be included in management commentary because local laws or regulations require them, not because they provide material information. Paragraph 13.18 requires those metrics to be provided in management commentary in a way that avoids obscuring material information.

Comparability

14.7 An amount reported for a metric is more useful if **investors and creditors** can compare that amount with amounts for previous periods, and with amounts reported by other entities, in particular those with similar activities or operating in the same industry.

14.8 To help investors and creditors compare an amount reported for the current **reporting period** with amounts for previous reporting periods, management commentary shall:

- (a) provide comparative amounts, if obtainable without undue cost or effort:
 - (i) for the previous reporting period; and

MANAGEMENT COMMENTARY

- (ii) for earlier reporting periods if necessary to show the emergence of trends or if the financial statements include information for those earlier periods.
 - (b) describe differences between the method or assumptions used to calculate a metric or in the name used to label a metric and those used to calculate or label the comparative metric—and explain the reasons for those differences.
 - (c) describe changes from the previous reporting period in the metrics provided—that is, new metrics included and previous metrics omitted—and explain the reasons for those changes.
- 14.9 If a comparative amount is not provided because obtaining it would require undue cost or effort, management commentary shall state that fact.

Note

Obtaining a comparative amount would require undue cost or effort if, for example, the entity did not collect the necessary data in the comparative period and cannot recreate that data without undue cost or effort.

- 14.10 To help investors and creditors compare an amount for a metric included in management commentary with amounts reported by other entities:
- (a) if management is aware of differences between the method the entity uses to calculate the metric or the name management uses to label the metric and a method or name commonly used by other entities with similar activities or operating in the same industry, management commentary shall describe those differences; and
 - (b) if management has drawn the metric from published requirements or guidelines for narrative reporting—for example, guidelines published by an industry body or an organisation with an interest in sustainability reporting—management commentary shall:
 - (i) name those requirements or guidelines and the body or organisation that published them; and
 - (ii) if there are differences between the metric included in the management commentary and the metric defined in the requirements or guidelines, identify and explain those differences.

Coherence

- 14.11 A metric discussed in one context in management commentary might be similar to a metric or other measure discussed in another context, either within the management commentary or in another document prepared for investors and creditors. For management commentary to be coherent, it shall explain how that first metric relates to the second metric or other measure.

Metrics and management compensation

- 14.12 If a metric plays a role in determining management compensation, information about that metric is likely to be material.
- 14.13 If management commentary includes a metric similar to, but not the same as, a measure that plays a role in determining management compensation, it shall explain how the metric and that other measure relate to each other.

Note

An explanation of the relationship provides insight into how well incentives for management are aligned with metrics management uses to monitor key aspects of the entity's performance and position.

Additional requirements that apply to forecasts and targets**Forecasts and targets in management commentary****Note**

This [draft] Practice Statement does not require management commentary to include forecasts or targets. However, sometimes management decides to include a forecast or target in management commentary, for example, if management judges that including the forecast or target would help explain the aims of management's strategy for sustaining and developing the entity's business model.

- 14.14 If management commentary includes a forecast or target amount for a metric of the entity's future financial or non-financial performance or position, it shall:
- (a) identify the metric of current-period performance or position to which the forecast or target relates; and
 - (b) explain the method used to calculate the forecast or target amount and the inputs to the calculation, including assumptions made and limitations of the method.

Previously published forecasts or targets for the reporting period

- 14.15 Management commentary shall provide information on how the current-period amount for a metric of the entity's financial or non-financial performance or position compares with a forecast or target amount previously published by the entity if:
- (a) the actual current-period amount is included in the current-period management commentary and a forecast or target amount was included in any publicly available communication; or
 - (b) a forecast or target amount for the current period was included in a previous period's management commentary.

MANAGEMENT COMMENTARY

- 14.16 In both cases described in paragraph 14.15, management commentary shall:
- (a) disclose the actual current-period amount and the forecast or target amount; and
 - (b) analyse and explain variances and the implications of those variances.

Previously published forecasts and targets for periods extending beyond the reporting period

- 14.17 An entity might have previously published management's forecast or target for a metric of the entity's financial or non-financial performance or position for a period that extends beyond the reporting period. If the actual current-period amount for that metric is included in the current period's management commentary, the management commentary shall explain how to access the forecast and whether it has been updated since its publication date.

Chapter 15—Examples of information that might be material

In this chapter
Examples for business model
Examples for strategy
Examples for resources and relationships
Examples for risks
Examples for external environment
Examples for financial performance and financial position

Introduction

- 15.1 **Material** information needed to meet the disclosure objectives set out in Chapters 5–10 will depend on the entity and its circumstances. This chapter provides examples of information that might be material.
- 15.2 The examples are each linked to a specific disclosure objective for one of the areas of content. The information described in the examples is not always required, nor is information that might be needed to meet the disclosure objectives limited to those examples. Management applies judgement in identifying information that might be material and assessing whether that information is material.

Examples of information that might be material

Business model

The range, nature and scale of the entity's operations

- 15.3 Material information about the range, nature and scale of the entity's operations (see paragraph 5.7(a)) could include:
- (a) an overview of the entity and of the range of its operations;
 - (b) a description of the entity's operations and quantitative information about their scale;
 - (c) a description of operations conducted through associates and joint ventures, and quantitative information about their scale;
 - (d) an explanation of dependencies and synergies between the entity's operations;
 - (e) a list of locations of the entity's operations and quantitative information about the scale of operations in each location;

MANAGEMENT COMMENTARY

- (f) an explanation of how the entity's operating structure relates to its legal structure, if necessary to understand a matter—for example, a regulatory or tax matter;
- (g) an explanation of how the entity's business model relates to the entity's stated purpose, if any; and
- (h) an analysis of changes in the range, nature or scale of the entity's operations during the **reporting period**, including changes resulting from acquisitions, disposals, strategic partnerships or joint ventures.

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

- 15.4 Material information about the entity's cycle of **creating value** and generating cash flows (see paragraph 5.7(b)) could include:
- (a) information about the inputs to the entity's business model, such as the entity's resources and relationships (see Chapter 7);
 - (b) a description of the outputs of the entity's business model, such as categories of the entity's products or services, and an explanation of how the entity differentiates those products or services from those of its competitors;
 - (c) a discussion of the processes involved in operating the entity's business model, including:
 - (i) processes involved in obtaining, maintaining or enhancing resources and relationships—for example, purchasing, research and development, staff training, and customer loyalty programmes;
 - (ii) processes involved in creating products and services—for example, product design, production and quality control; and
 - (iii) processes involved in delivering products and services—for example, marketing, distribution and after-sales service;
 - (d) an overview of the entity's markets, selling and distribution channels, and categories of customers; and
 - (e) an analysis of changes in the entity's inputs, processes and outputs during the reporting period—for example, changes that affect the entity's production capacity or efficiency.

The environmental and social impacts of the entity's activities

- 15.5 Material information about the environmental and social impacts of the entity's activities that have affected or could affect the entity's ability to create value and generate cash flows (see paragraph 5.7(c)) could include:
- (a) a description of the impacts (both positive and negative) and their causes;
 - (b) an explanation of how those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term; and
 - (c) an analysis of changes in the impacts, and in the potential effects of those impacts, during the reporting period.

Progress in managing the entity's business model

- 15.6 Material information about progress in managing the entity's business model (see paragraph 5.7(d)) could include:
- (a) information about actions management has taken to change or focus the range, nature or scale of the entity's operations—for example, through acquisitions or disposals of businesses—including:
 - (i) a description of those actions and their purpose; and
 - (ii) an explanation of their effects, supported by metrics management uses to monitor and measure the effectiveness of its actions;
 - (b) information about actions management has taken to manage the entity's inputs, processes or outputs, including:
 - (i) a description of those actions and their purpose; and
 - (ii) an explanation of their effects, supported by metrics management uses to monitor the inputs, processes or outputs, and to measure the effectiveness of its actions to manage them; and
 - (c) information about actions management has taken to manage the entity's environmental and social impacts, including:
 - (i) a description of actions management has taken to maintain or enhance positive impacts and reduce or mitigate negative impacts; and

- (ii) an explanation of the effects of those actions, supported by metrics management uses to monitor the impacts and to measure the effectiveness of its actions to enhance, reduce or mitigate them.

Strategy

The drivers of the strategy, including the opportunities management has chosen to pursue

- 15.7 Material information about the drivers of the strategy (see paragraph 6.6(a)) could include:
- (a) descriptions of what is driving the strategy and why;
 - (b) assumptions about the external environment driving the strategy (for example, assumptions about trends in customer demand)—what the assumptions are, their bases and the time horizons they cover; and
 - (c) if the drivers of the strategy differ from those discussed in **management commentary** for the previous reporting period, an explanation of how they have changed and why.

The aims of the strategy

- 15.8 Material information about the aims of the strategy (see paragraph 6.6(b)) could include:
- (a) descriptions of the aims established in response to the drivers, including the long-term aims;
 - (b) an indication of the horizons over which management is seeking to achieve each aim;
 - (c) explanations of how achieving each aim is expected to sustain or develop the entity's ability to create value and generate cash flows; and
 - (d) if the aims differ from those discussed in management commentary for the previous reporting period, an explanation of how they have changed and why.

Milestones on the path towards the aims

- 15.9 Material information about milestones (see paragraph 6.6(c)) could include:
- (a) descriptions of milestones the entity needs to reach, and how those milestones relate to the aims;

- (b) an indication of the horizons over which management is seeking to reach the milestones; and
- (c) if the milestones differ from those discussed in management commentary for the previous reporting period, an explanation of how they have changed and why.

Plans for reaching the milestones and achieving the aims

15.10 Material information about the plans for reaching the milestones and achieving the aims (see paragraph 6.6(d)) could include:

- (a) descriptions of the actions management intends to take to reach the milestones and to achieve the aims;
- (b) an overview of the expected positive and negative effects of the intended actions on the entity—for example, information about a strategy for outsourcing after-sales support might need to cover both the expected cost savings and the potential effects on customer service; and
- (c) if the intended actions differ from those discussed in management commentary for the previous reporting period, an explanation of how they have changed and why.

The financial resources required to implement the strategy, and management's approach to allocating financial resources

15.11 Material information about the financial resources required to implement the strategy and about management's approach to allocating financial resources (see paragraph 6.6(e)) could include:

- (a) an estimate of the financial resources required to implement the strategy, including those required to reach the milestones and those required to achieve the aims;
- (b) an explanation of how management plans to obtain those financial resources, covering, for example:
 - (i) financial resources already available to the entity;
 - (ii) financial resources that management expects the entity's operations to generate;
 - (iii) financial facilities, both drawn and undrawn, available to the entity at the end of the reporting period;
 - (iv) the period for which such facilities are expected to be available, and terms and covenants that could cause them to be withdrawn;

MANAGEMENT COMMENTARY

- (v) the extent to which management intends to use short-term financing facilities and schemes—for example, supplier financing or debt factoring; and
- (vi) management targets or policies relating to the entity's financial position—for example, the entity's target capital structure or target credit rating;
- (c) an explanation of management's approach to allocating financial resources, covering an explanation of:
 - (i) how management prioritises competing uses of the entity's financial resources and plans to allocate financial resources in the future—for example, to reinvestment in operations, to mergers and acquisitions, to repurchase of shares or early repayment of debt or to dividend payments;
 - (ii) how management's approach to allocating financial resources aligns to management's strategy for sustaining and developing the entity's business model; and
 - (iii) what criteria management uses to evaluate investment opportunities; and
- (d) an explanation of changes since the previous reporting period in the financial resources required to implement the strategy, or in management's approach to allocating financial resources.

Progress in implementing the strategy

- 15.12 Material information about progress in implementing the strategy (see paragraph 6.6(f)) could include:
- (a) an analysis of progress made towards reaching the milestones and achieving the aims, supported by metrics and covering, for example:
 - (i) the aims and the milestones that have been achieved and progress towards those that have not yet been achieved;
 - (ii) progress made in the reporting period and cumulative progress since the beginning of the earliest period covered by the aim or since the last milestone was reached; and
 - (iii) variances—how progress has met, exceeded or fallen short of management's previous expectations;
 - (b) an explanation of the factors affecting that progress;
 - (c) an explanation of how management has adapted the strategy in response to variances; and
 - (d) an explanation of how incentive schemes for management or other employees are linked to progress in implementing the strategy, covering, for example:

- (i) whether and how the metrics used to measure progress in implementing the strategy relate to those used to determine incentive payments; and
- (ii) how and why incentive schemes have changed during the reporting period.

Resources and relationships

The nature of the entity's resources and relationships and how the entity deploys them

- 15.13 Material information about the nature of the entity's resources and relationships and how the entity deploys them (see paragraph 7.7(a)) could include:
- (a) an overview of the entity's resources and relationships and how they have changed in the reporting period, including:
 - (i) a description of resources and relationships—for example, a unique technology, raw materials, categories of workforce or customer base; and
 - (ii) quantitative information about the scale of the resources and relationships;
 - (b) an analysis of components of a key resource or relationship whose characteristics or risks differ from each other—for example, retail customers and wholesale customers;
 - (c) an explanation of the role resources or relationships play in the business model; and
 - (d) an explanation of changes to the way the entity deploys its resources or relationships.

How the entity obtains its resources and maintains its relationships

- 15.14 Material information about how the entity obtains its resources and maintains its relationships (see paragraph 7.7(b)) could include:
- (a) information about how the entity accesses a resource—for example:
 - (i) whether the entity controls a resource directly or relies on another party for access;
 - (ii) the identity or common characteristics of the parties on which the entity's access to a resource depends, such as a supplier that controls unique equipment used in producing the entity's products, intermediaries or government agencies; and

MANAGEMENT COMMENTARY

- (iii) features of supply chains, such as their resilience or fragility and susceptibility to disruption.
- (b) an explanation of changes to the way the entity obtains its resources and maintains its relationships.
- (c) information about how the entity expects to obtain and maintain its resources and relationships in the future, including:
 - (i) an analysis of the resources and relationships that will be required for the entity's operations; and
 - (ii) an explanation of the entity's plans for obtaining the required resources and maintaining the required relationships, and of factors that could affect the implementation of those plans. (Paragraph 6.6(e) covers plans for obtaining the financial resources required to implement management's strategy for sustaining and developing the entity's business model.)

Factors that could affect the availability or the quality of the resources and relationships in the future, including in the long term

- 15.15 Material information about factors that could affect the availability or the quality of resources and relationships in the future, including in the long term (see paragraph 7.7(c)) could include:
- (a) a description of factors creating uncertainty over the entity's continued access to a resource or over the quality of a resource—for example:
 - (i) contractual terms or commercial features that could allow another party to terminate the entity's access at short notice;
 - (ii) uncertainties resulting from the location of the resource, or relating to its remaining useful life or physical availability;
 - (iii) possible or expected changes to laws or regulations;
 - (iv) environmental or social impacts of the entity's activities that could affect its ability to operate in a market—for example, because of stakeholder pressure; and
 - (v) systemic factors that could affect access to the resource in the long term, such as climate-related regulation or changes in the natural environment; and
 - (b) information about factors that affect the availability or the quality of a relationship—for example:
 - (i) the main contractual and commercial factors that could affect the durability of a relationship, such as terms that could make it easier or more difficult for a customer or supplier to terminate a relationship;

- (ii) the environmental or social impacts of the entity’s activities that could affect its relationships with customers; and
- (iii) aspects of the entity’s culture that management considers to be important to the strength of the relationship, for example, because of the entity’s reputation for ethical behaviour.

Progress in managing the resources and relationships

15.16 Material information about progress in managing resources and relationships (see paragraph 7.7(d)) could include:

- (a) a description of the actions management has taken to manage the entity’s resources and relationships, for example to:
 - (i) manage the effectiveness with which the entity deploys a resource or relationship—for example, by increasing utilisation or productivity;
 - (ii) maintain the quantity of a resource—for example, by managing the quantity used during the reporting period or the remaining availability; and
 - (iii) develop a resource or relationship—for example, through investment in research and development, staff training, or advertising, promotion or other actions to acquire customers; and
- (b) an explanation of the effects of those actions, supported by metrics that management uses to monitor the resources and relationships and to monitor the effectiveness of its actions.

Risks

The nature of the risks to which the entity is exposed

15.17 Material information about the nature of the risks to which the entity is exposed (see paragraph 8.5(a)) could include descriptions of:

- (a) the source of a risk—the factors, events or circumstances that could cause disruption, such as shortage of a resource;
- (b) the potential effects of the risk—the nature of the potential disruption, for example, an inability to fulfil customer orders; and
- (c) changes in the risks during the reporting period.

The entity's exposure to risks

15.18 Material information about the entity's exposure to risks (see paragraph 8.5(b)) could include:

- (a) information to help **investors and creditors** assess the potential scale of a disruption to the entity's ability to create value and generate cash flows – for example:
 - (i) a description and analysis of the operations, resources or relationships exposed to the risk; or
 - (ii) the results of the scenario analysis prepared by management, if any;
- (b) information to help investors and creditors assess the likelihood and potential timing of a disruption – for example:
 - (i) statistical information about the past frequency, or trends in the frequency, of events that could cause the disruption; or
 - (ii) a description of mitigating or exacerbating factors that make disruption less or more likely to occur; and
- (c) information to help investors and creditors assess how the potential scale, likelihood or timing of a disruption have changed since the previous reporting period.

How management monitors and manages risks

15.19 Material information about how management monitors and manages risks (see paragraph 8.5(c)) could include:

- (a) a description of the entity's processes and controls for monitoring risks. This description could identify the bodies or individuals responsible for oversight of the risks.
- (b) a description of the actions management has taken, or plans to take, to reduce the scale or the likelihood of the disruption.

How management will mitigate disruption if it occurs

15.20 Material information about how management will mitigate disruption if it occurs (see paragraph 8.5(d)) could include:

- (a) a description of actions management has taken to mitigate disruption in the past and an analysis of the effectiveness of those actions; and

- (b) a description of the actions management plans to take to mitigate disruption if it occurs in the future and of the expected effects of those actions.

Progress in managing risks

15.21 Material information about progress in managing risks (see paragraph 8.5(e)) could include:

- (a) metrics that management uses to monitor:
 - (i) the extent of the entity's exposure to risks; and
 - (ii) the effectiveness of management's risk management;
- (b) an explanation of factors affecting those metrics; and
- (c) an analysis of the effectiveness of past risk management—for example, how well previous actions reduced the entity's exposure to risks.

External environment

The nature of factors and trends in the entity's external environment

15.22 Material information about the nature of factors and trends in the entity's external environment (see paragraph 9.7(a)) could include:

- (a) an overview of the entity's external environment, covering both the entity's direct environment and the wider environment; and
- (b) an explanation of factors and trends in the entity's external environment that have affected or could affect the entity, covering:
 - (i) developments in the factors and trends in the reporting period;
 - (ii) metrics used to monitor the factors and trends, including their sources; and
 - (iii) assumptions about future developments in the factors and trends on which management has based decisions.

How factors and trends in the entity's external environment have affected or could affect the entity

15.23 Material information about how factors and trends in the entity's external environment have affected or could affect the entity (see paragraph 9.7(b)) could include:

MANAGEMENT COMMENTARY

- (a) information to help investors and creditors understand how factors and trends in the external environment have affected or could affect in the short, medium or long term:
 - (i) the entity's business model—for example, if a regulatory change is expected to impose costs that make the entity's products or services less competitive;
 - (ii) management's strategy for sustaining and developing the business model—for example, if the emergence of new ways of meeting customer needs has provided an opportunity to reposition the entity's products;
 - (iii) resources or relationships—for example, if increasing demand for skilled workers has made it more difficult for the entity to retain such workers; or
 - (iv) risks the entity faces—for example, if political instability increases the risks of future shortages of a resource; and
- (b) if the effect of a trend or factor on the entity is uncertain, an explanation of the uncertainty, and information to help investors and creditors assess:
 - (i) how the trend or factor is expected to develop over the short, medium and long term; and
 - (ii) the range of possible outcomes for the entity.

How management monitors and plans to respond to factors and trends in the entity's external environment

- 15.24 Material information about how management monitors and plans to respond to factors and trends in the entity's external environment (see paragraph 9.7(c)) could include:
- (a) a description of how management monitors factors and trends in the external environment, and the metrics that management uses to monitor those factors and trends.
 - (b) a description of how management plans to respond to those factors and trends. This explanation could cover, for example, the steps management plans to take to:
 - (i) adapt the entity's business model, or management's strategy for sustaining and developing that model, to take advantage of new opportunities;
 - (ii) secure the availability of resources or maintain relationships; or
 - (iii) mitigate an increasing risk.

Progress in responding to factors and trends in the entity's external environment

- 15.25 Material information about progress in responding to factors and trends in the entity's external environment (see paragraph 9.7(d)) could include:
- (a) a description of how management has responded to those factors and trends; and
 - (b) an explanation of the effects of that response, supported by metrics that management uses to monitor those effects.

Financial performance and financial position

What factors have affected the entity's financial performance and financial position in the reporting period or could affect them in the future, including in the long term

- 15.26 Material information about factors that have affected the entity's financial performance and financial position in the reporting period or could affect them in the future, including in the long term (see paragraph 10.6(a)), could include:
- (a) an overview of the entity's financial performance and financial position in the reporting period.
 - (b) a description of the key aspects of the entity's financial performance and financial position in the reporting period.
 - (c) metrics of the entity's financial performance and financial position in the reporting period.
 - (d) an explanation of changes in the amounts of those metrics from previous periods, quantifying the effects of each contributing factor. The explanation could cover:
 - (i) the drivers of revenue—for example, identifying regions or product categories affected by various drivers or explaining how revenue is affected by price, volume and product mix;
 - (ii) the drivers of costs—for example, costs incurred to enhance features of the entity's business model, or the split of operating costs between fixed and variable costs;
 - (iii) the drivers of cash flows—for example, how changes in customer payment terms or use of supply chain financing affected the entity's cash flows in the reporting period; and
 - (iv) an analysis of changes in non-controlling interests held by other parties in the entity's subsidiaries.

MANAGEMENT COMMENTARY

- (e) an explanation of how matters discussed in other areas of content in management commentary have affected the entity's financial performance and financial position in the reporting period—for example, how progress in implementing management's strategy has affected the entity's revenue, operating expenses and cash flows from operating activities.
- (f) information about the entity's ability to meet its obligations, including in the long term. The information could include:
 - (i) an analysis of the entity's liquidity and solvency metrics, explaining variances from previous periods;
 - (ii) an analysis of the effects of actions management has taken to manage the entity's liquidity or solvency;
 - (iii) an analysis of the entity's capital structure and financing arrangements;
 - (iv) information about the entity's compliance or non-compliance with financing covenants; and
 - (v) an analysis of how the entity's working capital requirements during the reporting period have differed from those at the end of the reporting period, or how they are expected to differ in the future.
- (g) an explanation of other known or reasonably expected future changes that could affect the entity's financial performance or financial position in the future, including in the long term, even if the effect has been insignificant in the reporting period—for example, known or expected changes in tax rates or laws that could affect the relationship between the entity's tax charge and profit or loss.
- (h) information to help investors and creditors assess the extent to which the entity's financial performance and financial position in the reporting period are indicative of the entity's ability to create value and generate cash flows in the future, including information about:
 - (i) unusual income and expenses, and how they could affect the entity's future cash flows;
 - (ii) changes in drivers of financial performance—or in the implications of drivers of financial performance—that could affect the entity's financial performance in the future, including in the long term; and
 - (iii) changes in the entity's operations, structure or scale that have affected financial performance in the reporting period or could affect it in the future—for example, changes resulting from the acquisition or disposal of businesses.
- (i) an explanation of developments since the end of the reporting period that could affect the entity's financial performance or financial position in the future, including, for example:

- (i) an unexpected event; or
- (ii) a change in a leading indicator—such as an order book—used by management as an indicator of future performance.

How management has allocated financial resources in the reporting period

15.27 Material information about how management has allocated financial resources in the reporting period (see paragraph 10.6(b)) could include:

- (a) information about financial resource allocation decisions during the reporting period, including information about the target returns on which investment decisions were based;
- (b) information about the actual returns generated by past financial resource allocation decisions;
- (c) an analysis of expenditure during the reporting period on:
 - (i) maintaining ongoing operations;
 - (ii) enhancing the entity's ability to create value and generate cash flows—for example, by adding customers, investing in research and development or acquiring businesses; and
 - (iii) other purposes—for example, repurchasing shares, repaying debt or paying dividends; and
- (d) an analysis of authorised future expenditure and contracted future expenditure.

How the entity's financial performance and financial position compare with forecasts or targets previously published by the entity, if any

15.28 Material information about how the entity's financial performance and financial position compare with forecasts or targets previously published by the entity, if any (see paragraph 10.6(c)) could include:

- (a) an analysis of variances, if any, between actual amounts and the forecast or target amounts, and an explanation of their implications; and
- (b) an explanation of why those variances arose and of their implications.

APPENDICES

Appendix A—Defined terms

This appendix is an integral part of the [draft] Practice Statement.

	First use in paragraph	
create value	3.1	<p>Create or preserve value for the entity and hence for its investors and creditors.</p> <p>An entity’s activities create value if they enhance or preserve the present value of the entity’s future cash flows.</p>
forward-looking information	3.6	<p>Information relating to possible future transactions, other events or conditions. Forward-looking information includes:</p> <ul style="list-style-type: none"> (a) management forecasts or targets; and (b) other information that helps investors and creditors assess the entity’s prospects—for example, information about management’s strategy for sustaining and developing the entity’s business model.
general purpose financial statements	1.2	<p>Financial statements that are intended to meet the needs of investors and creditors who are not in a position to require an entity to prepare reports tailored to their particular information needs.</p>
investors and creditors	3.1	<p>The primary users of an entity’s general purpose financial statements and management commentary – existing and potential investors, lenders and other creditors.</p>
key matters	3.16	<p>Matters that are fundamental to an entity’s ability to create value and generate cash flows, including in the long term.</p>
management commentary	1.2	<p>A report that complements an entity’s financial statements. It provides management’s insights into factors that have affected the entity’s financial performance and financial position and factors that could affect the entity’s ability to create value and generate cash flows in the future.</p> <p>Management commentary might accompany the related financial statements as a distinguishable part of a larger report, or it might be a stand-alone report. It might have another name.</p>

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MANAGEMENT COMMENTARY

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	First use in paragraph	
material	3.2	Information is material in the context of management commentary 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.
metric	3.18	A measure used to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position.
recognised (when describing assets or liabilities)	4.1	Included in the assets and liabilities recorded in an entity's statement of financial position. Recognition criteria in IFRS Standards prevent entities from recognising some types of assets and liabilities—for example, some internally generated intangible assets.
reporting period	1.6	The period covered by financial statements and related management commentary.

Appendix B—Long-term prospects, intangible resources and relationships and ESG matters

This appendix is an integral part of the [draft] Practice Statement.

Introduction

- B1 Investors and creditors need information about matters that have already affected an entity's financial performance and financial position as well as information about matters that could affect the entity in the future, including in the long term. Such matters could include matters relating to the entity's intangible resources and relationships – including resources not recognised as assets in the entity's financial statements – and environmental, social and governance (ESG) matters.
- B2 To comply with this [draft] Practice Statement, management commentary provides information about such matters if that information is material. In the context of management commentary, 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 that management commentary and of the related financial statements (see paragraph 3.2).
- B3 Information might be material if it relates to a key matter. Key matters are those that are fundamental to an entity's ability to create value and generate cash flows, including in the long term. Management commentary focuses on key matters (see paragraph 4.7).

Long-term prospects, intangible resources and relationships and environmental and social matters

- B4 This appendix provides an overview of requirements and guidance in this [draft] Practice Statement that management is likely to need to consider in deciding what information it needs to provide about:
- (a) key matters that could affect an entity's long-term prospects – Table B.1;
 - (b) key intangible resources and relationships – Table B.2; and
 - (c) key environmental and social matters – Table B.3.
- B5 The tables following paragraph B14 include summarised descriptions of applicable requirements and guidance with cross-references to further detail. The tables do not introduce new requirements. Accompanying each description is an example presenting a fact pattern (in italics) and then showing (in plain type) how management might consider the requirements and guidance in identifying which matters are key and which information is material in that fact pattern. The examples do not provide specimen disclosures and management may need to provide other information to meet disclosure objectives in the [draft] Practice Statement.

MANAGEMENT COMMENTARY

- B6 Material information in management commentary is likely to include metrics that management uses to monitor key matters and to measure progress in managing those matters. Some examples in the tables refer to a metric that a particular entity's management has used and that it reports in management commentary if it judges this information to be material in that fact pattern. The fact that a table mentions a metric does not indicate that the metric always applies or needs to be provided in all cases.
- B7 Tables B.1–B.3 are designed to help management identify matters that might sometimes be key and information that might sometimes be material. Management determines which information is material in the entity's circumstances. For example, if one of an entity's sites has scarce water resources and is threatened with closure, investors and creditors might need information about the entity's exposure to water stress. Information about water consumption at that site might be material to investors and creditors, but information about the entity's water consumption at other sites might not be material.
- B8 Tables B.1–B.3 discuss reporting on matters that could affect an entity's long-term prospects, on intangible resources and relationships and on environmental and social matters separately.
- B9 Sometimes, more than one table contains requirements or guidance that might lead management to identify the same key matter or the same material information. For example, a relationship with the entity's specialist employees could be viewed as a key intangible relationship, a key social matter or a key matter affecting the entity's long-term prospects.
- B10 Conversely, some requirements and guidance appear in more than one table. For example, requirements in Chapter 7 and guidance in paragraphs 15.13–15.16 would apply equally to identifying material information about a key intangible relationship and material information about a key social matter. Material information identified by applying those requirements or guidance does not need to be provided more than once in a management commentary.
- B11 Tables B.1–B.3 do not prescribe the order or structure for reporting information.

Governance matters

- B12 Management commentary may provide insights into some aspects or consequences of an entity's governance. For example, some insight may be drawn from management's description of its strategy, from information on progress in managing key matters or from information about differences between metrics used for incentive plans and metrics used for monitoring progress in implementing management's strategy. Investors and creditors might need such information to assess management's stewardship of the entity's resources. However, this [draft] Practice Statement does not require comprehensive or detailed reporting on an entity's governance. Governance is typically regulated by local laws, which may also require entities to provide specified information about governance.

Other published requirements and guidance

- B13 Published requirements or guidelines for narrative reporting—for example, guidelines published by an industry body or an organisation with an interest in sustainability reporting—could help management identify environmental and social matters and information about those matters that might interest investors and creditors (see paragraph 12.6). In applying the requirements in this [draft] Practice Statement, if management determines that such information is material for investors and creditors, management includes such information in its management commentary.
- B14 Management may also provide in its management commentary additional information that is not material but that an entity needs to disclose to comply with published requirements or guidelines other than this [draft] Practice Statement. However, if some of that information is not material to an entity's investors and creditors, management shall present it in a way that does not obscure material information (see paragraph 13.18).

Table B.1. Reporting on matters that could affect an entity's long-term prospects

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 3—Objective of management commentary	
<p>B.1.1</p> <p>An entity's ability to create value and generate cash flows across all time horizons</p>	<p>Paragraph 3.1 requires management commentary to provide insight into factors that could affect an entity's ability to create value and generate cash flows across all time horizons, including in the long term.</p> <p>Paragraphs 3.11–3.14 provide guidance on determining whether information would affect investors' and creditors' assessments of that ability.</p> <p><i>A company has adopted a least-cost approach to manufacturing that may damage its reputation for product quality and reduce demand for its products in the long term.</i></p> <p>The company's management commentary reports on progress in implementing the approach, including metrics used to monitor the short-term effects of the approach (for example, cost savings) and its long-term effects (for example, product failure rates).</p>
<p>B.1.2</p> <p>Management's stewardship of an entity's resources</p>	<p>Paragraph 3.3(b) states that information in management commentary helps investors and creditors to assess management's stewardship of an entity's resources—how efficiently and effectively management has used and protected those resources.</p> <p><i>Management of an airline has surrendered a collection of landing rights because of a temporary fall in demand.</i></p> <p>To enable investors and creditors to assess management's stewardship of the airline's resources, its management commentary includes information about the rights surrendered and explains whether and how the airline could reacquire those rights in the future, and how this affects management's long-term plan for recovering from the fall in demand.</p>

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
Chapter 12—Making materiality judgements		
B.1.3 Making materiality judgements	Paragraphs 12.7–12.9 and the related notes provide guidance on assessing whether information is material. Making materiality judgements about possible future events with uncertain outcomes involves consideration of the potential effects of those events on the amount and timing of an entity’s future cash flows, including in the long term.	<p><i>Management of an oil and gas company knows expected trends in environmental legislation could cause the company to curtail its operations fundamentally.</i></p> <p>The company’s management commentary provides material information about those expected trends in legislation and about management’s response to those trends, even if the curtailment would occur only after, for example, 10 years.</p>
Chapter 4—Introduction to Part B—Areas of content		
B.1.4 Key matters	Paragraph 4.7 states that management commentary is required to focus on key matters—those matters that are fundamental to the entity’s ability to create value and generate cash flows, including in the long term.	<p><i>A manufacturer’s long-term prospects depend on entering a new market.</i></p> <p>The manufacturer’s management identifies management’s strategy for entering that market as a key aspect of its strategy and provides material information about it. Such information might include metrics used by management to monitor progress in implementing that strategy (for example, the manufacturer’s market share).</p>

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
Chapter 5—Business model		
B.1.5 Description of the business model	Paragraph 5.1 states that an entity's business model is the integrated set of processes by which the entity seeks to create value and generate cash flows, including in the long term.	<p><i>An engineering company's competitive advantage depends on a high level of staff expertise to support its quality of service.</i></p> <p>The company's description of its business model in management commentary includes information about processes designed to maintain staff expertise and quality of service, including in the long term. Material information about these processes might include metrics used to monitor them.</p>
B.1.6 Adaptability, resilience and durability of an entity's business model	Paragraphs 5.6(b)–5.6(c) require information in management commentary to provide a sufficient basis for investors and creditors to assess the adaptability, resilience and durability of an entity's business model. Those features of the business model could affect the entity's ability to continue creating value and generating cash flows in the long term.	<p><i>A packaging company depends on a single patent for a biodegradable material. The patent is due to expire in 10 years.</i></p> <p>The company's management commentary explains the extent of the company's dependence on the patent, including related metrics used by management (for example, revenue from products produced using that material). Management commentary also indicates levels of investment in developing new innovative materials that could help the company diversify its product range.</p>

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
<p>B.1.7</p> <p>Key features of an entity's business model</p>	<p>Paragraph 5.9 provides examples of features of the entity's business model that could be identified as key and so would need to be discussed in management commentary. These include features that may create uncertainty about the entity's ability to create value and generate cash flows in the future, including in the long term.</p>	<p><i>A meal kit delivery company could readily lose its customer relationships to increasing competition in the market.</i></p> <p>The company's management commentary identifies the company's reliance on these relationships as a key feature of its business model and provides material information about that feature, including information about the company's progress in retaining the relationships (for example, customer reorder rate) and in developing new relationships.</p>
<p>B.1.8</p> <p>Alignment of an entity's business model with its stated purpose</p>	<p>Paragraph 15.3(g) provides an example, for the entity's business model, of information that might be material—an explanation of how the entity's business model relates to the entity's stated purpose (which typically indicates what the entity is ultimately seeking to achieve in the long term), if an entity has published a statement of purpose.</p>	<p><i>A pharmaceutical company has a purpose centred on fighting a specified medical condition.</i></p> <p>The company's management commentary explains how the company seeks to achieve its purpose by producing treatments for the condition and by the long-term development of more effective treatments. In describing the company's business model its management describes both production and development activities.</p>

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Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.1.9</p> <p>Environmental and social impacts of an entity's activities</p> <p>If the environmental or social impacts of an entity's activities have affected or could affect the entity's ability to create value and generate cash flows, including in the long term, paragraph 5.7(c) requires information in management commentary to enable investors and creditors to understand those impacts.</p> <p>Paragraphs 15.5–15.6 provide examples, for such impacts and for progress in managing those impacts, of information that might be material.</p>	<p><i>The environmental impacts of an extractives company could affect its ability to maintain its extraction licences and secure new licences.</i></p> <p>The company's management commentary provides information about those impacts, including metrics used by management to monitor the impacts (for example, the volume of waste products produced).</p>

Chapter 6—Strategy

<p>B.1.10</p> <p>Key aspects of strategy</p>	<p>Paragraph 6.7 requires management commentary to focus on key aspects of strategy—those aspects fundamental to sustaining and developing an entity's ability to create value and generate cash flows, including in the long term.</p>	<p><i>A manufacturer is facing competition from companies with emerging technologies. Its management has developed a strategy for managing this competition, including over the long term. The strategy is based on product innovation.</i></p> <p>The manufacturer's management identifies this strategy as key and management commentary provides material information about that strategy, including related metrics used by management to monitor progress in product innovation (for example, the proportion of revenue generated by new products introduced to the market in the past two years).</p>
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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
<p>B.1.11</p> <p>Drivers of management's strategy</p>	<p>Paragraph 6.6(a) requires information in management commentary to enable investors and creditors to understand the drivers of management's strategy. Those drivers could include the entity's stated purpose (what the entity is ultimately seeking to achieve in the long term).</p>	<p><i>A pharmaceutical company has a stated purpose centred on fighting a specified medical condition (see also the example in B.1.8). Driven by this purpose, management's strategy includes establishing a new research capability.</i></p> <p>The company's management commentary explains management's strategy for establishing a new research capability, states that this part of the strategy is driven by the company's stated purpose and sets out that stated purpose.</p>
<p>B.1.12</p> <p>The aims of management's strategy and related milestones and plans</p>	<p>Paragraphs 6.6(b)–6.6(d) require information in management commentary to enable investors and creditors to understand the aims of management's strategy (which provide a direction for the entity, including in the long term) and the milestones towards and plans for achieving those aims.</p> <p>Paragraphs 15.8–15.10 provide examples, for aims, milestones and plans, of information that might be material.</p>	<p><i>A manufacturer has a long-term aim of establishing a leading reputation for product quality.</i></p> <p>The manufacturer's management commentary explains this aim and indicates the timeframe over which the aim is expected to be achieved. Management commentary also describes management's milestones on the path towards this aim, including, for example, milestones for executing plans to insource component manufacture to give the manufacturer greater control over product quality.</p>

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MANAGEMENT COMMENTARY

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Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.1.13</p> <p>Progress in implementing management's strategy</p>	<p><i>Continued from the example in B.1.12.</i></p> <p>The manufacturer's management commentary reports on progress towards achieving this long-term aim, including metrics used by management to monitor progress (for example, the number of defective products, and the proportion of components manufactured in-house).</p>
<p>B.1.14</p> <p>Incentive plans linked to progress in implementing management's strategy</p>	<p><i>A retailer is entering a new market and management aims to achieve a 20% share in that market in five years. The retailer's management incentive scheme is linked to progress in achieving this aim.</i></p> <p>The retailer's management commentary reports metrics used to monitor the market share and explains whether the same metrics are also used to determine management's incentive payments.</p>

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
<p>B.1.15</p> <p>Financial resources required to implement management's strategy</p>	<p>Paragraphs 15.11(a)–15.11(b) provide examples, for the financial resources required to implement management's strategy (including its long-term aims), of information that might be material.</p>	<p><i>A company's long-term aim is to refocus its operations on a new market. Management expects a period of reduced profitability before the company reaches its intended market share. This reduced profitability will create a need for additional external financing.</i></p> <p>The company's management commentary indicates what level of financial resources is expected to be needed to reach the long-term aim, for example, to fund loss-making operations while the entity reaches its intended market share. Management commentary also explains how management intends to finance its strategy for reaching its long-term aim, including terms for obtaining any additional resources necessary for implementing the strategy.</p> <p>Management commentary also explains the terms of covenants in the entity's existing finance arrangements and the contingency plans for obtaining alternative financing should those covenants be breached.</p>

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
Chapter 7—Resources and relationships		
B.1.16 Factors that could affect availability or the quality of resources	Paragraph 15.15(a) provides examples, for factors that could affect the availability or quality of the entity's resources, of information that might be material. Such information might include information about systemic factors in the entity's wider environment that could affect access to the resource in the long term.	<p><i>Public concerns over the impact of a mining company's activities in an ecologically sensitive area have created uncertainty over the renewal of regulatory permits to operate the affected mines.</i></p> <p>The company's management commentary provides information about the conditions for renewing the permits and factors that create the uncertainty over their renewal, including metrics used by management to monitor progress in managing those factors.</p>
B.1.17 Factors that could affect the availability or the quality of relationships	Paragraph 15.15(b) provides examples, for factors that could affect the availability or the quality of the entity's relationships in the future, including in the long term, of information that might be material.	<p><i>A consultancy firm depends on its reputation for the integrity of advice it provides.</i></p> <p>The consultancy firm's management commentary provides information on aspects of the firm's culture that are important to supporting the integrity of its advice across all time horizons and reports the metrics used by management to monitor those aspects.</p>

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
Chapter 8—Risks		
B.1.18 The risks to which the entity is exposed	<p>Paragraph 8.6 requires management commentary to focus on key risks—those risks that could fundamentally disrupt an entity's ability to create value and generate cash flows, including in the long term. Such risks include risks that might fundamentally disrupt the entity's business model or management's strategy for sustaining and developing the entity's business model, including risks that might cause disruption only in the long term (paragraphs 8.7–8.8).</p> <p>Paragraphs 8.3–8.5 require, for such risks, information that meets specified disclosure objectives.</p>	<p><i>A software development company's business model is threatened by the emergence of alternative solutions that could fundamentally reduce the demand for its products in the long term.</i></p> <p>The company's management commentary provides information about this risk, including information about the company's exposure to the risk (for example, information about the proportion of the company's revenue and profit attributable to activities at risk from the alternative solutions) and management's plans for reducing the risk (for example, by developing new software products).</p>
Chapter 9—External environment		
B.1.19 The effect of the external environment on an entity	<p>Paragraph 9.8 requires management commentary to focus on key factors and trends in the entity's external environment—those factors and trends that have had, or could have, a fundamental effect on an entity's ability to create value and generate cash flows, including in the long term.</p> <p>Paragraphs 9.5–9.7 require, for such factors and trends in the external environment, information that meets specified disclosure objectives.</p>	<p><i>Changing population demographics could create demand for different types of product offered by a life insurance company.</i></p> <p>The company's management commentary describes its positive and negative exposure to those changes and explains how management is changing the company's product range and its marketing and distribution methods in response to those changes.</p>

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Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 10—Financial performance and financial position	
<p>B.1.20</p> <p>Factors that could affect financial performance and financial position</p>	<p>Paragraphs 10.4–10.6 require, for the entity’s financial performance and position, information that meets specified disclosure objectives. One of those objectives is that the information provided enables investors and creditors to understand what factors could affect the entity’s financial performance and financial position in the future, including in the long term. Such factors are likely to include key features of the entity’s business model, key aspects of management’s strategy, key resources and relationships, key risks and key factors and trends in the entity’s external environment.</p> <p>Paragraph 15.26 provides examples, for such factors that could affect the entity’s financial performance and financial position, of information that might be material.</p> <p><i>A company’s management intends to withdraw from a polluting activity in the long term to maintain its reputation for responsible behaviour.</i></p> <p>The company’s management commentary discloses management’s intention to withdraw from that activity and provides information on the revenue and expenses that result from the activity and are included in the current-period financial statements.</p>

Table B.2. Reporting on intangible resources and relationships

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 7—Resources and relationships	
<p>B.2.1</p> <p>Key resources and relationships</p>	<p>Paragraph 7.8 requires management commentary to focus on the entity's key resources and relationships—those resources and relationships on which the entity's ability to create value and generate cash flows fundamentally depends.</p> <p>Paragraph 7.3 states that the resources and relationships to be discussed are not restricted to those recognised as assets in the entity's financial statements.</p> <p>Paragraph 7.9 provides examples of resources or relationships that might be identified as key, including examples of intangible resources and relationships such as an exclusive right or unique know-how.</p> <p><i>A manufacturer can access an important market only because it maintains relationships with particular distributors.</i></p> <p>The manufacturer's management identifies the relationships with those distributors as key and provides material information about them in management commentary.</p>
<p>B.2.2</p> <p>Information about the entity's key resources and relationships</p>	<p>Paragraphs 7.5–7.7 require, for resources and relationships (including intangible resources and relationships), information that meets specified disclosure objectives.</p> <p>Paragraphs 15.13–15.16 provide examples, for the entity's resources and relationships (including intangible resources and relationships), of information that might be material.</p> <p><i>Continued from the example in B.2.1.</i></p> <p>The manufacturer's management commentary describes important features of the distributor relationships and provides information about the extent of the manufacturer's dependence on those relationships (for example, information about revenue depending on them). Management commentary also provides information about management's actions taken to maintain and develop those relationships and reports on progress in managing them, including metrics used by management to monitor progress.</p>

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
Chapter 5—Business model		
B.2.3 Information about an entity's processes	Paragraph 15.4(c) provides examples, for the entity's cycle of creating value and generating cash flows, of information that might be material. Such information might include information about processes involved in obtaining, maintaining or enhancing the entity's resources and relationships, including intangible resources and relationships.	<i>The success of a professional services firm depends on the technical expertise of its employees.</i> The firm's management commentary provides information on the firm's staff training programmes, including related metrics used by management (for example, levels of investment in those programmes).
Chapter 6—Strategy		
B.2.4 Key aspects of management's strategy and information about those aspects	Paragraph 6.8 provides examples of aspects of an entity's strategy that could be identified as key and so would need to be discussed in management commentary. Such aspects could include management's strategy for preserving or enhancing the entity's access to resources or relationships (which may include intangible resources and relationships) and for preserving or enhancing the quality of those resources and relationships. Paragraphs 6.4–6.6 require, for management's strategy, information that meets specified disclosure requirements.	<i>A consumer products company aims to maintain its reputation with customers for ethical behaviour.</i> The company's management identifies this aspect of its strategy as key and provides information about it in management commentary, including information about progress in maintaining and developing the company's reputation, supported by related metrics used by management (for example, the results of brand integrity surveys).

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
Chapter 8—Risks		
B.2.5 Key risks and information about those risks	Paragraph 8.7 provides examples of risks that could be identified as key and so would need to be discussed in management commentary. Such risks could include risks of events and circumstances that might fundamentally disrupt an intangible or other resource or fundamentally disrupt a relationship, for example, by damaging the entity's reputation. Paragraphs 8.3–8.5 require, for risks, information that meets specified disclosure objectives.	<p><i>A media company's ability to generate advertising revenues fundamentally depends on its subscriber base.</i></p> <p>The company's management commentary provides information about risks that could fundamentally disrupt its relationship with subscribers. Such information might include information about possible new entrants to the market and about actions management is taking to manage the risk of subscribers moving to the competitors.</p>
Chapter 9—External environment		
B.2.6 Key factors and trends in the external environment and information about those trends and factors	<p>Paragraph 9.9 provides examples of factors and trends in the entity's external environment that could be identified as key and so would need to be discussed in management commentary. Such factors and trends could include factors and trends that relate to the entity's intangible or other resources and relationships.</p> <p>Paragraphs 9.5–9.7 require, for the entity's external environment, information that meets specified disclosure objectives.</p>	<p><i>The loyalty of a financial services company's customers is being affected by changing customer preferences.</i></p> <p>The company's management identifies these changes in customer preferences as a key factor in the entity's external environment and provides in management commentary information about those changes, including information about how management is responding to them.</p>

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Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 10—Financial performance and position	
<p>B.2.7</p> <p>Factors that have affected or could affect the entity's financial performance or position</p>	<p>Paragraph 10.6(a) requires information in management commentary to enable investors and creditors to understand what factors have affected the entity's financial performance and financial position in the reporting period or could affect them in the future, including in the long term. Such factors are likely to include matters discussed for other areas of content, including matters related to intangible resources and relationships.</p> <p><i>Management of a subscription-based streaming company is developing a plan to build one section of its subscriber base.</i></p> <p>The company's management commentary explains how the implementation of this plan could affect the company's financial performance (for example, by describing the section of the subscriber base that management plans to build), providing metrics about that section and explaining the expected costs of implementing the plan.</p>
<p>B.2.8</p> <p>Expenditure on enhancing resources and relationships</p>	<p>Paragraph 15.27 provides examples, for the allocation of the entity's financial resources in the reporting period, of information that might be material. Such information might include information about the entity's expenditure on enhancing the entity's ability to create value and generate cash flows such as investing in research and development.</p> <p><i>The long-term prospects of a company providing cybersecurity solutions depend fundamentally on continuing to develop new products.</i></p> <p>The company's management commentary provides information about the company's development of new products, including an analysis of the company's research and development expenditure.</p>

Table B.3. Reporting on environmental and social matters

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 4—Introduction to Part B—Areas of content	
<p>B.3.1 Identifying key matters</p>	<p>Paragraph 4.9–4.10 provide guidance on identifying key matters. Paragraph 4.10 explains that matters raised by the entity’s customers, suppliers, employees or other stakeholders might be key if they are fundamental to the entity’s ability to create value and generate cash flows.</p> <p><i>The integrity of a skincare producer’s supply chain is the subject of severe public concern. That concern could lead to a loss of so many customers that it could have a fundamental effect on the producer’s ability to create value and generate cash flows.</i></p> <p>The producer’s management identifies supply chain integrity as a key matter and provides information about it in management commentary, including information about progress in managing this matter.</p>
Chapter 7—Resources and relationships	
<p>B.3.2 Key resources and relationships</p>	<p>Paragraph 7.8 requires management commentary to focus on key resources and relationships—those resources and relationships on which the entity’s ability to create value and generate cash flows fundamentally depends. Paragraph 7.9 provides examples of resources and relationships that could be identified as key.</p> <p>Paragraph 7.2(b) states that an entity’s resources might include rights over unextracted or unharvested natural resources.</p> <p>Paragraph 7.4(b) states that an entity’s relationships might include relationships with governments, regulators, non-governmental organisations or local communities.</p> <p><i>The production process of a battery manufacturer depends on a scarce natural resource for which there is no viable alternative.</i></p> <p>The manufacturer’s management identifies this scarce natural resource as key and provides material information about it in management commentary, including information needed to assess the manufacturer’s ability to obtain sufficient quantities of the resource.</p>

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
<p>B.3.3</p> <p>Information to be provided about key resources and relationships</p>	<p>Paragraphs 7.5–7.7 require, for resources and relationships, information that meets specified disclosure objectives. As explained in B.3.2, the resources might include, for example, rights over natural resources and the relationships might include relationships with governments, regulators, non-governmental organisations or local communities.</p>	<p><i>To maintain its licence to operate, a regulated company is required to meet specified social objectives.</i></p> <p>The company's management commentary explains what those social objectives are and why they are fundamental to maintaining the operations. The management commentary also explains how management monitors the company's success in meeting those objectives and reports metrics used by management to monitor that success.</p>
Chapter 9—External environment		
<p>B.3.4</p> <p>Key factors and trends in an entity's external environment</p>	<p>Paragraph 9.8 requires management commentary to focus on key factors and trends in the entity's external environment—those that have had, or could have, a fundamental effect on the entity's ability to create value and generate cash flows, including in the long term. Paragraphs 9.9–9.10 provide guidance on identifying key factors and trends.</p> <p>Those factors and trends might include ones relating to the natural environment, society or related regulations (see paragraphs 9.4(c)–9.4(e)).</p>	<p><i>A car manufacturer expects that possible changes in climate-related regulations would affect it adversely if they are enacted. In response management has adopted a zero-carbon strategy to reduce the manufacturer's exposure to those changes, including shifting production to hybrid or fully electric models.</i></p> <p>The manufacturer's management identifies changes in climate-related regulations as key and provides in management commentary material information about those changes (for example, about the timing and nature of the changes).</p>

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Overview of requirements and guidance		Example of a matter that might be key or information that might be material
<p>B.3.5</p> <p>Information to be provided about key factors and trends in an entity's external environment</p>	<p>Paragraphs 9.5–9.7 require, for factors and trends in the entity's external environment, information that meets specified disclosure objectives. Paragraphs 15.22–15.25 provide examples, for such trends and factors, of information that might be material. As explained in B.3.4, those factors and trends might include ones relating to the environment, society or related regulations.</p>	<p><i>Continued from example in B.3.4.</i></p> <p>The manufacturer's management commentary explains expected changes in climate-related regulations and assumptions management made in developing its response.</p> <p>Management commentary also provides information to help investors and creditors assess potential effects of the expected changes on the company's prospects (for example, by indicating which of the manufacturer's products might become uneconomic over the range of potential regulatory outcomes and the proportion of revenue generated by those products).</p> <p>Management commentary also describes management's zero-carbon strategy and its plans to diversify from the products affected. The management commentary also reports progress in implementing that strategy, including related metrics used by management to monitor progress (for example, carbon emissions of the manufacturer's products and metrics used to monitor the success of newly introduced electric models).</p>

continued...

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Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 5—Business model	
<p>B.3.6 Key features of the business model</p>	<p>Paragraph 5.8 requires management commentary to focus on key features of the business model—those features that fundamentally underpin the entity’s ability to create value and generate cash flows. Key features might include the environmental and social impacts of the entity’s activities if such impacts have affected or could affect the entity’s ability to create value and generate cash flows, including in the long term.</p> <p><i>A drink producer’s activities are water-intensive. The entity operates a water-stressed site and is required to meet regulatory conditions to continue operating there.</i></p> <p>The producer’s management identifies as a key feature of its business model the fact that it operates a water-stressed site and must meet regulatory conditions to continue operating. Management provides material information about that key feature in management commentary.</p>
<p>B.3.7 Information about the environmental and social impacts of the entity’s activities</p>	<p>Paragraph 5.7(c) requires information in management commentary to enable investors and creditors to understand the environmental and social impacts of the entity’s activities if those impacts have affected or could affect the entity’s ability to create value and generate cash flows, including in the long term. Paragraph 15.5 provides examples of information that might be material.</p> <p><i>Continued from the example in B.3.6.</i></p> <p>The producer’s management commentary provides information about the revenue generated from the water-intensive site and explains the regulatory conditions it is required to meet for the site to continue to operate.</p>

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	Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.3.8</p> <p>Progress in managing environmental and social impacts</p>	<p>Paragraph 15.6(c) provides examples, for progress in managing the entity’s environmental and social impacts, of information that might be material.</p>	<p><i>Continued from the example in B.3.6.</i></p> <p>The producer’s management commentary describes management actions intended to reduce water consumption at the water-stressed site and reports on management’s progress in managing the matter, including related metrics used by management (for example, water consumption at the water-stressed site).</p>

Chapter 6—Strategy

<p>B.3.9</p> <p>Key aspects of management’s strategy and information about those aspects</p>	<p>Paragraph 6.8 provides examples of aspects of strategy that could be identified as key and so would need to be discussed in management commentary. These aspects could include those that relate to:</p> <ul style="list-style-type: none"> • preserving or enhancing the entity’s access to natural or other resources or relationships, or the quality of those resources and relationships; and • responding to environmental, social or other factors or trends in the entity’s external environment. <p>Paragraphs 6.4–6.6 require, for management’s strategy, information that meets specified disclosure objectives.</p>	<p><i>Management of a manufacturing company is implementing a strategy for moving to less environmentally damaging methods of production in response to changing customer or regulatory requirements.</i></p> <p>The company’s management identifies this strategy as key. Management commentary provides material information about this strategy, including metrics used by management to monitor progress in implementing the strategy.</p>
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Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 8—Risks	
<p>B.3.10</p> <p>Key risks and information about those risks</p>	<p>Paragraph 8.7 provides examples of risks that could be identified as key and so would need to be discussed in management commentary. These risks could include those that might:</p> <ul style="list-style-type: none"> • fundamentally disrupt the entity’s business model, for example, risks arising from the entity’s environmental or social impacts; and • fundamentally disrupt a natural or other resource or relationship. <p>Paragraphs 8.3–8.5 require, for risks, information that meets specified disclosure objectives.</p>

An engineering consultancy specialises in advising on a product that may be affected by environmental regulation.

The consultancy’s management identifies the effect of environmental regulation on customer demand as a key risk and provides information about this risk in management commentary, including information about the consultancy’s exposure to the risk (for example, the proportion of services that would be affected).

continued...

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Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 10—Financial performance and financial position	
<p>B.3.11</p> <p>Key aspects of financial performance and financial position</p>	<p>Paragraph 10.8 provides examples of aspects of financial performance and financial position that could be identified as key and would need to be reported in management commentary. Key aspects could include aspects of financial performance and financial position related to environmental or social matters if understanding those aspects is fundamental to understanding the entity's ability to create value or generate cash flows.</p> <p>Paragraphs 10.4–10.6 require, for the entity's financial performance and financial position, information that meets specified disclosure objectives.</p> <p><i>A company has been fined for failing to comply with environmental regulations. The fine has affected the company's financial performance for the reporting period. The financial statements disclose the amount of the fine and the reasons for it. The company will have to change its business model to comply with the regulations in the future.</i></p> <p>The company's management commentary discusses both the fine and the how management expects the necessary changes to the business model will affect the entity's future revenue and expenses.</p>
<p>B.3.12</p> <p>Factors that have affected or could affect the entity's financial performance or financial position</p>	<p>Paragraph 15.26 provides examples, for factors that have affected or could affect the entity's financial performance or financial position, of information that might be material. Such factors might relate to environmental and social matters.</p> <p><i>A company operates a site that might have to be closed because it is environmentally damaging.</i></p> <p>The company's management commentary describes the revenue and profit generated by the site that would be at risk if the site did close.</p>

Approval by the Board of Exposure Draft *Management Commentary* published in May 2021

The Exposure Draft *Management Commentary*, published in May 2021, was approved for publication by all 13 members of the International Accounting Standards Board.

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May 2021

IFRS[®] Practice Statement Exposure Draft ED/2021/6
Basis for Conclusions

Management Commentary

Comments to be received by 23 November 2021

IASB[®]



Basis for Conclusions on

Exposure Draft
Management Commentary

Comments to be received by 23 November 2021

This Basis for Conclusions accompanies the Exposure Draft ED/2021/6 *Management Commentary* (published March 2021; see separate booklet). Comments need to be received by **23 November 2021** and should be submitted by email to commentletters@ifrs.org or online at <https://www.ifrs.org/projects/open-for-comment/>.

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CONTENTS

	from paragraph
BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT <i>MANAGEMENT COMMENTARY</i>	BC1
INTRODUCTION	BC1
The need for the project	BC2
Approach to the revision	BC6
Interaction with the IFRS Foundation Trustees' project on sustainability reporting	BC13
Interaction with the Board's other projects	BC15
Terminology	BC16
The scope of the revision	BC17
STATUS OF THE PRACTICE STATEMENT	BC18
IDENTIFICATION, AUTHORISATION AND STATEMENT OF COMPLIANCE	BC23
Identifying management commentary and the related financial statements	BC24
Authorisation of management commentary	BC26
Statement of compliance	BC30
PRIMARY USERS OF MANAGEMENT COMMENTARY	BC39
OBJECTIVE OF MANAGEMENT COMMENTARY	BC42
Link to assessments made by investors and creditors and emphasis on materiality	BC46
Difference from the objective of financial statements	BC50
Ability to create value and generate cash flows	BC54
Management's perspective	BC59
AREAS OF CONTENT	BC62
Areas of content and the link between them	BC66
Disclosure objectives	BC69

continued...

EXPOSURE DRAFT—MAY 2021

...continued

Key matters	BC77
Examples of information that might be material	BC80
Information about long-term prospects, intangible resources and relationships and ESG matters	BC82
Other considerations	BC85
ATTRIBUTES OF USEFUL INFORMATION IN MANAGEMENT COMMENTARY	BC95
Approach to developing requirements and guidance on attributes	BC97
Making materiality judgements	BC103
Coherence	BC114
Including information by cross-reference	BC117
METRICS	BC125
All metrics	BC125
Forecasts and targets	BC131
EFFECTIVE DATE AND TRANSITION	BC135
EXPECTED EFFECTS OF THE PROPOSALS	BC139
Likely effects of the proposals on the quality of financial reporting	BC144
Likely benefits for jurisdictions of adopting the proposals	BC162
Clarity about interaction with other requirements and guidelines	BC166
Likely costs of the proposals	BC168
Overall assessment of likely benefits compared with likely costs	BC173

Basis for Conclusions on Exposure Draft *Management Commentary*

This Basis for Conclusions accompanies, but is not part of, Exposure Draft Management Commentary. It summarises the considerations of the International Accounting Standards Board (Board) when developing the Exposure Draft. Individual Board members gave greater weight to some factors than to others.

Introduction

BC1 The Exposure Draft sets out proposals for a revised practice statement on management commentary that, when finalised, would supersede IFRS Practice Statement 1 *Management Commentary* (Practice Statement). Revising the Practice Statement is one of the projects on Better Communication in Financial Reporting that the Board is undertaking. These projects seek to make financial information more useful and improve how financial information is communicated to users of financial reports.

The need for the project

BC2 After its initial research into developments in narrative reporting, in November 2017 the Board added to its work plan a project to revise the original Practice Statement issued in 2010 (the 2010 Practice Statement).

BC3 Since the issue of the 2010 Practice Statement, many jurisdictions and organisations have published requirements or guidelines for preparing management commentary or a similar report, or detailed topic-specific or industry-specific requirements and guidelines that cover aspects of narrative reporting—for example, the reporting on environmental, social and governance (ESG or sustainability) matters.¹ These developments have:

- (a) brought innovations intended to meet the information needs of users of financial reports; but
- (b) created a complex and confusing reporting landscape in which entities:
 - (i) may be required to apply local laws or regulations that specify only general requirements but may want more guidance to help them prepare management commentary that meets those requirements; or
 - (ii) may be unclear whether and how in preparing management commentary they can apply various alternative topic-specific or industry-specific requirements and guidelines, some of which are designed to provide information that is useful to users other than investors and creditors.

¹ Throughout this Basis for Conclusions, the term ‘management commentary’ refers to all reports that complement an entity’s financial statements and provide management’s insights into factors that have affected the entity’s financial performance and financial position, and factors that could affect the entity’s ability to create value and generate cash flows in the future.

BC4 The Board noted an increased interest in narrative reporting, both from investors and creditors, and from other users of financial reports. Investors and creditors increasingly ask for information that complements an entity's financial statements to provide more insight into its long-term prospects.

BC5 However, the Board's research indicates that management commentaries do not always provide investors and creditors with the information they need. Identified shortcomings in practice include management commentaries:

- (a) failing to focus on matters important to the entity's prospects by failing to provide material information about such matters, or by obscuring such information with immaterial information about less important matters;
- (b) containing too much generic information and not enough entity-specific information;
- (c) focusing on short-term matters and providing insufficient discussion of matters, such as systemic risks or strategic challenges, that could affect the entity's long-term prospects;
- (d) providing insufficient information about matters that increasingly affect the entity's ability to create value and generate cash flows, and are matters of increasing interest to investors and creditors—for example, information about intangible resources and relationships and ESG matters;
- (e) being fragmented or difficult to reconcile to information in the entity's financial statements or to information in other reports the entity has published;
- (f) providing information that is difficult to compare with information the entity provided in previous periods or with information provided by other entities with similar activities;
- (g) being incomplete—for example, by covering only some of the matters important to the entity's prospects, or by lacking information that investors and creditors need to fully understand the implications of these matters; and
- (h) being unbalanced—for example, by placing undue emphasis on positive aspects of the entity's performance.

Approach to the revision

BC6 The revision of the Practice Statement is intended to help entities provide management commentaries that better meet the information needs of investors and creditors.

BC7 The Board's research and outreach have shown that the 2010 Practice Statement:

- (a) has influenced the development of other narrative reporting requirements and guidelines; and

- (b) covers all major areas of content that need to be discussed in management commentary, though it lacks detail in some aspects.
- BC8 Therefore, in developing the Exposure Draft the Board has used the 2010 Practice Statement as its starting point. The Board's revisions seek to reflect innovations in narrative reporting and prevent the shortcomings in practice listed in paragraph BC5.
- BC9 The Board proposes that management commentary would continue to focus on the information needs of investors and creditors (see paragraphs BC39–BC41).
- BC10 In developing its proposals, the Board considered:
- (a) the findings of its research into requirements, guidelines and practice on narrative reporting. That research included an analysis of the responses from 24 national standard-setters to the Board's July 2018 request for information about the requirements and commonly applied non-mandatory guidelines on management commentary in their jurisdictions. The analysis also covered the EU non-financial reporting directive (2014/95/EU) and the related European Commission guidelines on non-financial reporting, and the International Integrated Reporting Framework, because some of the respondent jurisdictions require or encourage management to apply these requirements or guidelines in preparing a management commentary.²
 - (b) comments received from the Board's consultative groups, in particular comments from:
 - (i) the Management Commentary Consultative Group that the Board established to advise it on this project. The Consultative Group met four times to discuss initial ideas for requirements and guidance to be included in the Exposure Draft and also commented on initial drafting of this Exposure Draft.
 - (ii) the Board's other consultative groups, including the Capital Markets Advisory Committee, the Global Preparers Forum, the Accounting Standards Advisory Forum and the Emerging Economies Group. Each of these groups commented on particular topics.
 - (c) research by standard-setters, accounting firms, investor groups and other organisations into narrative reporting practice and into investor needs.
 - (d) documents that the Board published after the 2010 Practice Statement, namely:
 - (i) the *Conceptual Framework for Financial Reporting (Conceptual Framework)* revised in 2018; and
 - (ii) IFRS Practice Statement 2 *Making Materiality Judgements*.

² The Board continues to monitor developments in narrative reporting, including in sustainability reporting, and will consider them when it discusses the feedback received on this Exposure Draft.

- BC11 The Board proposes an objectives-based approach in the revised Practice Statement (see paragraphs BC69–BC71). The Board is seeking to provide comprehensive, clear and structured requirements and guidance that could help to encourage high-quality and globally consistent management commentary by providing a more effective basis for:
- (a) management to prepare management commentary that provides more useful information to investors and creditors.
 - (b) regulators to enforce the Practice Statement and for auditors to provide external assurance on management commentary. Having an effective basis for enforcement and assurance could help lawmakers who wish to mandate compliance with the Practice Statement in their jurisdictions.
- BC12 The Board has heard increasing concerns about two of the shortcomings in practice identified in paragraph BC5: lack of focus beyond short-term matters, and a failure to provide sufficient information about intangible resources and relationships and ESG matters. To help management identify information that needs to be included in management commentary on matters that could affect an entity’s long-term prospects, on intangible resources and relationships and on ESG matters, the Board proposes to provide in an appendix to the revised Practice Statement an overview of the requirements and guidance that management is likely to need to consider in deciding what information it needs to provide about these matters (see paragraphs BC82–BC84 and proposed Appendix B to the draft Practice Statement).

Interaction with the IFRS Foundation Trustees’ project on sustainability reporting

- BC13 As explained in paragraph BC84, the Board envisages that an entity could apply the revised Practice Statement in conjunction with narrative reporting requirements or guidelines issued by other bodies or organisations and addressing specific topics such as environmental, social or other sustainability matters. Management commentary could be an appropriate location for information about environmental and social matters that an entity’s management has identified by applying other requirements or guidelines, and that is material to investors and creditors in the context of management commentary.
- BC14 The Trustees of the IFRS Foundation (Trustees) are considering whether the Foundation should play a role in the development of sustainability reporting standards. In April 2021, the Trustees published the Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*. The proposed amendments would enable the Foundation to create a board for setting IFRS sustainability standards. In the future, entities might be able to apply standards issued by that board to help them identify some of the information needed to comply with the Practice Statement. The Board will consider developments in the Trustees’ work when it discusses the feedback received on this Exposure Draft.

Interaction with the Board's other projects

- BC15 In developing its proposals, the Board has considered how they would fit in with its proposals:
- (a) in the Exposure Draft *General Presentation and Disclosures* published as part of the Primary Financial Statements project (see paragraph BC129); and
 - (b) in the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* (see paragraph BC76).

Terminology

- BC16 The Board noted that an entity's management commentary is often prepared by a larger group of individuals than those involved in preparing its financial statements, and that some of these individuals may be unfamiliar with the terminology in IFRS Standards and the *Conceptual Framework*. Therefore, the Board proposes to use plain and non-technical language as much as possible. Appendix A to the draft Practice Statement explains the meaning of terms used in the Exposure Draft.

The scope of the revision

- BC17 The Board proposes a comprehensive set of requirements and guidance that cover:
- (a) procedures for issuing management commentary;
 - (b) the objective of management commentary;
 - (c) each area of content to be discussed in management commentary;
 - (d) attributes of information in management commentary; and
 - (e) metrics that management includes in management commentary.

Status of the Practice Statement (paragraph 1.5)

- BC18 In 2010, the Board issued guidance on management commentary in the form of a practice statement rather than as an IFRS Standard, because the Board was of the view that it was for individual jurisdictions to make their own judgements on whether:
- (a) entities should be required to present management commentary as well as their financial statements; and
 - (b) entities preparing financial statements in accordance with IFRS Standards should also be required to prepare management commentary in accordance with the Practice Statement.
- BC19 In developing the Exposure Draft, the Board concluded that its reasons for issuing the document as a practice statement were still valid. The Board also noted that:

- (a) many jurisdictions have their own local requirements or guidelines on the preparation of management commentary; and
 - (b) issuing the Practice Statement as a mandatory document could create an unnecessary barrier to a jurisdiction's continued adoption of IFRS Standards if the jurisdiction does not adopt the revised Practice Statement.
- BC20 Therefore, the Board proposes to retain the status of the Practice Statement, meaning that:
- (a) the Practice Statement is not an IFRS Standard; and
 - (b) an entity can prepare financial statements that comply with IFRS Standards without preparing a management commentary that complies with the Practice Statement.
- BC21 As a result, an entity would apply the Practice Statement if:
- (a) local laws or regulations require the entity to do so; or
 - (b) it chooses to do so—for example, if it is subject to no local laws or regulations on preparing management commentary, or if doing so could help the entity provide more useful information to investors and creditors while still meeting local laws or regulations that do not conflict with the Practice Statement.
- BC22 Descriptions of the 2010 Practice Statement have sometimes called it non-binding, non-mandatory or voluntary. The draft Practice Statement does not include such descriptions because they have caused confusion. The Practice Statement is indeed non-mandatory in the sense that an entity is not required to prepare management commentary that complies with the Practice Statement in order for the entity's financial statements to comply with IFRS Standards. However, the Practice Statement is mandatory in the sense that if an entity wishes to claim that its management commentary complies fully with the Practice Statement, the entity is obliged to comply with every requirement in it (see paragraphs BC30–BC32). To signal that point more clearly than the non-directive wording used in the 2010 Practice Statement, the wording in the Exposure Draft uses directive language such as 'an entity shall...' to identify the requirements.

Identification, authorisation and statement of compliance

- BC23 The Board proposes to update and clarify some procedural requirements for entities that are required or choose to prepare management commentary by applying the Practice Statement, namely:
- (a) identifying management commentary and the related financial statements (see paragraphs BC24–BC25);
 - (b) authorising management commentary (see paragraphs BC26–BC29); and
 - (c) including a statement of compliance (see paragraphs BC30–BC38).

Identifying management commentary and the related financial statements (paragraphs 2.1–2.3)

- BC24 Paragraph 3.1 proposes that the objective of an entity's management commentary is to provide information that enhances investors and creditors' understanding of the entity's financial performance and financial position reported in its financial statements, and that provides insight into factors that could affect the entity's ability to create value and generate cash flows across all time horizons, including in the long term.
- BC25 Some entities provide management commentary as a stand-alone report and some others provide it with other information as part of a larger report. The Board proposes to require an entity to:
- (a) identify the financial statements to which a management commentary relates and explain in the management commentary how to access those financial statements if they are not part of the same report. Management commentary is designed to be a commentary accompanying financial statements. It can meet its objective only if the related financial statements are available to users of the management commentary whenever the management commentary is available, and on the same terms.
 - (b) distinguish information contained in its management commentary from other information provided in the same report or in other reports published by the entity. Making this distinction is essential for clarity. Moreover, the distinction is even more important if management commentary is subject to external assurance but other information accompanying the management commentary, in the same report or separately, is subject to a different level of external assurance or no external assurance.
 - (c) identify the reporting period that the management commentary and the related financial statements cover. Management commentary covers the same reporting period as the related financial statements.

Authorisation of management commentary (paragraph 2.4)

- BC26 The Board cannot assume or prescribe that the date of authorisation of an entity's management commentary is the same as the date of authorisation of the related financial statements, or that bodies or individuals authorising management commentary are the same as those authorising financial statements. Authorising these documents depends upon local legal or regulatory requirements, and on the entity's governance and reporting procedures.
- BC27 The Board proposes to require an entity to:
- (a) state the date on which its management commentary was authorised for issue. It is important for investors and creditors to know that date because management commentary does not reflect events after this date.

- (b) identify the bodies or individuals who authorised management commentary for issue. This information tells investors and creditors who takes responsibility for the management commentary and whose perspective it provides.
- BC28 The Board also considered whether the revised Practice Statement should include requirements for a more comprehensive statement of authorisation, such as:
- (a) a description of the extent of management’s responsibility for the management commentary (statement of responsibility);
 - (b) a description of the integrity or governance of the process applied in preparing the management commentary; or
 - (c) a conclusion that the management commentary meets particular objectives.
- BC29 The Board proposes not to include in the revised Practice Statement any of the requirements mentioned in paragraph BC28. The Board decided against proposing such requirements because jurisdictions already have various requirements on whether management commentary should include a statement of authorisation in management commentary and on the specifics of such a statement. Introducing such requirements in the Practice Statement could create unnecessary practical difficulties for entities that are subject to local requirements, without providing significant benefits for investors and creditors.

Statement of compliance (paragraphs 2.5–2.6)

- BC30 The Board considered how best to inform investors and creditors about the basis of preparation of management commentary.
- BC31 The Board concluded that it is important for the revised Practice Statement to retain the existing requirement that an entity can make an unqualified statement of compliance only if its management commentary complies with all requirements in the Practice Statement. In all other cases an unqualified statement of compliance would be misleading.
- BC32 The Board proposes to require an entity to include an explicit and unqualified statement of compliance if its management commentary complies with all requirements in the Practice Statement. In the Board’s view, the Exposure Draft proposes comprehensive, clear and structured requirements that would form an effective basis for asserting compliance with the Practice Statement. An entity would be able to make an unqualified statement of compliance with the Practice Statement only if its management commentary meets all proposed requirements, namely:
- (a) it meets the objective set out in paragraph 3.1, providing information material to investors and creditors;
 - (b) it provides information that meets the disclosure objectives for all areas of content;

- (c) it provides information with the attributes specified in Chapter 13 of the draft Practice Statement; and
- (d) all metrics in the management commentary comply with the requirements in Chapter 14 of the draft Practice Statement.

BC33 The Board proposes to permit an entity to include a qualified statement of compliance with the Practice Statement, but only if its management commentary identifies the departures from the requirements of the Practice Statement and gives reasons for those departures. In the Board's view, this proposal:

- (a) could encourage voluntary application of the Practice Statement. Permitting only an unqualified statement of compliance could set a high hurdle for reporting and a barrier to adopting the revised Practice Statement. For example, some entities may want to comply with the Practice Statement to improve the quality and credibility of information in their management commentary but may not be able to do so because they need time to work towards full compliance.
- (b) would allow entities to apply the Practice Statement alongside local requirements. For example, the proposal would allow entities to make a qualified statement of compliance if they comply with most requirements in the Practice Statement but are unable to comply with particular requirements that conflict with local regulatory requirements, such as restrictions on including forward-looking information.
- (c) would provide clear and specific requirements for making qualified statements of compliance. These requirements could lead to better disclosure of the basis of preparation in cases of qualified compliance, and in those cases improve the usefulness of information in management commentary.

Compliance with the Practice Statement by entities that do not apply IFRS Standards (paragraph 2.2)

BC34 The Board considered whether to permit an entity to assert that its management commentary complies with the Practice Statement:

- (a) only if the entity has prepared its financial statements in accordance with IFRS Standards;
- (b) only if the entity has prepared its financial statements in accordance with either IFRS Standards or concepts similar to those underpinning IFRS Standards; or
- (c) without specifying any criteria for the basis of preparation of the related financial statements.

BC35 The Board concluded that compliance with the revised Practice Statement would not rely on the financial statements including all the information required by IFRS Standards or on them being in accordance with concepts similar to those underpinning IFRS Standards. The Board reached this

conclusion because the Board’s proposed requirements for the revised Practice Statement focus on objectives: the objective of management commentary and disclosure objectives for areas of content within management commentary. The information needed to meet those objectives might depend, among other things, on the information provided in the related financial statements, and the information in the financial statements would in turn depend partly on the basis of their preparation. However, the revised Practice Statement would require management commentary to meet specified objectives, rather than to provide specified information; so, compliance with the requirements of the Practice Statement would rely on meeting those objectives.

- BC36 Meeting the objective of management commentary could be difficult or even impossible in extreme circumstances—for example, if the related financial statements are prepared on a cash basis instead of an accruals basis and disclose little further information. Thus, the Board considered whether to restrict the circumstances when an entity could assert compliance with the Practice Statement; for example, by permitting such an assertion only if the related financial statements are prepared by applying concepts similar to those underpinning IFRS Standards.
- BC37 However, the Board decided that such a restriction could be difficult to apply because it would require an entity to judge whether concepts are ‘similar’. Such a restriction could also raise unnecessary barriers to adoption of the Practice Statement. In addition, the Board expects that if an entity prepares financial statements in accordance with concepts very different from those underpinning IFRS Standards, the entity is unlikely to apply the Practice Statement, so any need for such a restriction is unlikely to arise in practice.
- BC38 The Board proposes to require an entity to disclose in its management commentary the basis on which its financial statements are prepared if they do not comply with IFRS Standards. This proposal seeks to avoid investors and creditors assuming that the related financial statements were prepared in accordance with IFRS Standards if they were prepared on a different basis.

Primary users of management commentary (paragraphs 3.7–3.9)

- BC39 As the Board noted in developing the 2010 Practice Statement, management commentary forms part of general purpose financial reporting. Consequently, management commentary focuses on the same primary users as do general purpose financial reports. The *Conceptual Framework* identifies them as ‘existing and potential investors, lenders and other creditors’.
- BC40 The Board proposes to retain this description of the primary users of management commentary. The Exposure Draft refers to them as ‘investors and creditors’.
- BC41 Some standard-setters and other organisations specify a broader range of users of narrative reports, particularly in sustainability reporting. The Board acknowledges that other parties might also find management commentary useful—for example, employees, government agencies and members of the public. However, the proposed objective of management commentary focuses

on meeting the information needs of investors and creditors. As explained in paragraph 1.10 of the *Conceptual Framework*, general purpose financial reports, including management commentary, are not primarily directed at other groups, so they may need other or additional information.

Objective of management commentary (paragraphs 3.1–3.4)

BC42 The 2010 Practice Statement describes the objective of management commentary as follows:

Management commentary should provide users of financial statements with integrated information that provides a context for the related financial statements. Such information explains management’s view not only about what has happened, including both positive and negative circumstances, but also why it has happened and what the implications are for the entity’s future.

Management commentary complements and supplements the financial statements by communicating integrated information about the entity’s resources and the claims against the entity and its resources, and the transactions and other events that change them.

Management commentary should also explain the main trends and factors that are likely to affect the entity’s future performance, position and progress. Consequently, management commentary looks not only at the present, but also at the past and the future.

BC43 As noted in paragraph BC5, in practice management commentaries do not always meet the information needs of investors and creditors. The Board is seeking to clarify the objective of management commentary and make it more specific to help entities judge whether their management commentary meets the objective.

BC44 The Board proposes three main clarifications to the objective, namely:

- (a) linking it with assessments made by investors and creditors and confirming more prominently that management commentary needs to provide information that is material to investors and creditors (see paragraphs BC46–BC49);
- (b) clarifying how it differs from the objective of financial statements (see paragraphs BC50–BC53); and
- (c) linking it with the entity’s ability to create value and generate cash flows (see paragraphs BC54–BC58).

BC45 The Board proposes to replace the reference to management’s view in the objective with a more detailed explanation of that concept in explanations supporting the objective (see paragraphs BC59–BC61). The objective would not refer directly to communicating integrated information. Instead, the Board proposes in Chapter 13 of the draft Practice Statement to require information in management commentary to be presented as a well-integrated, coherent whole. Furthermore, the proposed guidance on achieving balance captures the idea of describing both positive and negative circumstances. The guidance does this by explaining that management commentary discusses both

favourable and unfavourable matters and provides both favourable and unfavourable information about them.

Link to assessments made by investors and creditors and emphasis on materiality (paragraphs 3.2–3.3)

- BC46 The Board proposes to introduce an explicit link between the objective of management commentary and investors and creditors' assessments that the *Conceptual Framework* describes in discussing the objective of general purpose financial reporting. The need for that link arises because management commentary is part of general purpose financial reporting, and thus it needs to provide information that contributes to meeting the objective of such reporting. In discussing that objective, the *Conceptual Framework* explains that investors and creditors need information that enables them to assess:
- (a) an entity's prospects for future cash flows; and
 - (b) how efficiently and effectively management has used and protected the entity's economic resources, as a steward of those economic resources.
- BC47 In the Board's view, linking the objective of management commentary explicitly to investors and creditors' assessments mentioned in paragraph BC46 would help management to prepare management commentary that meets the objective. An explicit link to those assessments would:
- (a) clarify that management is responsible for providing the information that is useful for investors and creditors' assessments, but is not itself responsible for making the assessments; and
 - (b) underline the importance of providing a long-term view in management commentary.
- BC48 The Board proposes to introduce that explicit link by requiring that information provided to meet the objective is material. That link is completed in two steps:
- (a) the proposed definition of material information refers to decisions that investors and creditors make (see paragraph BC106); and
 - (b) the proposed explanation in paragraph 3.3 clarifies that those decisions depend on investors and creditors' assessments of an entity's prospects for future cash flows and of management's stewardship of the entity's resources.
- BC49 The Exposure Draft proposes guidance intended to help management make materiality judgements (see paragraphs BC103–BC113).

Difference from the objective of financial statements

- BC50 As general purpose financial reports, financial statements and management commentary both seek to provide information useful to investors and creditors in assessing an entity's prospects for future cash flows and in assessing management's stewardship of the entity's resources (see paragraph

BC46). The Board proposes to set out the objective of management commentary in a way that makes clear how that objective differs from the objective of financial statements.

BC51 Financial statements focus on financial information about an entity's assets, liabilities, equity, income and expenses.³ The 2010 Practice Statement stated that management commentary is intended to help investors and creditors to understand information included in the related financial statements by providing context for the financial statements, and by complementing them (see paragraph BC42). However, management, auditors and others may be unsure about what contextual and complementary information management commentary should provide.

BC52 Therefore, the Board proposes to clarify that an entity's management commentary should provide information that:

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

BC53 Management commentary designed to meet the proposed objective includes more discussion and analysis than financial statements, is likely to include more non-financial information (for example, about an entity's intangible resources that are not recognised as assets in the entity's financial statements) and may be more likely to include some information that is forward-looking.

Ability to create value and generate cash flows (paragraphs 3.10–3.14)

BC54 As noted in paragraph BC46, management commentary would be required to provide information that helps investors and creditors assess an entity's prospects for future cash flows. The Board proposes to explain that for this assessment investors and creditors need:

- (a) information to understand factors that could affect the amount or timing of the entity's future cash flows, or that affect the uncertainty about their amount and timing. Investors and creditors need this information to help them assess whether the entity's future net cash inflows are likely to provide the entity with a return that compensates it sufficiently for both the time that elapses before those cash flows occur and the uncertainty in the amount and timing of the cash flows.
- (b) information that might relate to events that span more than one time horizon. Investors and creditors need this information because they assess the entity's future cash flows across all time horizons—the short, medium and long term.

³ See paragraph 3.2 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)*.

- BC55 Some narrative reporting requirements and guidelines, including some applying to sustainability reporting, use the notion of ‘value creation’ or ‘enterprise value’. For some stakeholders, ‘value creation’ implies a longer-term horizon than do terms that refer to an entity’s prospects for generating cash flows.
- BC56 The Board proposes to explain that by ‘value creation’ it means the creation of value for the entity and hence for its investors and creditors. The Board’s focus on meeting investors and creditors’ information needs means its notion of value creation does not include creating value for other parties, for example, for customers, employees or society in general, unless creating or destroying value for those other parties could affect the entity’s ability to create value for itself. For example, an entity might need to describe its adverse impacts on the natural environment if those impacts could lead to future regulation or societal pressure that could curtail the entity’s activities or that could impose additional costs on the entity.
- BC57 In the Board’s view, the notions of value creation and prospects for generating cash flows are closely related, and both cover all time horizons. An entity’s activities create value if they enhance or preserve the present value of the entity’s future cash flows. Conversely, an entity’s activities erode value if they reduce the present value of the entity’s future cash flows. Therefore, the Board proposes that the objective of management commentary should refer to an entity’s ‘ability to create value and generate cash flows’. Providing information to help investors and creditors understand an entity’s ability to create value and generate cash flows is also central to the Board’s proposed disclosure objectives for all areas of content.
- BC58 The Board concluded that referring to an entity’s ability to create value and generate cash flows would emphasise:
- (a) the need to provide a long-term view in discussing factors underlying the entity’s prospects; and
 - (b) the link between value creation and income, expenses and cash flows resulting from the value created through the entity’s operating, investing and financing activities and reported in the entity’s financial statements.

Management’s perspective (paragraphs 3.18–3.19)

- BC59 The 2010 Practice Statement states that management commentary should provide management’s perspective of the entity’s performance, position and progress. That is, management should explain how and why the entity’s performance falls short of, meets or exceeds previous expectations. The Board proposes to retain a statement that management commentary provides management’s perspective, because providing management’s explanations and analysis of the entity’s financial statements and setting out management’s expectations for the future is inherent to management commentary.

- BC60 The 2010 Practice Statement states that management commentary should derive from the information that is important to management in managing the business. The Board proposes to retain a statement that management commentary derives from information used by management, because the Board's consultative groups confirmed that management is best placed to know what information about the business is important and so is useful to investors and creditors in making their assessments. The Board also proposes to explain that if management uses information for managing the business, that fact is one indication (but not the only possible indication) that the information (or information derived from it) might be material to investors and creditors (see paragraph 12.4).
- BC61 The introduction to the 2010 Practice Statement refers to 'management' as 'the persons responsible for the decision-making and oversight of the entity. They may include executive employees, key management personnel and members of a governing body'. The Board did not provide a specific description of management in 2010 because jurisdictional requirements determine who prepares and approves management commentary. The Board does not propose to change this approach and has not included in the Exposure Draft an explanation of who management are.

Areas of content

- BC62 To help management meet the objective of management commentary, the Board proposes to:
- (a) identify the areas of content that need to be discussed in management commentary (see paragraphs BC66–BC68).
 - (b) include disclosure objectives for each area of content (see paragraphs BC69–BC76).
 - (c) require management commentary to focus on key matters. The Board would supplement that requirement by providing examples of possible key matters for each area of content (see paragraphs BC77–BC79).
 - (d) explain that, for each area of content, material information is likely to include metrics that management uses to monitor key matters and to measure progress in managing those matters. The Board also proposes requirements that would apply to metrics reported in management commentary (see paragraphs BC125–BC134).
- BC63 To help management meet the disclosure objectives, the Board also proposes that the revised Practice Statement includes examples, for each area of content, of information that might be material (see paragraphs BC80–BC81).
- BC64 Furthermore, the Board considered how to help management provide useful information on matters that could affect an entity's long-term prospects, on intangible resources and relationships and on ESG matters (see paragraphs BC82–BC84). These matters are of particular interest to investors and creditors.

BC65 Paragraphs BC85–BC94 discuss other aspects of proposed requirements and guidance on the areas of content.

Areas of content and the link between them (paragraphs 4.1–4.2)

BC66 The 2010 Practice Statement specifies five areas of content that need to be discussed in an entity’s management commentary:

- (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.

BC67 The Board now proposes to identify six areas of content to be included in management commentary. These areas correspond to the areas of content identified in the 2010 Practice Statement, but:

- (a) ‘resources and relationships’ would now form a separate area of content because resources and relationships, including those not recognised in the entity’s financial statements, play an increasing role in entities’ ability to create value and generate cash flows. Furthermore, because resources and relationships do not affect an entity in the same way as risks, investors and creditors need information about resources and relationships that is different from information about risks.
- (b) ‘the external environment’, currently discussed as part of the business model, would now form a separate area of content. The Board proposes its separation because factors and trends in the external environment may affect not only an entity’s business model, but also management’s strategy for sustaining and developing that model, as well as the entity’s resources and relationships, or the risks the entity faces. Also, investors and creditors increasingly request information about environmental and social factors affecting the entity’s ability to create value and generate cash flows.
- (c) ‘prospects’ would no longer feature in a single area of content. Information about prospects is expected to be important for investors and creditors, but would be covered by requirements and guidance throughout all areas of content, in particular in explaining management’s strategy, the entity’s external environment and risks. The Board also proposes to provide in an appendix to the revised Practice Statement an overview of the requirements and guidance to help management provide information about matters that could affect the entity’s long-term prospects (see paragraphs BC82–BC84 and Appendix B to the draft Practice Statement).

- (d) 'metrics' would no longer form a separate area of content. Instead, they would be discussed as part of the proposed requirements on selecting and presenting information in management commentary (see paragraphs BC125–BC134).

BC68 The six areas of content are interrelated. Management would need to apply the requirements proposed in Part C of the draft Practice Statement in selecting and presenting the information about these areas of content so that management commentary meets its objective. The Board's proposals would not require an entity to apply the structure, sequence or headings proposed in the Exposure Draft in order to comply with the requirements in the Practice Statement.

Disclosure objectives (paragraphs 4.3–4.6, 5.5–5.7, 6.4–6.6, 7.5–7.7, 8.3–8.5, 9.5–9.7 and 10.4–10.6)

Overall approach to disclosure

BC69 The Board considered two approaches to developing requirements for disclosure that might lead to management commentary meeting its objective:

- (a) a prescriptive approach providing a detailed and prescriptive list of disclosure requirements intended to meet most of the common information needs of investors and creditors in most circumstances; and
- (b) an objectives-based approach that specifies disclosure objectives that the information provided is required to meet and provides guidance on what an entity might need to disclose to meet those objectives.

BC70 The prescriptive approach would require the Board to identify all matters about which information is likely to be material to investors and creditors and to require specific disclosures about them. In the Board's view that would not be feasible because:

- (a) the proposed objective of management commentary means that management commentary might need to explain a broad range of matters that affected an entity's financial performance and financial position or could affect them in the future; and
- (b) the matters that might need to be discussed, and the information that might be material about those matters, is highly entity specific—it would depend on the entity's activities, the industry in which it operates and the entity's circumstances.

BC71 Therefore, the Board proposes an objectives-based approach that specifies disclosure objectives.

Considerations in developing disclosure objectives

- BC72 The 2010 Practice Statement includes broad descriptions of what management needs to discuss for each area of content. Those broad descriptions could be viewed as broad disclosure objectives. However, the Board considers that they are not prominent or specific enough to help management identify information needed to meet these implied objectives.
- BC73 The Board proposes to replace those broad descriptions with explicit disclosure objectives for each area of content. The disclosure objectives are intended to provide clarity about the required contents of management commentary and to help:
- (a) management identify entity-specific information that needs to be included for management commentary to meet its objective. (Meeting the disclosure objectives is necessary if an entity wants to claim compliance with the Practice Statement.)
 - (b) providers of external assurance and regulators assess whether the information provided meets the objective of management commentary.
- BC74 In developing the disclosure objectives, the Board sought to identify investors and creditors' information needs related to each area of content by considering:
- (a) the Board's research on the information needs of investors and creditors for that area;
 - (b) the Board's findings on shortcomings in narrative reporting practice in that area;
 - (c) the Board's research on requirements and guidelines issued by other standard-setters;
 - (d) the guidance in the 2010 Practice Statement; and
 - (e) feedback from the Board's consultative groups.
- BC75 For each area of content, the Board proposes disclosure objectives comprising:
- (a) a headline objective describing the overall information needs of investors and creditors for that area of content;
 - (b) assessment objectives describing investors and creditors' assessments that rely on information provided for the area of content; and
 - (c) specific objectives describing the detailed information needs of investors and creditors for the area of content.
- BC76 The Board's proposals for objectives-based disclosure requirements in this project are generally consistent with the proposed guidance for developing disclosure requirements in Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*. However, in order to create an effective basis for assessing compliance with the Practice Statement, the Board's proposals for the Practice Statement include objectives-based requirements focused on

investors and creditors' assessments (assessment objectives) rather than describing the assessments solely within background explanatory information. In developing the proposed disclosure objectives, the Board also considered the disclosure objectives of recently issued IFRS Standards.

Key matters (paragraphs 4.7–4.14, 5.8–5.9, 6.7–6.8, 7.8–7.10, 8.6–8.9, 9.8–9.10 and 10.7–10.8)

- BC77 The Board proposes that management commentary should focus on key matters. Matters would be identified as key if they are fundamental to the entity's ability to create value and generate cash flows. Understanding that ability helps investors and creditors to assess the entity's prospects for future cash flows and management's stewardship and ultimately to make investment decisions.
- BC78 The Board proposes to introduce the notion of key matters to help management make materiality judgements in preparing management commentary (see paragraph BC111(b)(ii)). both the *Conceptual Framework* and the Exposure Draft, materiality is an attribute of information, not an attribute of matters. For the same reason, the Board proposes the term 'fundamental' rather than 'material' in the definition of key matters to convey how important those matters are for the entity's ability to create value and generate cash flows. The terms 'key' and 'fundamental' are not meant to replace materiality as a threshold for determining what information should be included in management commentary.
- BC79 To help an entity's management identify the key matters that are specific to that entity, the Board proposes to include in the revised Practice Statement guidance supporting the definition of key matters and examples of possible key matters.

Examples of information that might be material (Chapter 15)

- BC80 The Board proposes to include in the Practice Statement examples of information that might be material to help management identify entity-specific information that needs to be included in management commentary to meet the disclosure objectives for each area of content. The examples are each linked to a specific disclosure objective.
- BC81 The Board does not propose to specify in Chapter 15 items of information that should always be required. As discussed in paragraphs BC69–BC71, the Board proposes an objectives-based rather than a prescriptive approach to disclosure.

Information about long-term prospects, intangible resources and relationships and ESG matters (paragraphs 4.16–4.17 and Appendix B)

- BC82 As noted in paragraph BC12, one reason for starting the project was to help management identify what information to provide on interrelated matters of particular interest to investors and creditors—on matters that could affect an entity's long-term prospects, on intangible resources and relationships and on

ESG matters. Appendix B to the draft Practice Statement provides an overview of requirements and guidance throughout the Practice Statement that management is likely to need to consider in deciding what information it needs to provide about these matters. The Board's proposed objectives-based approach does not include a prescriptive list of information to be provided about these matters, but is intended to result in management commentary including information about those matters that is specific to the entity and material to investors and creditors.

BC83 The Board does not propose to require comprehensive or detailed reporting on an entity's governance because governance is typically regulated by local laws.

BC84 As noted in paragraph BC3, many jurisdictions and organisations have published topic-specific or industry-specific requirements or guidelines on environmental and social matters, other sustainability-related topics or other aspects of narrative reporting. In the Board's view, management commentary would be an appropriate location for information that needs to be disclosed to comply with such requirements and guidelines:

- (a) if some of the information is material to investors and creditors, providing the information in management commentary would help meet the objectives-based requirements of the Practice Statement; and
- (b) if the rest of the information is not material to investors and creditors, an entity could still provide that other information in its management commentary if the entity presents that information in a way that avoids obscuring material information (see paragraph 13.18).

Other considerations

Link to value creation and cash flows

BC85 The objective of management commentary requires an entity to provide information that gives insight into factors that could affect the entity's ability to create value and generate cash flows across all time horizons, including in the long term.

BC86 The Board proposes to link the requirements for all areas of content to this objective, and so to the need to explain an entity's ability to create value and generate cash flows. In particular:

- (a) the proposed headline disclosure objective for business model is to provide information that enables investors and creditors to understand how the entity's business model creates value and generates cash flows. The proposed headline disclosure objectives for other areas of content build on this disclosure objective. For example, the headline disclosure objective for management's strategy is to provide information that enables investors and creditors to understand management's strategy for sustaining and developing the entity's business model—and so, for sustaining and developing the entity's ability to create value and generate cash flows.

- (b) all areas of content include a requirement to focus on key matters, that is on matters that are fundamental to the entity's ability to create value and generate cash flows.

Business model

- BC87 'Business model' is a term commonly used in narrative reporting requirements, guidelines and practice and also in academic literature. The Board's research indicated that there is no single widely accepted description of business model.
- BC88 The Board intends the term 'business model' to describe what an entity does and how it does it. The Board based its proposed description of a business model on the definition of a business in IFRS 3 *Business Combinations*.⁴ In the light of the proposed objective of management commentary, the Board adjusted that definition to refer to an entity's ability to create value and generate cash flows.
- BC89 Building on the guidance in IFRS 3 on the elements of a business, the Exposure Draft explains that a cycle of creating value and generating cash flows within a business model involves integrated processes by which an entity obtains inputs to its operations, transforms those inputs into outputs, sells those outputs, delivers them to customers and collects cash. The proposed description of a business model highlights that 'business model' covers those processes that could create value or generate cash flows across all time horizons, including in the long term.
- BC90 In IFRS 9 *Financial Instruments*, the term 'business model' and related guidance are used in a more specific context than in the Exposure Draft and are not designed to apply in preparing management commentary. IFRS 9 uses the term to refer to an entity's business model for managing its financial assets and focuses on those aspects of business model that are relevant in determining how to classify those assets for measurement purposes. In contrast, in the Exposure Draft, the term covers the entire cycle of value creation and cash flow generation and not just the management of financial assets.
- BC91 Depending on the circumstances, management might need to identify and describe in management commentary one or more than one business model. In the light of the Board's proposals on coherence, information about the entity's business model would need to be provided in a way that allows investors and creditors to relate that information to information about operating segments in the entity's financial statements (see paragraph 13.30). IFRS 8 *Operating Segments* defines an operating segment as a component of an entity meeting three criteria specified in that Standard.

Financial and non-financial performance

- BC92 The 2010 Practice Statement states that management commentary should clearly describe an entity's financial and non-financial performance.

⁴ See Appendix A to IFRS 3 *Business Combinations*.

- BC93 The proposed headline disclosure objective for financial performance and financial position refers to an entity's financial performance and financial position reported in its financial statements.
- BC94 The Exposure Draft does not use the terms 'non-financial performance' or 'non-financial position' in setting out the requirements for areas of content because these terms have no widely accepted definition. However, information about both types of performance is required in management commentary. Specifically, information about what some stakeholders refer to as an entity's non-financial performance and non-financial position would be provided by meeting the proposed disclosure objectives for the business model, management's strategy, resources and relationships, risks and external environment, in particular in relation to:
- (a) developments in the key matters; and
 - (b) management's progress in managing those key matters.

Attributes of useful information in management commentary

- BC95 As explained in paragraph BC5, the Board's research has indicated that information currently provided in management commentary is not always useful. In particular, it sometimes lacks the attributes the *Conceptual Framework* describes as the 'qualitative characteristics' of useful financial information.
- BC96 In the Board's view, one factor that contributes to shortcomings in current reporting practice is that some preparers of management commentaries may not understand what attributes make information useful for investors and creditors, and what attributes make that information more useful.

Approach to developing requirements and guidance on attributes

- BC97 The Board proposes to retain the 2010 Practice Statement requirement that information in management commentary should possess the attributes of useful financial information set out in the *Conceptual Framework*. The Board also proposes to provide guidance to help management apply this requirement.
- BC98 In developing such guidance, the Board took into consideration that:
- (a) management commentaries are often prepared by a larger group of individuals than just the individuals involved in preparing financial statements, and some individuals in the larger group may not be familiar with IFRS Standards and the *Conceptual Framework*.
 - (b) information in management commentaries is broader than information in financial statements. For example, management commentaries are likely to contain more qualitative and forward-looking information than financial statements and to provide information about matters that may not have led to recognition or even disclosure in the financial statements.

- BC99 Accordingly, the Board proposes that the revised Practice Statement:
- (a) include brief descriptions of each attribute of useful information, based on the corresponding description of the qualitative characteristic in the *Conceptual Framework* but using language that is as plain as possible. The Board proposes to use more everyday labels for some of the characteristics although the concepts are the same: ‘balance’ instead of ‘neutrality’, ‘accuracy’ instead of ‘freedom from error’, and ‘clarity and conciseness’ instead of ‘understandability’.
 - (b) provide further guidance on attributes intended to help prevent the shortcomings in current reporting practice, to help preparers provide more useful qualitative or forward-looking information, or to clarify areas that preparers find challenging.
- BC100 The Board proposes to provide guidance on the three components of faithful representation set out in the *Conceptual Framework*: completeness, balance and accuracy, but not directly on the overarching characteristic of faithful representation. The Board’s research suggests that preparers of management commentary may not widely use or understand the term ‘faithful representation’.
- BC101 The *Conceptual Framework* distinguishes between fundamental qualitative characteristics (relevance and faithful representation) that make information useful and enhancing qualitative characteristics (understandability, comparability, verifiability and timeliness) that make useful information more useful. In a similar manner, the Exposure Draft states that management commentary should provide material information and that the information should be complete, balanced and accurate, whereas clarity and conciseness, comparability and verifiability make information in management commentary more useful. For simplicity, the Exposure Draft includes a single list of required attributes for information in management commentary without explicitly distinguishing fundamental attributes from enhancing attributes.
- BC102 Table 1 compares the qualitative characteristics of useful financial information set out in the *Conceptual Framework* with attributes of useful information in management commentary, as set out in the Exposure Draft.

Table 1—Useful information

Qualitative characteristic described in the <i>Conceptual Framework</i>	Attribute described in the draft Practice Statement	Further guidance proposed for management commentary
Relevance and its entity-specific aspect—materiality	Materiality (paragraphs 3.2, 3.15–3.17 and Chapter 12)	Guidance on identifying material information that needs to be provided (see paragraphs BC103–BC113). For simplicity, the Exposure Draft refers only to materiality which is an entity-specific aspect of relevance.
Completeness	Completeness (paragraphs 13.4–13.6)	Guidance on providing complete information about possible future events, because information about them is more likely to be material in the context of management commentary than in the context of financial statements. Guidance on including in management commentary standing information that is unchanged from previous periods. Guidance on information about events after the end of the reporting period.
Neutrality	Balance (paragraphs 13.7–13.10)	Guidance on selecting matters to discuss in management commentary and on providing balanced information about those matters. Guidance on providing balanced information about aspirational matters—for example, management targets.

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BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT MANAGEMENT COMMENTARY

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Qualitative characteristic described in the <i>Conceptual Framework</i>	Attribute described in the draft Practice Statement	Further guidance proposed for management commentary
Freedom from error	Accuracy (paragraphs 13.11–13.12)	An explanation that accuracy does not necessarily mean perfect precision in all respects and that the degree of precision needed and attainable varies for various types of information. Examples of how to achieve accuracy for various types of qualitative and quantitative information, including descriptions, estimates and forecasts.
Understandability	Clarity and conciseness (paragraphs 13.13–13.21)	Guidance on providing clear information, including guidance on selecting the clearest form of presentation. Guidance on providing concise information, including guidance on including material information by cross-reference (see paragraphs BC117–BC124). Guidance on including immaterial information—for example, if an entity needs to provide that information to comply with local laws, regulations or other requirements.
Comparability	Comparability (paragraphs 13.22–13.23)	Emphasis that an entity should prioritise providing material information over comparability.

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Qualitative characteristic described in the <i>Conceptual Framework</i>	Attribute described in the draft Practice Statement	Further guidance proposed for management commentary
Verifiability	Verifiability (paragraphs 13.24–13.26)	<p>Guidance on providing information in management commentary in a way that enhances its verifiability.</p> <p>Guidance on providing sufficient explanation to allow investors and creditors to decide whether to use information that might not be verifiable—for example, forward-looking information.</p>

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BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT MANAGEMENT COMMENTARY

...continued

Qualitative characteristic described in the <i>Conceptual Framework</i>	Attribute described in the draft Practice Statement	Further guidance proposed for management commentary
Timeliness	–	<p>The Board proposes not to list timeliness as an attribute of useful information in management commentary because:</p> <p>(a) the timing of publication of management commentary is a local jurisdictional and regulatory matter.</p> <p>(b) management commentary can still have confirmatory value, and therefore be useful, even if it is published after the financial statements. For example, it can help investors and creditors to compare the information in management commentary with their previous expectations.</p>
–	Coherence (paragraphs 13.27–13.30)	The Board proposes to introduce coherence as an attribute specific to information in management commentary (see paragraphs BC114–BC116).

Making materiality judgements (Chapter 12)

- BC103 The 2010 Practice Statement notes that materiality is an entity-specific aspect of relevance, and requires an entity's management to include in management commentary information material to that entity.
- BC104 As noted in paragraph BC5, the Board's research indicates that management commentaries do not always provide investors and creditors with the information they need. In particular, the Board noted that management commentaries sometimes:
- (a) fail to focus on matters that are important to an entity's prospects, by failing to provide material information about such matters or by obscuring such information with immaterial information about less important matters; and
 - (b) contain too much generic information and not enough entity-specific information.
- BC105 As explained in paragraph BC48, the Board proposes to require information provided to meet the objective of management commentary to be material. The proposed definition of 'material information' is taken from the definition of that term in the *Conceptual Framework* and IFRS Standards, with the inclusion of a reference to the fact that the context is management commentary.⁵ The definition explains, that in that context, 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.
- BC106 The proposed definition refers to decisions made on the basis of management commentary and related financial statements because:
- (a) referring only to management commentary could imply that investors and creditors can make appropriate decisions on the basis of the management commentary alone, without also reading the financial statements. Making decisions on the basis of management commentary alone would not be appropriate because management commentary is designed to complement financial statements.
 - (b) management commentary and financial statements contribute to the same objective (the objective of general purpose financial reporting set out in the *Conceptual Framework*) and provide information to support the same assessments (assessments of an entity's prospects for future cash flows and of management's stewardship of the entity's resources). These assessments would be based on both management commentary and the related financial statements.
- BC107 To avoid misinterpretation, the Board proposes to clarify that:

⁵ The *Conceptual Framework* states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity (see paragraph 2.11 of the *Conceptual Framework*).

BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT MANAGEMENT COMMENTARY

- (a) management commentary is designed to complement financial statements so, by design, most information in the financial statements does not need to be duplicated in management commentary; and
 - (b) information in the financial statements needs to be provided in management commentary to the extent necessary to meet the proposed objective of management commentary and the proposed disclosure objectives for the areas of content or to provide coherence between the management commentary and financial statements.
- BC108 Making materiality judgements could be more challenging in preparing management commentary than in preparing financial statements because:
 - (a) management commentary contains more explanatory and forward-looking information than financial statements contain. Materiality judgements are more challenging for such information than for quantitative information.
 - (b) IFRS Standards explicitly identify a large proportion of the information that entities need to consider including in financial statements. Explicit identification is more difficult in the case of the Practice Statement, which can explicitly identify only a much smaller proportion of the information that entities need to consider including in management commentary.
- BC109 Accordingly, and to prevent shortcomings in practice of the kind mentioned in paragraph BC104, the Board proposes guidance on making materiality judgements in the context of management commentary. That proposed guidance builds on the guidance in IFRS Practice Statement 2 *Making Materiality Judgements*. Additional guidance is included on making materiality judgements relating to information about possible future events that have not affected the entity's financial performance or financial position, are not reported in the entity's financial statements and have uncertain outcomes.
- BC110 The Board intends to consider whether to develop a proposal to add to Practice Statement 2 similar additional guidance for materiality judgements made in preparing financial statements.
- BC111 The Board proposes that the revised Practice Statement:
 - (a) emphasise that in making materiality judgements management should consider the common information needs of a clearly defined set of users (investors and creditors) without considering those information needs that are unique to specific subgroups of investors or creditors (see paragraphs BC39–BC41).
 - (b) provide guidance on identifying information that might be material. In particular, the Board proposes:
 - (i) to include disclosure objectives for each area of content, and examples of information about them that might be material to help management identify information that is material in an entity's circumstances.

- (ii) to introduce a notion of ‘key matters’ as a tool to help management in making materiality judgements in the context of management commentary and provide guidance on identifying those key matters (see paragraphs BC77–BC79). (The Board proposes to define ‘key matters’ as matters that are fundamental to the entity’s ability to create value and generate cash flows, including in the long term. Because of their fundamental effect on the entity’s ability to create value and generate cash flows, it is likely that much of the information that is material to investors and creditors will relate to key matters.)
 - (iii) to provide a description of indications that information might be material—for example, if it relates to a key matter, it is derived from information management uses for managing the business, or it has been included in the entity’s capital market communications.
 - (iv) to explain that an entity might apply narrative reporting requirements and guidelines published by other organisations to help it identify material information.
- (c) provide guidance on assessing whether information is material.
- (d) provide guidance on how much to aggregate information so that material information is neither omitted because of aggregating too much, nor obscured by immaterial information if not aggregated enough.
- BC112 Entities may wish to apply the revised Practice Statement alongside local laws, regulations or other requirements or guidelines for narrative reporting. Some of these requirements or guidelines may require entities to disclose information that would not be judged material according to the Board’s proposals. To encourage application of the revised Practice Statement alongside local requirements, the Board proposes to permit management commentary to include such information if it does not obscure information material to investors and creditors.
- BC113 Paragraph 3.2 proposes to require management commentary to provide material information. The Board’s Management Commentary Consultative Group discussed whether there should be an exception permitting an entity not to disclose information that is material but commercially sensitive. Members of the Consultative Group expressed mixed views. Furthermore, the disclosure requirements of IFRS Standards do not generally include exceptions for commercially sensitive information: there is an exception in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which applies only to ‘extremely rare’ cases in which disclosure of information could prejudice seriously the entity’s position in a dispute with other parties. For these reasons, the Exposure Draft does not propose an exception for commercially sensitive information.

Coherence (paragraphs 13.27–13.30)

- BC114 As noted in paragraph BC5, some management commentaries provide fragmented information. To promote a more interconnected narrative in management commentary that would allow investors and creditors to understand the relationships between pieces of information, the Board proposes a requirement that information in management commentary should be coherent. The Board proposes guidance on determining how to make:
- (a) information about a key matter coherent—so that management commentary provides enough information about each key matter for investors and creditors to assess the implications of that matter; and
 - (b) information in management commentary as a whole coherent—so that connections between pieces of information are clear.
- BC115 The Board also heard that management commentaries are not always consistent with the related financial statements. Because an entity's management commentary is intended to enhance investors and creditors' understanding of the entity's financial statements, the Board proposes to require that management commentary provides information in a way that allows investors and creditors to relate that information to information in the entity's financial statements.
- BC116 In the Board's view, information in an entity's management commentary should also be consistent with other information provided by the entity—for example, in investor presentations, on the entity's website or in other publicly available communications. Therefore, the Board proposes that management commentary should identify and explain any areas of apparent inconsistency between the information in management commentary and other information provided by the entity.

Including information by cross-reference (paragraphs 13.19–13.21)

- BC117 Investors and creditors have expressed concerns that information is often duplicated across an entity's management commentary, financial statements and other reports. The Board considered whether entities can reduce such duplication by including information in management commentary by cross-reference to other reports.
- BC118 The 2010 Practice Statement states that 'when practicable, management should avoid duplicating in its management commentary the disclosures made in the notes to its financial statements'. However, the 2010 Practice Statement does not explicitly refer to including information in management commentary by cross-reference to an entity's financial statements.

- BC119 In developing its proposals on including information by cross-reference, the Board:
- (a) considered the analysis in the Discussion Paper *Disclosure Initiative—Principles of Disclosure* and subsequent feedback from stakeholders about including disclosures in financial statements by cross-reference;⁶
 - (b) reviewed other standard-setters' approaches to including information in management commentary by cross-reference; and
 - (c) considered feedback from its consultative groups.
- BC120 Permitting inclusion of information in management commentary by cross-reference could give rise to concerns about:
- (a) fragmentation, especially if many cross-references are included, causing investors and creditors to look elsewhere for much of the material information, which could make management commentary less clear; and
 - (b) the status of information included by cross-reference, its availability and whether that information is current.
- BC121 The Board proposes to permit including information in management commentary by cross-reference to another report because:
- (a) doing so could help to limit the duplication of information across an entity's reports, to make management commentary more concise and to reduce 'disclosure overload';
 - (b) most stakeholders consulted in developing the Exposure Draft broadly agreed with this approach in at least some cases, notably for cross-references to financial statements; and
 - (c) doing so is allowed in some jurisdictions, especially within an annual reporting package that includes management commentary.
- BC122 The Board proposes that information included in management commentary by cross-reference becomes part of that management commentary even though it is actually located in another report. As a consequence of that principle:
- (a) this information would need to comply with the other requirements of the Practice Statement—for example, it would need to possess all the attributes required for information in management commentary;
 - (b) the report with that information would need to be available to investors and creditors whenever the management commentary is available, and on the same terms; and
 - (c) the bodies or individuals who authorise the management commentary for issue would take the same degree of responsibility for information included by cross-reference as they do for the information included directly within management commentary.

⁶ See Discussion Paper *Disclosure Initiative—Principles of Disclosure*.

- BC123 The Board also proposes restrictions on including information by cross-reference. These restrictions relate to the precision of a cross-reference, the period covered by the other report and the need for that other report to be up to date. In the Board's view, the proposed principle and restrictions would help limit excessive cross-referencing, which could obscure material information. The Board also proposes to clarify that because management commentary is designed to complement financial statements, most information in an entity's financial statements does not need to be duplicated in its management commentary (see paragraph BC107).
- BC124 Including information in management commentary by cross-reference differs from:
- (a) signposting complementary non-financial information outside management commentary to provide detail which may be of interest to investors and creditors in some cases but is not material in the context of management commentary—for example, signposting to a governance report containing detailed governance information that would not be judged material in the context of management commentary; and
 - (b) acknowledging an external source of a statistic or of other information included in management commentary.

Metrics (Chapter 14)

All metrics (paragraphs 14.4–14.13)

- BC125 The 2010 Practice Statement lists 'the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives' as an area of content to be discussed in management commentary.
- BC126 The Board proposes to include requirements and guidance on providing metrics in management commentary in Part C—*Selection and presentation of information*—of the revised Practice Statement.
- BC127 The Board does not propose to specify a list of metrics that an entity would be required to provide in management commentary because information about metrics that are specific to an entity and reflect the industry in which it operates, and its other circumstances, is likely to be more useful to investors and creditors. The Board decided that instead of providing a list of required metrics, it is better for the revised Practice Statement to provide guidance for management to identify entity-specific material information, including metrics, related to matters discussed in management commentary. In the Board's view, material information, in the context of an entity's management commentary, is likely to include metrics derived from metrics an entity's management uses to monitor key matters and to measure progress in managing those key matters. For each area of content, the Board proposes to provide examples of metrics sometimes used to monitor key matters and progress in managing them. The Board's proposals would also permit

management to use detailed topic-specific or industry-specific requirements or guidelines issued by other bodies to identify metrics that might be material to investors and creditors.

- BC128 In developing its proposals on metrics, the Board considered the requirements in the 2010 Practice Statement. The Board also reviewed academic literature on the use of metrics and requirements and guidelines issued by other standard-setters and by securities regulators. The review covered metrics derived by adjusting measures presented in an entity's financial statements (sometimes called 'alternative performance measures' or 'non-GAAP measures').
- BC129 The Board's proposals on metrics have a broader scope than its proposals on management performance measures in Exposure Draft *General Presentation and Disclosure* because:⁷

- (a) that Exposure Draft defined management performance measures as subtotals of income and expenses that are used in public communications outside financial statements, to complement totals or subtotals specified by IFRS Standards, and to communicate to users of financial statements management's view of an aspect of an entity's financial performance. Management commentary may need to discuss a broader range of metrics—for example, metrics used to monitor key aspects of the entity's financial position or cash flows, or to monitor key matters.
- (b) the proposed requirements for metrics in management commentary would apply to all metrics in management commentary, with further requirements proposed for metrics derived by adjusting measures presented or disclosed in the entity's financial statements and for forecasts and targets related to the metrics included in management commentary.

- BC130 An entity's financial statements may already include some of the disclosures that the Board is proposing. As explained in paragraph 13.17, under the Board's proposals such information would be duplicated in management commentary only if it were necessary to meet the proposed disclosure objectives and the proposed objective of management commentary, or to provide coherence between the management commentary and financial statements.

Forecasts and targets (paragraphs 14.14–14.17)

- BC131 The Board does not propose to introduce a requirement to include forecasts or targets in management commentary. The proposed requirements focus on providing information to help investors and creditors assess an entity's prospects for future cash flows rather than on management's assessments of the entity's prospects. However, the proposals do not preclude management from including forecasts or targets in management commentary; for example, to explain its aims or milestones on the path towards achieving those aims.

⁷ See Exposure Draft *General Presentation and Disclosure*.

- BC132 The Board proposes requirements for providing useful information about forecasts and targets that management includes in management commentary. In particular, the Board proposes that management commentary should:
- (a) identify the metric of current-period performance or position to which the forecast or target relates;
 - (b) explain the method used to calculate the forecast or target amount and the inputs to the calculation;
 - (c) disclose the actual amount for the current reporting period and the forecast or target amount;
 - (d) analyse and explain variances and implications of those variances; and
 - (e) explain how to access a previously published forecast or target for a period that extends beyond the reporting period, if an entity made such a forecast, and explain whether the forecast has been updated since its publication.
- BC133 An entity may have previously published a forecast or target in a publicly available communication. Under the Board's proposals, management commentary would provide the information described in paragraph BC132 not just about forecasts and targets included in management commentary, but also about forecasts and targets included in the entity's other publicly available communications. Consequently:
- (a) the information about forecasts and targets related to metrics discussed in management commentary would be provided to all investors and creditors in one place—management commentary—so they would not need to search for that information in the entity's other communications.
 - (b) variances would be explained not just against forecasts and targets included in management commentary, but also against forecasts and targets included in other publicly available communications. This kind of explanation could help investors and creditors assess management's success in achieving its past forecasts and targets, and so assess management's stewardship of the entity's resources.
 - (c) investors and creditors would be aware of all published forecasts and targets related to metrics in management commentary that extend beyond the reporting period and that could provide an insight into management's perspective of the entity's future performance and position. The Board has heard that investors and creditors find information about management's assumptions made in developing forecasts and targets helpful for their own assessments of an entity's prospects for future cash flows.
- BC134 The Board does not expect this proposal to be onerous for preparers, because it relates to forecasts and targets that they have already prepared and included in public communications, and is limited to forecasts and targets related to metrics included in management commentary.

Effective date and transition (paragraph 1.6)

- BC135 The Board proposes that the revised Practice Statement supersede the 2010 Practice Statement for annual reporting periods beginning on or after the date of its issue.
- BC136 In deciding on a proposed effective date, the Board noted that entities would need time to review the contents of the revised Practice Statement and create or adjust their internal systems and control procedures to ensure that they provide material information in management commentary and present it in a way that helps investors and creditors. The time needed would depend on an entity's current narrative reporting system, as well as on an entity's facts and circumstances, such as its size and the local requirements or regulations that apply to its narrative reporting. The Board's proposed effective date would give entities at least one year before their management commentary would be required to comply with the revised Practice Statement.
- BC137 The Board proposes to permit early application of the revised Practice Statement. Early application could allow entities to better meet investors and creditors' information needs. The Board found no disadvantages for investors and creditors that could result from early application.
- BC138 The Board does not propose any specific transitional provisions. The reason for this is that the information in management commentary is expected to be derived from information already used by management in managing the business, so an entity would not need to produce information specifically for management commentary.

Expected effects of the proposals

- BC139 The Board is committed to assessing, and sharing knowledge about, the likely costs of implementing proposed new requirements and the likely ongoing application costs and benefits of those proposals – these costs and benefits are collectively referred to as 'effects'. The Board gains insight into the likely effects of its proposed new requirements through its formal exposure of the proposals and through its fieldwork, analysis and consultations.
- BC140 The analysis of the effects of the Board's proposals in this project focuses on the effects on the quality of financial reporting (see paragraphs BC144–BC161). Comparing the effects of the Board's proposals on practice with the effects of applying the current requirements in practice would be difficult, because the Board has little evidence of entities applying the 2010 Practice Statement. The Board also considered how its proposals could:
- (a) benefit jurisdictions that choose to adopt the proposals, either in full or with some adaptation (see paragraphs BC162–BC165); and
 - (b) help preparers navigate the complex narrative reporting landscape (see paragraphs BC166–BC167).

- BC141 The Board also considered:
- (a) the likely costs for preparers of implementing the proposals and of their ongoing application (see paragraphs BC168–BC170);
 - (b) the likely costs for investors and creditors of analysing the resulting information (see paragraphs BC171–BC172); and
 - (c) an overall assessment of the likely benefits compared with the likely costs (see paragraphs BC173–BC177).
- BC142 The effects analysis is mainly qualitative, rather than quantitative. Initial and subsequent costs and benefits are likely to vary among stakeholders. Quantifying costs and, particularly, benefits is subjective and difficult. No sufficiently established and reliable techniques quantify either costs or benefits in this type of analysis. The analysis is of the likely effects of the proposals rather than their actual effects, because these cannot be known prior to application.
- BC143 The Board sought to understand the potential effects of its proposals as it developed the Exposure Draft. The project and its likely effects were discussed:
- (a) at four meetings with the Management Commentary Consultative Group, the main consultative group on the project;
 - (b) on 13 occasions with the Board's other consultative groups, including the Capital Markets Advisory Committee, the Global Preparers Forum, the Accounting Standards Advisory Forum and the Emerging Economies Group; and
 - (c) at 70 meetings with stakeholders, including investors and creditors, preparers, academics, standard-setters and regulators.

Likely effects of the proposals on the quality of financial reporting

- BC144 In assessing how the proposed requirements are likely to affect the quality of financial reporting, the Board identified these expected improvements:
- (a) an improved focus and provision of entity-specific information (see paragraphs BC145–BC148);
 - (b) the provision of better information on topics of particular interest to investors and creditors (see paragraphs BC149–BC152);
 - (c) the provision of more coherent information (see paragraphs BC153–BC154);
 - (d) other improvements to the quality of information in management commentary (see paragraphs BC155–BC158); and
 - (e) benefits to the quality of electronic reporting (see paragraphs BC159–BC161).

Focus on key matters and entity-specific information

- BC145 Investors and creditors expressed concern that some management commentaries lack entity-specific information or fail to focus on matters important to an entity's prospects by failing to provide material information about such matters or by obscuring such information with immaterial information.
- BC146 To help management meet investors and creditors' information needs, the Board's proposals would require management commentary to provide material entity-specific information and focus on key matters. The Board also proposes guidance to help management make materiality judgements. Instead of requiring specified disclosures, the Board proposes an objectives-based approach intended to help management make materiality judgements that reflect the entity's circumstances. The Board proposes to introduce the notion of 'key matters' as a tool for identifying material information.
- BC147 The Board's proposed objectives-based approach may necessitate more effort from management than an approach requiring specified disclosures in all cases for all entities or for all entities in a given industry. Nevertheless, the Board expects that its proposed approach would result in the provision of more meaningful entity-specific information in management commentary than would result from other approaches.
- BC148 The Board expects that providing guidance on materiality would lead to management better understanding how to make materiality judgements when preparing management commentary. The proposals are intended to enable management to exercise better judgement, so that management commentary provides material information and focuses on key matters that are fundamental to the entity's ability to create value and generate cash flows.

Information of particular interest to investors and creditors

- BC149 The Board noted investors and creditors' increasing demand for information about the following interrelated matters:
- (a) matters that could affect an entity's long-term prospects;
 - (b) intangible resources and relationships; and
 - (c) ESG matters.
- BC150 Paragraphs BC82–BC84 and Appendix B to the draft Practice Statement discuss the Board's approach to reporting on these matters. The Appendix provides an overview of the Board's proposed requirements and guidance that management is likely to need to consider in deciding what information to provide about them.
- BC151 The Board's proposed objectives-based approach to identifying and reporting information about matters of particular interest to investors and creditors is designed to:

BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT MANAGEMENT COMMENTARY

- (a) require management commentary to provide information about matters of particular interest to investors and creditors, if that information is material (see paragraph BC82). Management could apply other organisations' requirements or guidelines in identifying some information that might be material in the context of management commentary.
 - (b) be a basis for management to consider the entity's circumstances in making judgements on the materiality of information, and to reassess what information is material as the entity's circumstances evolve and as investors and creditors' needs evolve.
- BC152 The Board expects that these proposals would lead to management commentary providing material information about matters that could affect an entity's long-term prospects, about intangible resources and relationships and about environmental and social matters. The Board expects that such information would help investors and creditors:
- (a) assess the scalability, resilience, adaptability and durability of the entity's business model and understand management's long-term strategy;
 - (b) assess the extent to which the entity's business model and management's strategy depend on intangible resources and relationships, including those not recognised in the entity's financial statements, and the factors that could affect the availability or quality of those resources and relationships; and
 - (c) understand environmental and social matters that could fundamentally affect the entity's ability to create value and generate cash flows, including as a result of the environmental or social impacts of the entity's activities disrupting the entity's key relationships.

Coherence of information

- BC153 Investors and creditors have expressed concern about a lack of coherent discussion in management commentary, and a lack of consistency between information in management commentary and the information that an entity publishes in its financial statements or in other reports.
- BC154 The Board expects that its proposals in paragraphs 13.27–13.30 would help management to increase the coherence of:
- (a) the information provided on each matter throughout management commentary;
 - (b) the discussion of different matters in management commentary; and
 - (c) the information in management commentary with the information in the related financial statements and in other publicly available communications.

Other improvements to the quality of information

- BC155 Investors and creditors have told the Board that information in management commentary sometimes lacks characteristics of useful financial information set out in the *Conceptual Framework*, such as comparability, balance or verifiability.
- BC156 The Board considered the likely effects of its proposals on comparability of information in management commentary. The Board's proposed objectives-based approach relies on an entity's management identifying matters and information about those matters that need to be included in management commentary. That approach could lead to less comparable information than might be produced if entities were to apply detailed industry-specific or topic-specific requirements. However, asking all entities to provide specified information or metrics on the same matters could lead to entities reporting immaterial information or discourage entities from applying judgement in considering whether they need to disclose material information that is not explicitly specified. Investors and creditors do not benefit from information that is comparable but not material in an entity's circumstances. The Board's approach is designed to lead entities to provide information in management commentary that is more entity-specific than is sometimes the case in existing practice.
- BC157 The Board's proposals could make information in management commentary more comparable in practice because they:
- (a) include more detailed disclosure objectives and guidance to help entities meet those objectives than were included in the 2010 Practice Statement, and in some local requirements and guidelines.
 - (b) require information in management commentary to be provided in a way that enhances comparability. If management is aware that other entities with similar activities provide particular information to investors and creditors, it would need to consider whether that information would be material in the context of the entity's own management commentary. The proposals also permit entities to apply requirements and guidelines issued by other organisations to identify information that might be material. By choosing to apply widely used industry-specific or topic-specific guidance, an entity could improve comparability of information in management commentary. However, the Board's proposals would require entities to prioritise providing material information over comparability. Entities would not be permitted to substitute immaterial information that is comparable for material information that is less comparable.
- BC158 The Board's proposals are also designed to make information provided in management commentary:
- (a) more balanced. The proposals explain that management commentary should not give more prominence to favourable information than to unfavourable information, and should not exaggerate or obscure favourable or unfavourable information. For example, in describing its

strategy, management would be expected to discuss the risks that could threaten the implementation of its strategy, not only the opportunities being pursued.

- (b) more complete. For example, for each area of content the proposals include explicit disclosure objectives and suggest what information might need to be provided in management commentary to meet those disclosure objectives.
- (c) more verifiable. For example, the proposals explain that information in management commentary is more verifiable if it can be corroborated by comparing it with other information available to investors and creditors about the business, about other businesses or about the external environment.

Quality of electronic reporting

BC159 Financial statements and narrative reports are increasingly used in electronic rather than printed form, so the Board has developed its proposals to help improve the quality of electronic reporting.

BC160 The IFRS Taxonomy contains few elements for information likely to be included in management commentary. It allows blocks of information in management commentary to be tagged using broad IFRS Taxonomy elements, such as 'nature of business' or 'management's objectives and its strategies for meeting those objectives'. The more structured and more detailed requirements in the revised Practice Statement than in the 2010 Practice Statement could facilitate better electronic reporting by providing more specific IFRS Taxonomy elements for management commentary. In particular, the IFRS Taxonomy would include elements reflecting specific disclosure objectives for each area of content. For example, for 'strategy' the IFRS Taxonomy elements could reflect specific disclosure objectives:

- (a) the drivers of the strategy, including the opportunities management has chosen to pursue;
- (b) aims of the strategy;
- (c) milestones on the path towards achieving 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.

BC161 Tagging information in more detail could make accessing information in electronic form easier for investors and creditors. More detailed tagging could also contribute to easier comparison of information, both between entities and over time for one entity.

Likely benefits for jurisdictions of adopting the proposals

- BC162 The Board proposes to retain the status of the Practice Statement. Accordingly, local lawmakers and regulators would continue to determine whether entities within their jurisdiction should be required to provide management commentaries, whether those commentaries should comply with the Practice Statement and whether they should be subject to any form of external assurance.
- BC163 The Board has been developing comprehensive requirements that focus on information that investors and creditors need and guidance to help management identify that information and present it clearly. Comprehensive requirements, including clear disclosure objectives, are designed to provide an effective basis for:
- (a) enforcement of the Practice Statement; and
 - (b) external assurance on management commentary.
- BC164 Comprehensive requirements that could lead to improvements in the quality of reporting (discussed in paragraphs BC144–BC161), would provide a better basis for mandating the revised Practice Statement, and could encourage local regulators to do so.
- BC165 When the 2010 Practice Statement was issued, it influenced the development of local requirements and guidance even in jurisdictions where it was not adopted or applied directly by entities. In revising the Practice Statement, the Board seeks to better meet the information needs of investors and creditors by incorporating into its proposals innovations in narrative reporting requirements and guidelines and by aiming to prevent the shortcomings it had identified in reporting practice. Requirements better reflecting investors and creditors' information needs could encourage jurisdictions to reflect the revised proposals in local requirements.

Clarity about interaction with other requirements and guidelines

- BC166 Because of the large number of separate and overlapping developments in narrative reporting, the Board heard concerns from entities about the difficulty of navigating the complex narrative reporting landscape, in particular in sustainability reporting.
- BC167 In this project, the Board is not seeking to endorse any particular set of requirements or guidelines. The Board's proposals would help entities navigate this landscape by explaining how the revised Practice Statement relates to requirements and guidelines issued by other standard-setters. In particular, the Board envisages that entities could apply the revised Practice Statement:
- (a) in conjunction with narrative reporting requirements or guidelines issued by other bodies for use by entities in specific industries or addressing specific topics, such as sustainability reporting. The Board views management commentary as an appropriate location for

information about environmental and social matters that is material to investors and creditors (see paragraph BC84).

- (b) alongside local laws or regulations whose objectives are similar to the objective of management commentary proposed by the Board. Where local laws or regulations specify only general requirements, an entity could apply the proposed requirements and guidance to help it identify information that might enable it to comply with the laws or regulations. Conversely, where local laws or regulations are detailed and prescribe disclosure of specific information, management commentary could include all of that information if it is provided in a way that does not obscure material information with information not required by the revised Practice Statement.

Likely costs of the proposals

Likely costs for preparers of implementing the proposals and of ongoing application

- BC168 The Board expects that the implementation and ongoing application of the proposals are unlikely to lead to significant costs in producing information specifically for management commentary. Significant costs are unlikely because information in management commentary is expected to be derived from information used by management in managing the business and is also expected to reflect management's perspective.
- BC169 The costs of implementing the proposals and ongoing application are likely to relate to:
 - (a) establishing and maintaining rigorous internal systems for identifying information to include in management commentary;
 - (b) determining how to present that information so it is helpful to investors and creditors;
 - (c) establishing quality-control procedures appropriate for information to be published; and
 - (d) external assurance costs, if local laws or regulations require external assurance of management commentary or if an entity chooses to engage auditors.
- BC170 Those costs would depend on an entity's reporting systems. The costs may be significant for entities that do not currently prepare any management commentary. However, the costs of implementing the proposals and of their ongoing application are likely to be more limited for preparers that apply requirements or guidelines on management commentary issued by other standard-setters if those requirements or guidelines:
 - (a) set out an objective of management commentary similar to the objective proposed in the Exposure Draft, focusing on the common information needs of investors and creditors;

- (b) specify that information in management commentary needs to possess attributes similar to those proposed in the Exposure Draft; and
- (c) cover similar areas of content and have similar disclosure objectives.

Likely costs for investors and creditors of analysing the resulting information

- BC171 The Board's proposals are based on investors and creditors' information needs. The Board therefore expects the proposals to make investors and creditors' analyses easier, and save investors and creditors costs by providing them with better information for their analyses.
- BC172 The Board expects the revision of the Practice Statement and resulting updates to the IFRS Taxonomy to result in more accessible and comparable information in management commentaries in electronic form. Such information is likely to reduce investors and creditors' costs if they access management commentary electronically, and may make using management commentary in electronic form feasible for investors and creditors that do not already do so.

Overall assessment of likely benefits compared with likely costs

- BC173 In summary, the Board's proposals are expected to result in:
- (a) an improved focus on key matters and provision of entity-specific information in management commentary;
 - (b) provision of material information of particular interest to investors and creditors, including information on matters that could affect an entity's long-term prospects, on intangible resources and relationships and on ESG matters;
 - (c) information that is more coherent within management commentary and with the entity's financial statements and other publicly available reports;
 - (d) other improvements to the quality of information in management commentary, including information that is more balanced, complete, comparable and verifiable; and
 - (e) more detailed tagging of information in management commentaries, which could lead to easier access to management commentary in electronic form.
- BC174 The Board's proposals could also:
- (a) make it easier for lawmakers and regulators to enforce the revised Practice Statement and for auditors to provide assurance on management commentary, or to enhance the level of assurance they provide; and
 - (b) encourage lawmakers and regulators to reflect the proposals in local requirements.

BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT MANAGEMENT COMMENTARY

- BC175 The proposals would clarify how the Practice Statement could be applied with requirements and guidelines issued by other standard-setters or other bodies.
- BC176 The Board considers that implementing its proposals would provide more benefits than the 2010 Practice Statement, because the Board has designed the proposals to better meet investors and creditors' information needs.
- BC177 In the Board's view, the likely benefits of implementing and adopting the revised Practice Statement would significantly outweigh the likely costs of implementing the proposals and of ongoing application.



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