

Management Commentary Slide deck 1 *Agenda and introduction*

IFRS Management Commentary Consultative
Group 13 December 2019

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Agenda and introduction (Slide Deck 1)

- Purpose of meeting
- Project reminders
- Update on project progress over 2019

Topics for further input (Slide Deck 2)

- Information on intangibles and environmental, social and governance (ESG) matters
- Meaning of ‘management’s view’
- Purpose
- Guidance on narrative coherence

Overview of the staff’s current proposals (Slide Deck 3)

Supporting adoption of the Practice Statement (Slide Deck 4)

Purpose of meeting

There are three main areas of discussion the staff would like to cover with the Consultative Group at this meeting:

Topics for further input

Topics for additional discussion were identified on the following basis:

- the staff developed further the proposed approach:
 - information on intangibles and ESG matters
 - guidance narrative coherence
- the Consultative Group asked for clarifications:
 - interaction of management’s view with users’ needs
- the staff would like the Consultative Group’s views, following discussion with the Board:
 - Purpose.

Overview of the staff’s current proposals

The staff would like to discuss the staff’s current proposals for the requirements and guidance to be included in the revised Practice Statement. The staff highlighted any changes from the proposals previously discussed with the Consultative Group. The staff would like your views on the additional proposals, on whether the current proposals taken as whole would result in useful information to users and on whether any further requirements or guidance need to be included.

Supporting adoption of the Practice Statement

The staff would like to discuss considerations related to supporting adoption of the Practice Statement, including its interaction with other frameworks and assurance over management commentary.

Rationale for project and focus of revision

In November 2017, the Board decided to undertake a project to revise IFRS Practice Statement 1 *Management Commentary*. Below, the staff summarise the reasons for the project, and what the focus of the revision is:

Why revise?

Gaps in current reporting practice



Developments in narrative reporting



Increasing need for additional information



Focus of revision

Meet primary users' information needs

Retain a principles-based approach but expand the guidance to:

- consolidate innovations
- address gaps in reporting
- support rigorous application

Particular emphasis on:

- company-specific matters
- intangibles and ESG matters
- matters that underpin long-term success
- coherent discussion linked to strategy

Gaps in current reporting practice

Below, the staff summarise the gaps in current management commentary reporting practice which were discussed with the Consultative Group, and which the staff seek to address with their proposals.

Area	Challenge/gap
Focus of discussion	Typically short-term focused , with insufficient or missing discussion of matters that would help users understand the entity's long-term prospects and what underpins its long-term success:
	- Insufficient discussion of key resources and relationships, particularly intangibles that are not recognised in the financial statements
	- Failure to discuss strategic challenges and management's strategy to address them, with a tendency to discuss operational tactics instead
	- Failure to discuss external systemic issues , and their implications, which may not crystallise in the financial statements in the short term.
Level of detail	Incomplete or fragmented information about a matter that fails to 'tell the story' of the entity's prospects:
	- Incomplete or over-generalised business model reporting
	- Insufficient information on a matter to understand its implications and the progress in managing that matter
	Too wide a scope of matters discussed – failure to identify what is material and to focus on matters specific to the entity:
	- Key risks are obscured by a list of risks which are less important
	- Limited relevance of operational measures reported
Selection and presentation of information	Lack of neutrality in the selection of information included in management commentary and in discussing a matter – users often notice a positive bias and undue emphasis on positive performance and outcomes
	Lack of comparability with other entities and lack of consistency with other information provided by the entity in other reports
	Lack of consistency in definitions of measures over time resulting in lack of comparability, as well as lack of comparative information , making it difficult for users to understand trends in performance

Recap of previous discussions

In the previous meetings, the Consultative Group discussed the following topics:

Stream 1

- Objective of management commentary
- Applying materiality in management commentary*
- Principles for preparing management commentary*

Stream 2

- Performance, position and progress – including analysis of the financial statements and matters that could affect the entity's future development

Stream 3

- Business model
- Strategy
- Operating environment and risks

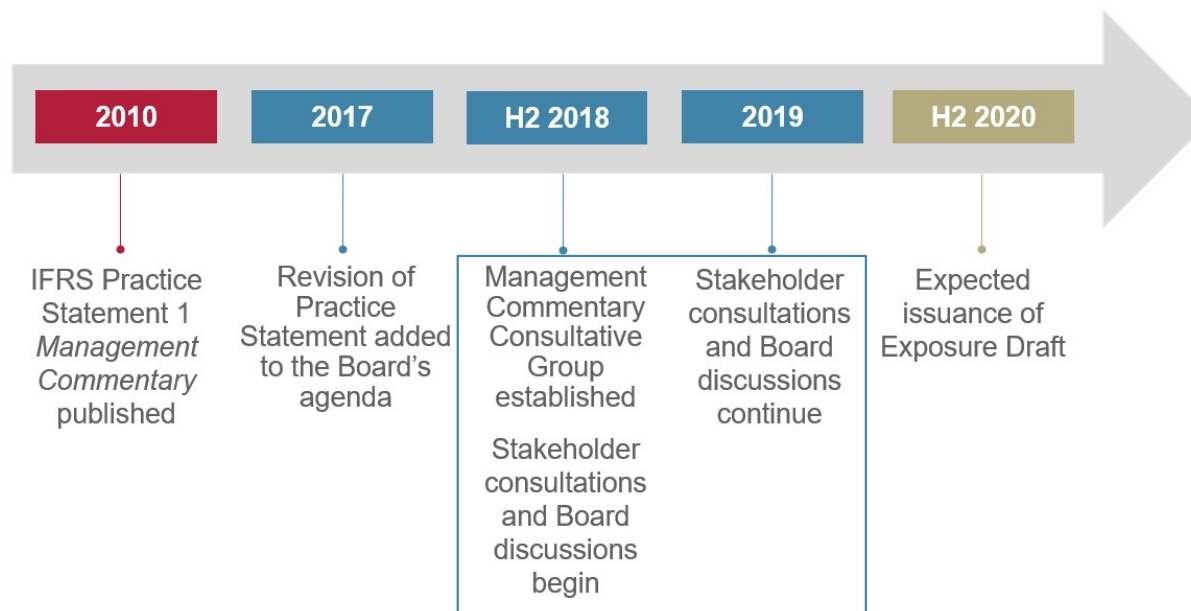
Appendix A includes a summary of the input received from the Consultative Group and how the staff has considered that input, including where proposals were put forward for Board decisions.

The staff follow-up on items which needed further clarification or where we are considering updating our approach in **Slide Deck 2 – Topics for further input**. We further highlight and discuss the proposals which were updated since the previous meeting in **Slide Deck 3 – Overview of the staff's current proposals**.

* In the slide decks for this meeting guidance on materiality and principles for preparing management commentary are covered by guidance on the basis for preparing a management commentary

Update on project

Other outreach



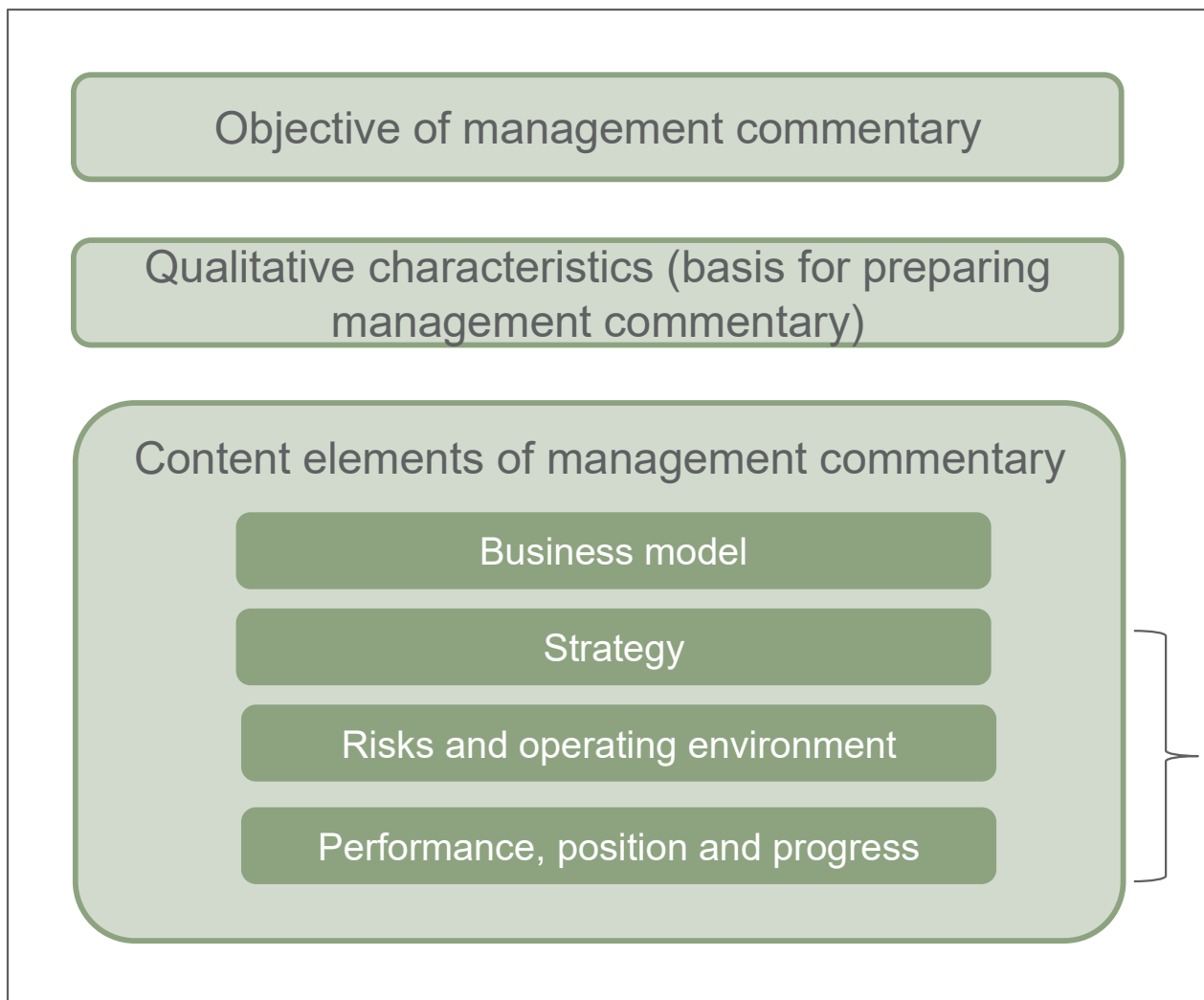
Since October 2018, the staff have conducted outreach with the other consultative bodies of the Board, namely:

- Accounting Standards Advisory Forum (ASAF)
- Capital Markets Advisory Committee (CMAC)
- Global Preparers Forum (GPF)

The staff considered the input from these meetings in its discussions with the Board (and will continue to do so for upcoming meetings) and in updating its proposals – an overview of the current proposals is presented in Slide Deck 3.

The staff also presented their proposed approach to discussing intangibles and ESG matters in management commentary at a meeting of the International Forum of Accounting Standard Setters (IFASS).

Approach to revision of the Practice Statement



Progress

- ➔ Discussed by the Board; the Board to deliberate on further clarifications
- ➔ Tentative decisions by the Board
- ➔ Ongoing discussions with the Board
- ➔ To be discussed at future Board meetings

See Appendix B for further details on the Board's discussions



Appendix A:
*Summary of input from previous
meetings of the Consultative Group*

Input from previous Consultative Group meetings

Objective

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How staff have considered the input from MCCG
<p>The Practice Statement should focus on meeting primary users' information needs and what management considers to be important to the success of the entity</p>	<p>The staff discussed with the Board that the objective of management commentary needs to focus on primary users' needs, and should include an explicit reference to providing information that is relevant to their assessment of future cash flows and management's stewardship of the entity's economic resources. This is further reflected in the tentative guidance on applying materiality judgments (see Appendix B, slide 28 for the Board's tentative decisions). The staff further propose a user-focused disclosure objective for each content element (see Slide Deck 3 – <i>Overview of the staff's current proposals</i>).</p>
<p>The Practice Statement should explicitly refer to value creation and time horizons, particularly long-term</p>	<p>The staff considered the input on value creation and how its link to future cash flows can be explained, and analysed that the discussion of business model in the Practice Statement would be the most appropriate content element in which to address value creation. The Board tentatively decided that in explaining the meaning of business model, the Practice Statement should refer to the value that the entity creates for itself and that the notion of value created for an entity is related to the entity's ability to generate cash flows (see Appendix B, slide 31 for the Board's tentative decision).</p> <p>The staff agree that it is helpful to be explicit that the management commentary should address matters affecting the entity's long-term prospects. To achieve this, the staff discussed with the Board that guidance to support the objective for a management commentary should specify that the selection of information should take account of the primary users' need to assess the uncertainty of the entity's net cash inflows, its ability to develop and sustain them in the long term, and management's stewardship of the entity's economic resources to support this.</p>
<p>Reference to the entity's future net cash flows could be misinterpreted as a requirement or expectation that forecasts need to be in management commentary</p>	<p>The staff have proposed a clarifying statement in the guidance on the objective of management commentary to make it clear that management is not required to prepare forecasts or projected performance information for inclusion in the management commentary.</p>

Input from previous Consultative Group meetings

Basis for preparing (1/4)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input. In the previous discussion, we referred to basis for preparing management commentary as principles for preparing management commentary.

MCCG input	How staff have considered the input from MCCG
<p>The Practice Statement should provide supplemental application guidance and examples for applying materiality to a management commentary</p>	<p>The staff included an analysis of the input received from the Consultative Group in its proposals to the Board on application of materiality judgements in management commentary. In relation to this, the Board tentatively decided that the guidance on materiality would include an explanation of how to apply the materiality process (including the notion of narrative coherence) and a description of practical sources for identifying which matters to discuss in management commentary and material information about them. See Appendix B, slide 28 for further detail. In addition, the staff are considering whether and how further application guidance should be provided, since application of materiality (particularly to narrative reporting) is considered a challenging area for preparers.</p>
<p>The Practice Statement should provide guidance on materiality considerations for forward-looking information</p>	<p>The staff recognise that management commentary is forward-looking and provides more information than financial statements about often uncertain future matters that could affect the entity's long-term success. Based on the staff's analysis, the Board tentatively decided that to help management make materiality judgements on providing information about uncertain future matters, the revised Practice Statement should state that in assessing whether information is material, management should consider not only the size of the impact of a matter but also the likelihood of the matter crystallising. However, management would need to consider providing information about a matter even if the likelihood of that matter crystallising is low, for example, when the potential impact is very high.</p>

Input from previous Consultative Group meetings

Basis for preparing (2/4)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input. In the previous discussion, we referred to basis for preparing a management commentary as principles for preparing management commentary.

MCCG input	How staff have considered the input from MCCG
The Practice Statement should avoid using the term 'significant' to avoid confusion with 'material'	The staff agree that using multiple terms in relation to materiality is unhelpful, and are therefore proposing to drop references to 'significant' and similar terms and replace them with direct references to the information users need to assess the entity's future cash flows and management's stewardship of its economic resources.
The term 'narrative coherence' could be interpreted narrowly	The staff have not identified an alternative term to 'narrative coherence', but will continue to consider the most appropriate terminology to use in drafting.
Guidance on narrative coherence may fit better in guidance on materiality than in guidance on completeness	The staff agree that the notion of narrative coherence is best incorporated into the guidance on materiality (although it also addresses aspects of completeness of information on a matter), and have adapted their proposals on materiality accordingly, which the Board tentatively agreed with (see Appendix B, slide 28). The staff also intend to propose guidance to promote application of narrative coherence in each of the content elements. See Slide Deck 2 – <i>Topics for further input</i>).
Matters discussed by the entity's board should be discussed in a management commentary	In the proposals on guidance on materiality which the Board tentatively agreed with, the staff recommended that the Practice Statement would describe practical sources to help identify matters that may need to be discussed. One of the practical sources proposed is information management uses in managing the business, for example, information about matters discussed with the entity's board.

Input from previous Consultative Group meetings

Basis for preparing (3/4)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input. In the previous discussion, we referred to basis for preparing a management commentary as principles for preparing management commentary.

MCCG input	How staff have considered the input from MCCG
<p>The term ‘neutrality’ could be misinterpreted and the terms ‘balanced’, ‘unbiased’ or ‘fair’ may be more appropriate</p>	<p>The Board has tentatively decided that the Practice Statement should include a description of neutrality based on the <i>Conceptual Framework</i>. In particular, that description would explain that for the depiction of a matter to be neutral, information about that matter cannot be omitted, obscured, given undue prominence or otherwise manipulated to influence primary users’ understanding of the matter in a particular way. The staff anticipate simplifying the description of neutrality in drafting and using terms such as ‘balanced’ and ‘unbiased’ to support the description (see Appendix B, slide 29).</p>
<p>The Practice Statement should not require reconciliations to industry measures or those commonly provided by peers to enhance comparability</p>	<p>The staff agree that requiring reconciliations to measures used by peers would represent an undue burden for preparers as it would require them to analyse peers’ basis of preparation. It is therefore proposed to refine this requirement and require entities only to indicate whether a performance measure included in management commentary is a commonly used metric.</p>
<p>It should be clear in the guidance on comparability in the Practice statement that references to trend information refer to historical information</p>	<p>Where applicable, in drafting their proposals the staff plan to clarify that references to trends relate to historical information.</p>

Input from previous Consultative Group meetings

Basis for preparing (4/4)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input. In the previous discussion, we referred to basis for preparing a management commentary as principles for preparing management commentary.

MCCG input	How staff have considered the input from MCCG
<p>The Practice Statement should include guidance on communication principles such as understandability and conciseness</p>	<p>The Board has tentatively decided that the guidance on understandability in the revised Practice Statement should incorporate guidance from the 2010 Practice Statement on presentation; and that it should include a requirement to consider conciseness (see Appendix B, slide 30).</p>
<p><i>Different views expressed on incorporating information in management commentary by cross-reference including:</i></p> <ul style="list-style-type: none"> - Management commentary needs to be stand-alone and incorporating material information by cross-reference should not be allowed, or only allowed to the financial statements - Management commentary would benefit from allowing incorporation of information by cross-reference to regulatory filings and other reports published by the entity 	<p>The staff considered the input from the Consultative Group and other consultative bodies, which also had mixed views on permitting incorporating information by cross-reference, as well as the analysis and stakeholder feedback on the topic as part of the <i>Disclosure Initiative–Principles of Disclosure</i> Discussion Paper and the Board’s subsequent decision on incorporating information in the financial statements by cross-reference; and other standard-setters’ approach to cross-referencing. Taking into account these different views, the staff proposed that there should be an overarching principle that the information incorporated in management commentary by cross-reference becomes a part of the management commentary, so would need to have the same characteristics as other information directly in management commentary. The proposal also includes a set of conditions to limit the type of reports that cross-references can be made to, without specifically naming the types of reports because of different requirements in different jurisdictions. The Board’s tentative decision on this proposal can be found in Appendix B, slide 30. The staff would like to highlight that incorporating material information by cross-reference is different from both sign-posting to complementary non-material information outside management commentary and to acknowledging the source of information.</p>
<p>The Practice Statement should discuss verifiability</p>	<p>The staff are seeking the Consultative Group’s views on the extent to which their proposals would support the enforceability and assurability of a management commentary. See Slide Deck 4 for further details.</p>

Input from previous Consultative Group meetings

Strategy (1/2)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How staff have considered the input from MCCG
<p>The Practice Statement may need to specifically refer to time horizons, particularly the long term</p>	<p>The staff propose that the need for information for users to assess the entity's ability to <i>develop and sustain its cash flows in the long term</i> should be explicit in the guidance on the objective of management commentary, and that this should be reflected in the requirements on each of the content elements where applicable. The staff do not propose to specify the short, medium, and long term because they will be different for each entity. What matters for the management commentary is that information is provided where it is material, irrespective of the timing of the matter to which it relates.</p>
<p>Requirements should be clear they also address the existing strategy, and not only changes to strategy or to the business model</p>	<p>The staff propose a separate requirement to describe changes in strategy and business model from what was reported in the previous management commentary, to distinguish it from the requirements to discuss the existing business model and strategy.</p>
<p>The Practice Statement should address liquidity strategy, and in discussing both funding and liquidity strategies, require that management specifies the period assessed and discusses entity's ability to meet future commitments</p>	<p>The staff agree that the need to address liquidity considerations should be made explicit in the requirements for the discussion of funding strategy, and have updated the proposals. Based on the discussion with the Consultative Group, the staff think that the Practice Statement should not require management to provide their conclusion on the entity's ability to meet its future commitments, but that management should provide information to enable users' assessments of that ability.</p>

Input from previous Consultative Group meetings

Strategy (2/2)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How staff have considered the input from MCCG
<p>Discussion of management compensation should be linked to long-term strategy</p>	<p>The staff propose an explanation of the extent to which management’s compensation arrangements align with the execution of the entity’s purpose, objectives, and plans – i.e. not limited to long term strategy. The staff note that it cannot be assumed that there is any link between compensation and strategy.</p>
<p><i>Feedback on culture:</i></p> <ul style="list-style-type: none"> - Important to discuss, especially where critical to the industry - An explicit requirement for culture to be discussed in isolation (or as part of strategy) could result in boilerplate disclosure 	<p>Following mixed feedback received from the Consultative Group and in other outreach, the staff propose to remove an explicit requirement to discuss the role of the entity’s culture in supporting its strategy. However, the staff think that some of the proposals included in the overview of the staff’s proposals would help management provide a meaningful insight into an entity’s culture, for example, the requirement to explain how management’s compensation arrangements align with the execution of the entity’s strategy, and explanations and analysis of progress in managing the entity’s key relationships.</p>

Input from previous Consultative Group meetings

Business model (1/2)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How staff have considered the input from MCCG
<p>Discussion of long-term value creation should be incorporated in requirements for business model and strategy, because reference to prospects for future cash flows may not be interpreted to mean long-term or may be misinterpreted to imply a measurable cash flow effect</p>	<p>The staff agree that the notion of value creation should be given more prominence by being made explicit in the Practice Statement. The staff think that value creation should be covered in the description of an entity's business model, as a necessary precursor for understanding how the entity generates and can sustain its future cash flows. This was tentatively agreed with by the Board – see Appendix B, slide 31. To address potential misunderstandings over the use of the term 'value creation', the staff are considering if the Practice Statement should also explain the relationship between value created for others and value created for the entity.</p>
<p><i>Different views on interaction of business model with strategy, including that:</i></p> <ul style="list-style-type: none"> - they should be discussed together - 'purpose' should be discussed before or with business model - flexibility in how they are discussed should be allowed 	<p>The staff think it is helpful for the management commentary to explain the link between the business model and its stated purpose – this was tentatively agreed with by the Board – see Appendix B, slide 31. The staff recognise that in some situations an entity may have a poorly defined purpose and it may not necessarily be what guides the entity's long-term strategy, and the discussion with the Board reflected that there may be some confusion on what is meant by purpose. We would like to discuss this further with the Consultative Group during the meeting – see Slide Deck 2.</p>
<p>Discussion of an entity's legal structure and how it relates to operating structure would not be helpful</p>	<p>The staff agree with the concerns raised by the Consultative Group that this requirement could lead to excessive disclosures, and therefore do not plan to take this proposal forward. In the staff's view, the guidance on application of materiality and narrative coherence, and other requirements to identify and discuss information necessary to understand the implications of a matter, should lead to the provision of information on the legal structure where it is material.</p>

Input from previous Consultative Group meetings

Business model (2/2)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How the staff have considered the input from MCCG
Discussion of intangibles in the Practice Statement should be more prominent and not subsumed in business model	The staff agree it is important for the Practice Statement to be clear that the management commentary should address intangible resources and relationships that the entity depends on for its success and propose a statement to make this explicit and clarify that they must be addressed irrespective of whether they are included within the financial statements. The staff remain of the view that the entity's intangibles need to be understood in terms of the role they play in the operation of the entity's business model, rather than in isolation and therefore propose to retain <i>resources and relationships</i> as features of the business model to be described. The staff ask for the Consultative Group's views on its current proposed approach to intangibles in Slide Deck 2.
Discussion of resources and relationships should include discussion of impacts	The staff think the original proposal to include a description of the entity's impacts in the context of operating of the entity's business model should be retained. Combining the discussion of the entity's resources and relationships with discussion of impacts may lead to resources and relationships that the entity depends on but does not impact being omitted from the description of the business model.
Discussion of resources and relationships should distinguish between those in the entity's control and those that are part of its environment	The staff think classification of resources and relationships into 'controlled' and 'uncontrolled' would be difficult as the degree of control that an entity exerts over a resource or relationship can vary. For example, in the shorter term it may have control over how it deploys its staff, but in the longer term they will leave if not satisfied with their roles. The staff think it is preferable that the discussion of each resource or relationship addresses its specific circumstances.
Explanation of business model should be consistent with use in other IFRS standards	The staff's proposed explanation of 'business model' was developed to align with the definition of a business in IFRS 3 <i>Business Combinations</i> by referring to inputs, processes and outputs, whilst also including other features such as value creation. The staff also considered the definition of business model in IFRS 9 <i>Financial Instruments</i> . See Appendix B slide 31 for the Board's tentative decision.
Consider using 'outcomes' instead of 'impacts', and verbs to describe business activities.	The staff's current proposals use the term 'impacts' rather than 'outcomes'. The staff note that the term 'impacts' is consistent with the language already included in the EU reporting requirements. The staff will continue to refine the terminology as the project progresses.

Input from previous Consultative Group meetings

Risks and operating environment (1/2)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How the staff have considered the input from MCCG
<p>The Practice Statement should provide more guidance on how to identify which risks to report, and how to consider likelihood and magnitude as criteria for identification</p>	<p>The staff are proposing additional guidance on when an uncertain matter should be addressed that would apply both to risks and trends and factors in the operating environment. The proposals would require uncertain matters are addressed if they could affect an assessment of future cash flows irrespective of the period over which they are expected to crystallise, taking into account time-value, likelihood and magnitude.</p> <p>The staff’s proposed approach to the identification of risks is based on the application of narrative coherence which indicates how a risk may need to be discussed across each content element.</p>
<p>The Practice Statement should require that management explains their materiality process for determining risks</p>	<p>The staff are concerned that asking for a description of the materiality process may create the impression that material information (for example the identification of a risk) could be omitted from a management commentary if a narrow materiality process is described – i.e. the application of management’s own process might be seen to over-ride the application of the requirements for applying materiality.</p>
<p>The Practice Statement should require discussion which distinguishes between risks the entity can control and those that it cannot</p>	<p>The staff think it would be helpful for the Practice Statement to clarify that the management commentary should address both controllable and uncontrollable risks, but do not propose that it should require classification of risks into controllable and uncontrollable categories as this is likely to be subjective (depending on the time-horizon of the classification), and the description of the risk should provide sufficient information for users to make this assessment.</p>
<p>Clarity is needed on whether risks should be reported before or after mitigating actions</p>	<p>The staff are seeking further views from the Consultative Group on this question (see Slide Deck 2).</p>

Input from previous Consultative Group meetings

Risks and operating environment (2/2)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How the staff have considered the input from MCCG
The Practice Statement should require that management specifies the time horizons over which the risks are assessed and presented	The staff think the financial reporting definition of materiality would require risks to be included irrespective of the period in which they were expected to crystallise if they would affect users' assessment of future cash flows. As described in the previous slide, the staff are proposing guidance that time-value and likelihood should be taken into account when considering whether information is material on an uncertain matter.
The Practice Statement should require a discussion of opportunities arising from its operating environment, and those the entity intends to pursue	The staff agree that trends and factors in the operating environment should also be described if they represent opportunities, and opportunities would need to be discussed if material.
The Practice Statement should provide explicit guidance on reporting relevant ESG information	The staff are seeking the Consultative Group's views on the extent to which the staff's proposals adequately capture ESG factors in Slide Deck 2.
The Practice Statement should require management to discuss how the entity is affected by mega trends	Whilst the staff are proposing clarifications that uncontrollable and systemic matters should be addressed, they do not propose to refer to or provide a list of so-called 'mega-trends' that may need to be considered on the basis that they cannot anticipate all mega-trends that may affect an entity.

Input from previous Consultative Group meetings

Performance, position and progress (1/6)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How the staff have considered the input from MCCG
<p>The Practice Statement should not be overly prescriptive on how to provide an overview of performance in management commentary</p>	<p>The staff agree that the overview should not be prescriptive and are proposing only to specify that the overview should be based on measures and ratios that management considers to be most important for understanding of the entity's performance and position for the current reporting period.</p>
<p>Discussion of changes in accounting policies and estimates should not be included in management commentary unless they have a pervasive effect on financial performance</p>	<p>The staff think it is important that explanations of performance trends should take account of the effect of changes in accounting policies and estimates. The staff anticipate that preparers will describe the change in policy by reference to the applicable financial statement note disclosure, therefore this requirement should not result in duplicate disclosure.</p>
<p>More clarity is needed on how changes to the structure of the entity can be analysed as it may be difficult to split organic from acquisitive growth and to discuss revenue synergies</p>	<p>The staff would like to clarify that changes to structure mean changes attributable to acquisitions or disposals. The staff are proposing guidance on the inclusion of hypothetical analysis, including <i>pro forma earnings</i>. However they are not proposing that this should extend to the reporting of revenue synergies. The staff do not think this type of analysis should be mandated as it may only be useful or feasible in certain situations.</p>
<p>The Practice Statement should not refer to the terms 'one-off' and 'non-recurring' as they can be understood and used differently</p>	<p>The staff are not proposing to introduce these terms into the Practice Statement, but are considering whether guidance is required to prevent their inappropriate use in a management commentary. The staff will also consider how any related proposals are consistent with those in the Primary Financial Statements project.</p>

Input from previous Consultative Group meetings

Performance, position and progress (2/6)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How the staff have considered the input from MCCG
<p>'Transactions not inferred from description of business model' raised concerns because if material they should be discussed in the description of a business model or addressed in unusual and infrequent items</p>	<p>The staff agree that a complete description of the business model (covering both main and other business activities) should address all such transactions. However, taking into account the gaps in current practice, the staff think that there is a danger that descriptions may fall short of this where an activity is perceived to be a 'minor' component of the business model, but nevertheless is important for users understanding – for example, supplier financing arrangements. Therefore, the staff think that requiring separate discussion of transactions that cannot be inferred from the business model provides a fall-back to ensure that users receive all material information on an entity's activities.</p>
<p>The Practice Statement should require management to report the types of performance analysis they use internally eg bridge analysis</p>	<p>The staff think it is important that analysis is presented in a way that meets users' needs. For example, management's internal analysis may often be based on non-IFRS financial performance, whilst users would need the analysis to start from the performance presented in the financial statements. Similarly, management may analyse performance at a granular level (for example, store profitability) that would be commercially sensitive, whilst users may need higher level analysis (for example, proportion of stores operating profitably).</p>
<p>The Practice Statement should require reconciliations of metrics used for management compensation to the closest measure in the financial statements</p>	<p>The staff agree that users need information to understand how the metrics management are remunerated on relate to those reported in the financial statements, and propose to retain this proposal.</p>
<p>The Practice Statement should require that the analysis of performance addresses how risks and opportunities materialised and affected performance</p>	<p>The staff are proposing that the disclosure objective for performance, position and progress should include a requirement for information necessary to understand <i>progress in managing the entity's principal risks and responding to trends and factors in its operating environment</i>.</p>

Input from previous Consultative Group meetings

Performance, position and progress (3/6)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How the staff have considered the input from MCCG
<p>It is not clear how the term 'operational performance' relates to 'operating' as used in the financial statements</p> <p>What was referred to as 'operational performance' in the proposals should be broader than a variance analysis of revenue and costs in the financial statements.</p>	<p>The staff recognise the headings presented to the Consultative Group ('<i>Matters that affect operational performance</i>' and '<i>Matters that could affect the future development of the entity's performance</i>') may have caused some confusion. The staff are proposing revised language to make this clearer:</p> <ul style="list-style-type: none"> • <i>Analysis of the operational trends affecting the entity's financial performance and position</i> • <i>Progress in managing matters that could affect future performance</i> <p>The staff's intention is that the former should address variance and cost analysis, whilst the latter addresses the longer-term matters that are expected to affect future performance. See Slide Deck 3 for further detail.</p>
<p>The Practice Statement should require that the discussion of performance includes a discussion of the drivers of success and external factors affecting performance</p>	<p>The staff are proposing requirements for <i>Progress in managing matters that could affect future performance</i> that address the drivers of success and external factors affecting performance by specifying that it should include measures that cover:</p> <ul style="list-style-type: none"> • progress in implementing the entity's strategy; • progress in managing the entity's principal risks and responding to trends and factors in its operating environment; and • progress in managing the features of the entity's business model that it depends on for its future success. <p>See Slide Deck 3 for further detail.</p>

Input from previous Consultative Group meetings

Performance, position and progress (4/6)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How the staff have considered the input from MCCG
<p>The Practice Statement should include more guidance on other types of measures (referred to as non-financial measures) than what was proposed</p>	<p>The staff are proposing guidance on methods for explaining progress and performance but remain concerned that specifying measures to be used would require the Practice Statement to make assumptions about what would be important to an entity. Even if the Practice Statement could anticipate that a measure relating to a particular area was required (for example, water usage) the information users need would be specific to the business (for example, information on one plant that is threatened with closure). Nevertheless, the staff recognise that other specialist frameworks may be helpful in identifying information to provide on a topic, and are seeking the Consultative Group's views on the best way to facilitate this interaction. See Slide Deck 4.</p>
<p>Requirements on analysis of the tax expense should not refer to tax strategy</p>	<p>The staff think it is reasonable for users to expect information on the entity's tax strategy where it is necessary to understand <i>whether the entity's effective tax rate is sustainable</i>, and intend to revise their proposals so that it is clear that a broader discussion of tax strategy is not required.</p>
<p><i>Suggestions on tax included:</i></p> <ul style="list-style-type: none"> - provide guidance on explaining uncertain tax positions - provide guidance on explaining differences between effective and nominal tax rates - require information on tax cashflows - provide guidance on what information multinationals should provide on tax in different jurisdictions 	<p>The staff will consider what further guidance should be provided on explaining the tax charge, whilst seeking to keep the guidance on tax proportionate with other topics that may need to be addressed in a management commentary.</p>

Input from previous Consultative Group meetings

Performance, position and progress (5/6)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How the staff have considered the input from MCCG
<p>The Practice Statement should require discussion of other payments to governments, and not just income tax</p>	<p>The staff agree that this information may be useful in some situations, for example, where an understanding of the entity's role as an important provider of government revenue is needed to understand the strength of its relationships. However, taking into account the very wide range of potential topics on which information may be useful, the staff do not think this topic merits explicit coverage in the Practice Statement.</p>
<p>The Practice Statement should require information about investments accounted for using the equity method</p>	<p>The staff agree that financial statements trends attributable to equity accounted investments should be explained in the management commentary if material. The staff are also considering whether explicit requirements are necessary for the discussion of associates and joint ventures to be considered in other content elements.</p>
<p><i>Different views on forward-looking statements:</i></p> <ul style="list-style-type: none"> - the Practice Statement should encourage forecasts in management commentary - requirement to include forecasts already published could discourage publication of forecasts - the Practice Statement should require management to discuss governance over preparing forecasts 	<p>The staff have heard a range of views on the possible inclusion of a requirement to publish forecast information and attribute this range in part to the diversity of attitudes to the publication of 'forward-looking statements' in different jurisdictions. For this reason the staff think that requiring or prohibiting the use of forward-looking statements could have unintended consequences depending on the legal environment in the entity's jurisdiction. However, these considerations are much reduced where the entity has already published a forward-looking statement. The staff think that where such a statement has been published, users will need to understand the statement in the context of the information in the management commentary and financial statements. Therefore, it would be reasonable to require the management commentary to include such explanations.</p> <p>The staff are proposing that where a forward-looking statement is included in the management commentary, an explanation of the basis on which such information was prepared and any related risks and assumptions should be required. However, the staff think that, as with historical information, the process and governance over the preparation of the statement would be better addressed in the entity's governance disclosures.</p>

Input from previous Consultative Group meetings

Performance, position and progress (6/6)

This table summarises input provided by members of the Consultative Group, and describes how the staff considered this input.

MCCG input	How the staff have considered the input from MCCG
It may be necessary to include or allow for an exemption for commercially sensitive information	The staff expect to propose a comply or explain approach to commercially sensitive matters as discussed with the Consultative Group in April 2019, but will look at how this can be refined to address concerns raised by the Group.
Because of the overlap between matters affecting current performance and those indicated as affecting entity's future development, it may be better to link analysis to the entity's business model and strategy	As discussed in Slide Deck 3, the staff are proposing a disclosure objective for the analysis of performance, position and progress which includes providing information necessary for the understanding of operational trends affecting the entity's financial statements—this deals with explanations of matters that <i>have</i> affected performance. It would also require information for understanding progress in managing matters that could affect its future performance—this deals with explanations of matters that <i>could</i> affect future performance. The latter would be linked to the other content elements and would cover: <ul style="list-style-type: none"> a) progress in implementing the entity's strategy; b) progress in managing the entity's principal risks and responding to trends and factors in its operating environment; and c) progress in managing the features of the entity's business model that it depends on for its future success.
Period under review in management commentary should be the same as for the financial statements	The staff agree that the period covered in the management commentary should align with the period for which the financial statements have been prepared.



Appendix B:
*Summary of the Board's tentative
decisions to date*

Board's decisions on the project to date (1/4)

Topic	Board decision
Objective of management commentary (November 2018)	<p>The Board did not formally vote but broadly agreed that:</p> <ul style="list-style-type: none">• the objective of management commentary should be to: <i>“give context for the financial statements by providing primary users with historical financial and operational information and analysis that is useful in assessing the prospects for the entity’s future net cash inflows, and its management’s stewardship of the entity’s economic resources”</i>;• there should be guidance to support the objective. <p>In addition, the Board asked the staff to consider providing further clarity on:</p> <ul style="list-style-type: none">• the roles that historical information and forward-looking information play in management commentary; and• the difference between the objective of management commentary and the objective of financial statements.
Making relevance and materiality judgments (July 2019)	<p>The Board tentatively decided that the revised Practice Statement should include guidance on materiality that:</p> <ul style="list-style-type: none">• incorporates key elements from IFRS Practice Statement 2 <i>Making Materiality Judgments</i>;• provides additional guidance where necessary because of the different nature of management commentary from that of financial statements;• explains the materiality process, in particular on identifying material information;• describes practical sources for identifying what matters to discuss in management commentary and material information about them;• explains how to provide a coherent narrative and highlight links between different pieces of information;• prompts management to consider the likelihood of a matter occurring and the appropriate level of aggregation in assessing what information to provide.

Board's decisions on the project to date (2/4)

Topic	Board decision
Faithful representation (September 2019)	<p>The Board tentatively decided that the revised Practice Statement should include guidance on the qualities that make up faithful representation based on their descriptions in the <i>Conceptual Framework</i> and explain that these qualities should be maximised to the extent possible. In particular:</p> <ul style="list-style-type: none">• guidance on completeness would explain that a complete depiction of a matter should include material information and not necessarily require management to provide <i>all</i> information it has about that matter;• guidance on neutrality would explain that:<ul style="list-style-type: none">□ each matter that needs to be discussed should be given its due prominence;□ overall tone and language used in management commentary should contribute to an unbiased depiction;□ information about a matter cannot be omitted, obscured, given undue prominence or otherwise be manipulated to influence primary users' view of that matter favourably or unfavourably;□ the likelihood of outcomes within a range of possible outcomes needs to be explained. <p>The Board highlighted the importance of using plain language in describing the qualitative characteristics of useful financial information in the revised Practice Statement.</p>
Enhancing qualitative characteristics (October 2019)	<p>The Board tentatively decided that the revised Practice Statement should:</p> <p>on comparability:</p> <ul style="list-style-type: none">• include a description based on the <i>Conceptual Framework</i> and explain that although comparability with other entities is desirable, it should not override the requirement to provide relevant entity-specific information;• state that management needs to consider that users need to make comparisons with information provided by other entities, by the entity in previous periods and with other information published by the entity;• require management to explain assumptions, methods of calculations and any changes (including reasons for) from the previous year, highlight where new information is provided on a matter previously reported, provide comparative information to allow emergence of trends and consider whether information is consistent with information in the financial statements and other information.

Topic	Board decision
Enhancing qualitative characteristics (October 2019) - <i>continued</i>	<p>The Board tentatively decided that the revised Practice Statement should:</p> <p>on understandability:</p> <ul style="list-style-type: none">• include the current guidance on presentation;• explain that making management commentary concise is an important part of making it understandable;• permit the incorporation of information in management commentary by cross-reference, subject to the overarching principle that the information incorporated by cross-reference is part of management commentary and, therefore, must possess the qualitative characteristics of useful financial information. It would also include guidance on:<ul style="list-style-type: none">□ enhancing the understandability of management commentary when information is incorporated by cross-reference; and□ conditions that must be met by a report when management commentary incorporates information by cross-reference to that report. <p>on verifiability:</p> <ul style="list-style-type: none">• include a description based on the <i>Conceptual Framework</i> which requires management to distinguish information based on judgement from factual information, and explain the process and sources used to produce the information, describe the assumptions and methods used to calculate it, and state the information's limitations;• retain the statement that it does not mandate the level of assurance to which management commentary should be subjected. <p>The Board decided to not include guidance on timeliness.</p>

Topic	Board decision
Business model (November 2019)	<p>The Board tentatively decided that the revised Practice Statement should explain the meaning of an entity's business model by reference to:</p> <ul style="list-style-type: none">(a) value that the entity creates for itself. The revised Practice Statement should also make clear that the notion of value created for an entity is related to the entity's ability to generate cash flows;(b) the link between an entity's business model and the entity's stated purpose;(c) the elements of the business model—that is its inputs, processes and outputs; and(d) a business model being a matter of fact and observable through the entity's actions. <p>The Board also tentatively decided that the revised Practice Statement should require management to discuss indirect wider consequences or impacts of the operation of the entity's business model if those impacts could affect the entity's ability to generate cash flows in the future.</p> <p><i>Note: The Board is still to discuss the objective of describing an entity's business model in management commentary, and possible guidance on the types of information about the entity's business model that should be discussed in management commentary.</i></p>

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