

Management Commentary

Slide Deck 2 *Topics for further input*

Consultative Group meeting– 13 December 2019

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

In this session we would like to obtain the Consultative Group's views on four topics. These were identified for further discussion on the following basis:

- the staff developed the proposed approach further:
 - information on intangibles and ESG matters
 - guidance on 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

Contents:

- Information on intangibles and ESG matters in management commentary (slides 3–20)
- Meaning of 'management's view' (slides 21–28)
- Purpose (slides 29–33)
- Guidance on narrative coherence (slides 34–48)



Information on intangibles and ESG matters in management commentary

Purpose of this section

The staff presented various aspects of their proposals for guidance on reporting information related to intangibles and environmental, social and governance (ESG) matters at the previous Consultative Group meetings.

This section provides:

- (a) an overview of the staff's current proposals for guidance on providing information on intangibles and on ESG matters in management commentary; and
- (b) illustrations of how the proposed guidance is intended to be applied.

Consultative Group members are asked for comments on whether the proposals provide a suitable basis for reporting useful information on intangibles and ESG matters in management commentary.

Contents:

- Intangibles (slides 5–13)
- ESG matters (slides 14–19)
- Question for the Consultative Group (slide 20)

Intangibles in management commentary

Intangibles in management commentary

The staff propose a principles-based approach to guidance on intangibles. The staff do not expect to provide a list of intangibles to be addressed in management commentary because:

- the range of intangibles that may need to be addressed is very wide;
- users need information on the specific intangibles that the entity depends on for its success, rather than on broad categories of intangibles; and
- what information users need about an intangible also depends on the entity's strategy for managing it.

The staff do not propose a separate section on reporting intangibles in the revised Practice Statement. Reporting intangibles in management commentary will be addressed by guidance across various content elements.

Examples of intangibles that might feature in management commentary:

know-how

customer base

reputation

The staff's proposed guidance is summarised on slides 7–10. Slides 11–13 illustrate how the guidance is intended to be applied to the examples of intangibles set out above, and how information about those intangibles is expected to be provided across management commentary.

Summary of the staff's proposed guidance (1/4)

The staff envisage that reporting intangibles in management commentary will directly or indirectly be addressed through the following guidance in the revised Practice Statement:

Objective

- Management commentary should provide information that gives insight into the entity's long-term prospects

Materiality

- Information should be included in management commentary if it is material, that is if it could reasonably be expected to influence decisions that primary users make as a result of their assessments of the prospects for an entity's future net cash inflows (both short and long term) and of management's stewardship of the entity's economic resources

Business model

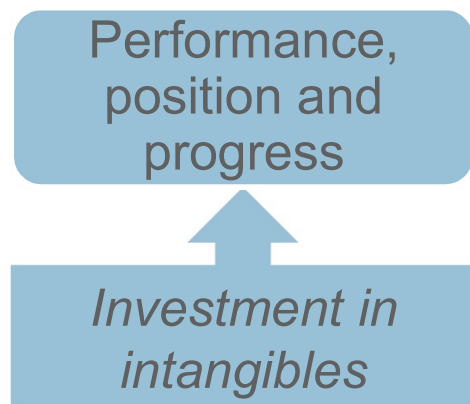
- An entity's description of its business model should include qualitative and quantitative information about resources and relationships (tangible and intangible) that the business depends on, including information that helps users understand the nature, importance to the entity, and durability of that resource or relationship
- Intangibles should be discussed irrespective of whether they are recognised in the financial statements
- Description of resources needs to cover not only the entity's resources but also resources of others that the entity depends on and has access to through the entity's relationships
- Guidance will provide examples of the resources and relationships that need to be discussed in management commentary if the information about them is material

Operating environment & risks

- Management should consider risks arising from the entity's dependence on intangible resources and relationships when determining which risks to discuss in management commentary

Strategy

- Management commentary should provide information on the entity's strategy for developing, maintaining and enhancing intangible resources and relationships, including information about:
 - plans for developing intangible resources and relationships needed to pursue the entity's purpose and to respond to risks and opportunities
 - the potential positive and negative implications on the entity's intangible resources and relationships arising from expected changes to the entity's strategy or business model



- Management commentary should provide information about the entity's investment in and depletion of intangibles, including:
 - information about capital and operating investment in intangible resources and relationships during the reporting period to help users understand whether current levels of investment are sufficient to support the entity's business model and strategy, including analysis of investment between maintaining and enhancing expenditure
 - explanations of the extent to which current expenditure is consistent with what is needed to support the entity's business model and strategy
 - information on current and planned replenishment relative to the rate of depletion of the resource (where applicable)

Performance,
position and
progress

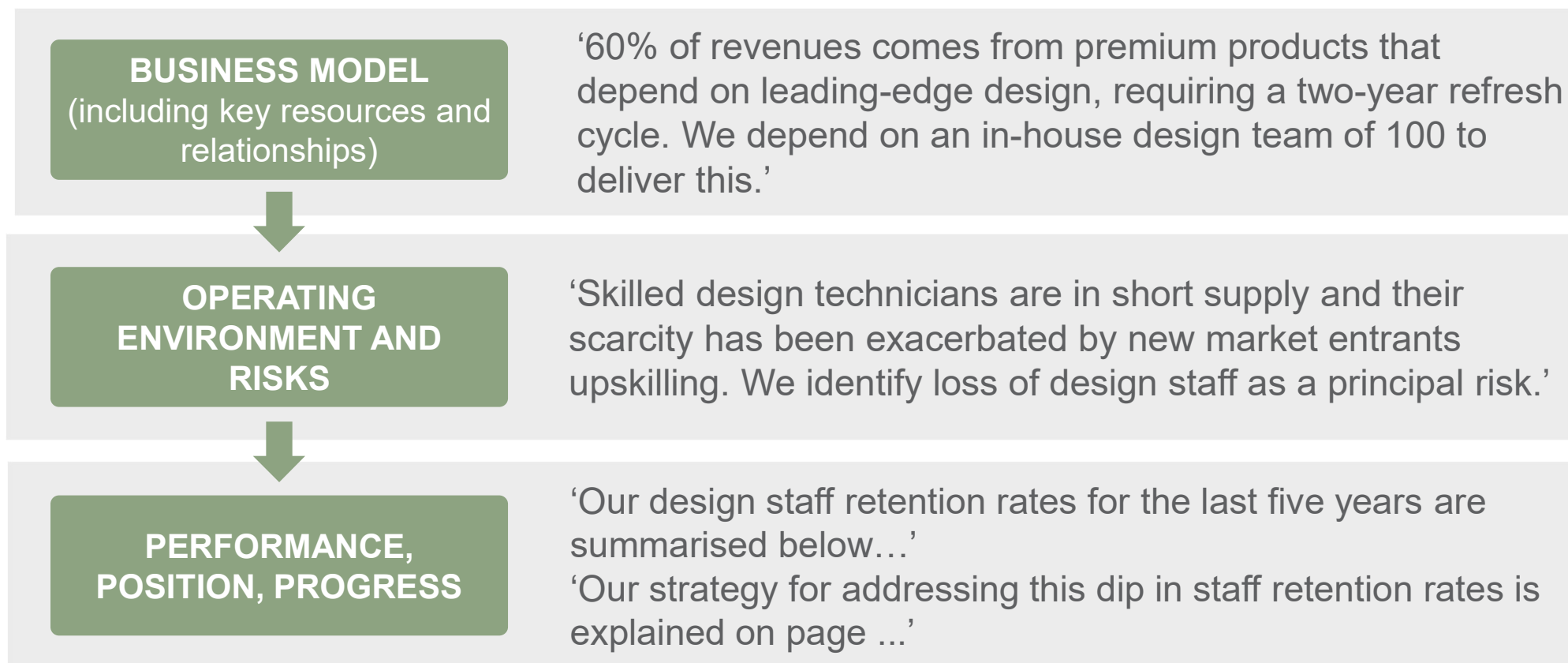


*Management of
intangibles*

- Management commentary should provide information to help users understand the entity's progress in managing its intangible resources and relationships and the resulting implications, including information about:
 - progress in managing resources and relationships that are needed to pursue the entity's strategy, including its purpose
 - the impacts of the entity's operations on resources and relationships that the entity depends on for its future success if those impacts could affect the entity's ability to generate cash flows

Illustration: Know-how

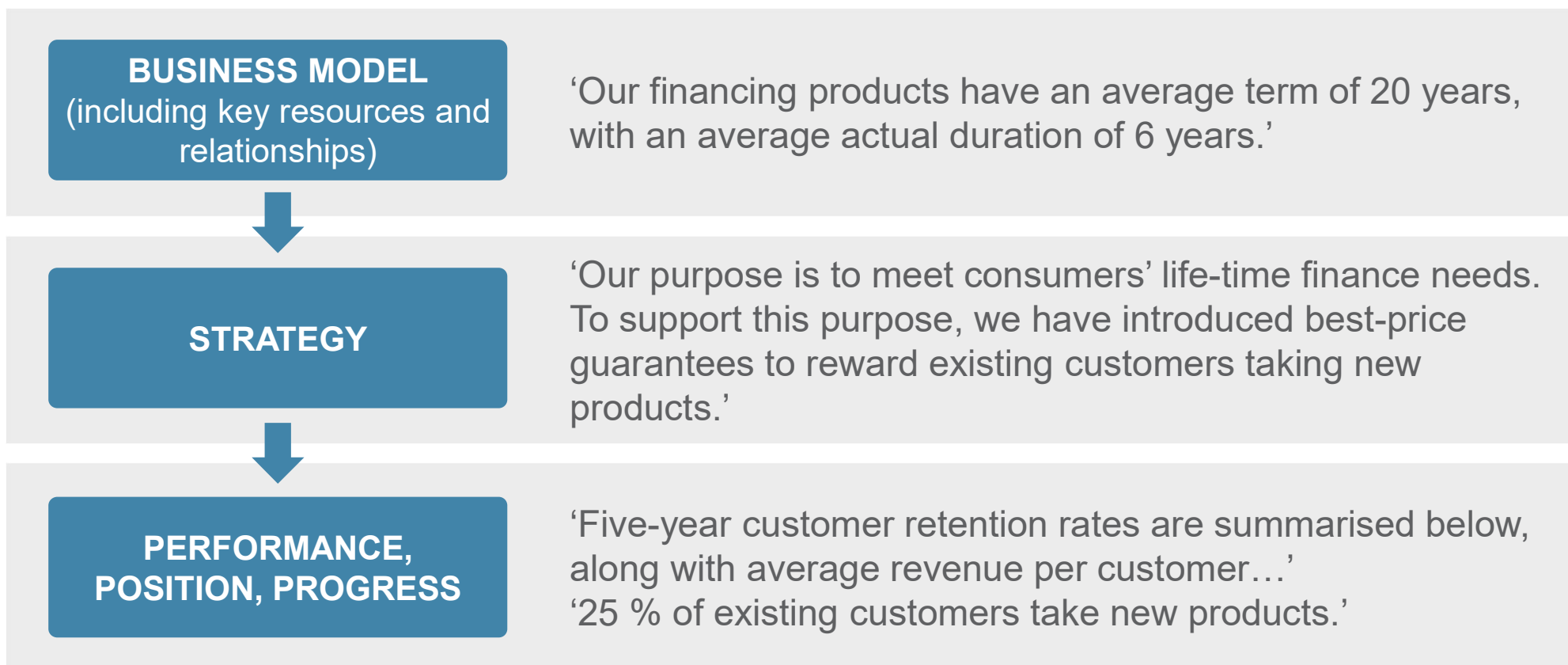
We illustrate a skeleton disclosure below:



Note: This illustration is high-level and indicative; it does not include all disclosures that may be necessary in the circumstances

Illustration: Customer base

We illustrate a skeleton disclosure below:



Note: This illustration is high-level and indicative; it does not include all disclosures that may be necessary in the circumstances

Illustration: Reputation

We illustrate a skeleton disclosure below:



Note: This illustration is high-level and indicative; it does not include all disclosures that may be necessary in the circumstances

ESG matters in management commentary

ESG matters in management commentary

- The staff do not expect to propose a list of ESG matters to be discussed in management commentary because what is material is specific to the entity and depends on its circumstances.
- Although various information about ESG matters may be of interest to a broader audience, the staff think it is important that management commentaries focus on information needs of primary users in order to ensure that disclosures in management commentary retain a clear purpose. Additional information to meet others' needs may be provided through other channels.
- The staff's proposed principles-based guidance on management commentary focuses on what management needs to consider in order to identify and report on ESG matters that could affect the entity's future success. Specifically, ESG matters should be discussed in management commentary if information about them could affect users' assessments of the amount, timing or uncertainty of the entity's future cash flows, or otherwise affect users' economic decisions.
- The staff do not propose a separate section on reporting ESG matters in the revised Practice Statement. Instead, the staff envisage that reporting ESG matters will be addressed by guidance across various content elements.

Note: Other frameworks such as those of Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) may help entities decide which subject-matter information to provide to meet the objective of management commentary

The staff's proposed guidance is summarised on slides 16–18.

Slide 19 illustrates how the guidance is intended be applied in reporting a particular ESG matter.

How the staff envisages addressing common ESG matters in the revised Practice Statement

Topical ESG area	Content element	Requirements
climate and other environmental issues	Operating environment and risks	<ul style="list-style-type: none"> Require information about entity-specific risks, including systemic risks, as part of the discussion of risks and operating environment, including information about exposure to climate and climate regulation and about the strategy for, and progress in, managing a risk if that information is material
	Performance, position and progress	
impacts of the business	Business model	<ul style="list-style-type: none"> Require information about the 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, for example, by affecting ongoing availability of resources or relationships that the entity depends on

How the staff envisages addressing common ESG matters in the revised Practice Statement

Topical ESG area	Content element	Requirements
dependence on resources and relationships	Business model	<ul style="list-style-type: none"> Require information about key resources and relationships the entity depends on as part of the description of its business model
	Strategy	<ul style="list-style-type: none"> If it is possible that a key relationship may not continue or a key resource may not be available, require information about the strategy for, and progress in, managing that relationship or resource (or its alternative)
	Performance, position and progress	

How the staff envisages addressing common ESG matters in the revised Practice Statement

Topical ESG area	Content element	Requirements
corporate purpose	Strategy	<ul style="list-style-type: none"> Require a description of strategy that is anchored in the entity's long-term purpose, and links medium-term objectives and short-term plans to the achievement of that purpose Require information on progress implementing the strategy that helps users assess whether that purpose is being achieved
	Performance, position and progress	
culture	Performance, position and progress	<ul style="list-style-type: none"> Require information that provides insight into progress in managing the entity's key relationships Require explanations of how management incentives align with the entity's strategy
	Strategy	

Illustration: Water stress

This illustration relates to a particular ESG matter (water usage in a water stressed location), covering the areas of *climate and environmental issues*, as well as *impacts of the business* and *availability of resources*. It illustrates at a high level how the particular ESG matter would need to be discussed across the different content elements of a management commentary.

A brewery operates two sites, one is located where water is plentiful and the other one is on the edge of a desert. What information would be material about water usage by the brewery's sites and thus should be included in management commentary?

BUSINESS MODEL

(including key resources and relationships)

The desert site representing 30% of production depends on scarce water supplies

OPERATING ENVIRONMENT AND RISKS

The desert site may lose its operating licence unless it halves water consumption within two years

STRATEGY

We are investing \$x to install water recycling technology in the desert site

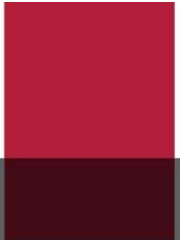
PERFORMANCE, POSITION, PROGRESS

Desert site water consumption has been reduced to x megalitre against a target of y megalitre

Question 1

In relation to both intangibles and ESG matters:

Do you think that the proposed guidance provides a suitable basis for identifying matters to be addressed and relevant information to be provided? Do you think the proposed requirements would result in the desired reporting, as indicated by the illustrations? Is anything missing?



Meaning of 'management's view'

Meaning of 'management's view'

Purpose of this section

We have previously discussed that management commentary should be based on *management's view*, but did not discuss in detail what this notion means and how it should be applied in practice.

This paper discusses the meaning of management's view, and explores particular concerns related to the application of that notion.

Contents:

- What is 'management's view'? (slide 23)
- Concerns related to the application of the notion of 'management's view' (slides 24–27)
- Questions for the Consultative Group (slide 28)

What is ‘management’s view’?

Existing Practice Statement

The Practice Statement states that management commentary should provide management’s view of the entity’s performance, position and progress.

9 Management commentary [...] 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.

12 Management should present commentary that is consistent with the following principles:
(a) to provide management’s view of the entity’s performance, position and progress; ...

15 Management commentary should provide management’s perspective of the entity’s performance, position and progress...

The Practice Statement also explains that management commentary should derive from information that is important to management in managing the business.

15 ... Management commentary should derive from the information that is important to management in managing the business.

In the Basis for Conclusions on the existing Practice Statement the Board explained the reason for deciding that information important to management is a suitable basis for preparing management commentary. This is because there is an overlap between information important to management in managing the business and users’ information needs.

BC32 The Board noted a study that suggests that, with few exceptions, the information important to management in managing the business is the same information that is important to capital providers in assessing performance and prospects. Consequently, the Board decided that management commentary should derive from the same information that is important to management.

Revised Practice Statement

As previously discussed with the Consultative Group, the staff propose to retain the notion of ‘management’s view’ in the revised Practice Statement. In particular, the staff highlighted the role of management’s view in determining what information to include in management commentary—that is, management is not expected to produce new information when preparing management commentary.

Concerns related to the application of the notion of management's view

Interaction with users' information needs

Many members of the Consultative Group supported retaining the idea of providing management's view in management commentary.

However, some members raised questions whether there is a tension between developing management commentary to reflect what management considers important and developing it to meet users' information needs (slide 25).

Possible misinterpretation in practice

The staff have also become aware of concerns that in practice the notion of management's view may be misinterpreted, possibly resulting in information useful to primary users being excluded from the management commentary.

In particular, those concerns relate to situations when:

1. Management might exclude a discussion of a matter (for example, a risk) of known interest to users because management determine that:
 - (a) that matter is not likely to affect the entity's long-term prospects for cash flows; or
 - (b) the management's developed strategy substantially mitigates the possible effects of the matter on the entity's prospects (slide 26).
2. Management might exclude information that would be useful to users on the grounds that it is not used or analysed by management in the exact same way or format as would be needed by primary users (slide 27).

The staff think that there is no tension between developing management commentary to reflect what management considers to be important and developing it to meet users' information needs because of the overlap between information needed by users and information used by management in managing business (see slide 24).

In July 2019 the Board tentatively approved guidance on making materiality judgements in preparing management commentary that explains how information used by management and users' information needs need to be considered in making materiality judgements. The guidance makes an explicit link between identifying material information for inclusion in management commentary and the objective of management commentary of providing information that is useful to users in:

- (a) assessing the amount, timing and uncertainty of future net cash inflows to the entity; and
- (b) assessing management's stewardship of the entity's economic resources.

Sources of identifying information useful to users

In that guidance, the Board also intends to specify practical sources for identifying matters that should be discussed in management commentary.

Because of the overlap mentioned above, the Board identified information used by management in managing the business as one source for identifying matters information about which needs to be provided in management commentary. For example, this could be information considered by management in setting strategy, information about matters discussed with the entity's board, or information considered in monitoring the entity's financial and operating performance.

In addition, the Board identified other practical sources for identifying matters to be discussed in management commentary:

- (a) the entity's capital markets communications (for example, investor day presentations) because they are prepared taking into consideration primary users' information needs and are often based on those users' information requests.
- (b) information identified through engagement with the entity's key stakeholders such as customers, employees or suppliers about internal or external factors that could affect the entity's long-term success.

Exclusion of information about a matter of known interest to users

Possible issue

In some cases users may expect an entity to discuss in management commentary a particular matter such as introduction of environmental regulations, for example if the entity operates in an industry or geographical location that is particularly affected by that matter.

The staff considered whether application of 'management's view' may lead to excluding from management commentary a discussion of a matter (for example, a risk) of known interest to users because the management concluded that:

- (a) that matter is not likely to affect the entity's long-term prospects for cash flows; or
- (b) the management's developed strategy substantially mitigates the possible effects of the matter on the entity's prospects.

Excluding information about matters of known interest to primary users may mislead them. For example, users may assume that the management has not considered the effects of such matters on the entity, or that such matters will not affect the entity.

One example where this situation may arise is in relation to the disclosure of climate-related exposures where there have been a number of calls from investors for additional disclosure compared to current practice in some sectors.

Proposed guidance

The staff think that the following proposed guidance for the revised Practice Statement would promote provision of information about matters of known interest to users:

- (a) guidance on materiality, in particular on sources for identifying matters that need to be included in management commentary, because that guidance would require management to consider users' needs in identifying matters that need to be reported (see slide 25);
- (b) guidance on discussing risks in management commentary. The staff expect that the revised Practice Statement will require management to describe risks that could affect the entity's future cash flows regardless of whether the management's strategy mitigates those risks.

Exclusion of information not used by management in the way or format needed by users

Possible issue

The staff considered whether application of 'management's view' may lead to management commentary excluding information that would be useful to users on the grounds that it is not used or analysed by management in the exact same way or format as would be needed by primary users.

For example, when an entity introduces a new product, the entity's management may choose total revenue generated from selling that product as its KPI for monitoring the progress of transition to the new product.

However, the management may not monitor statistics on the proportion of customers who have transitioned from the old to the new product but this information can be derived from data in the entity's systems and would be useful to users in assessing the prospects for cash flows to the entity.

In this case, some are concerned that management may decide not to provide information about the proportion of customers who have transitioned to the new product because that is not the KPI used by the management even if the management knows that such information could help users assess prospects for cash flows to the entity.

Proposed guidance

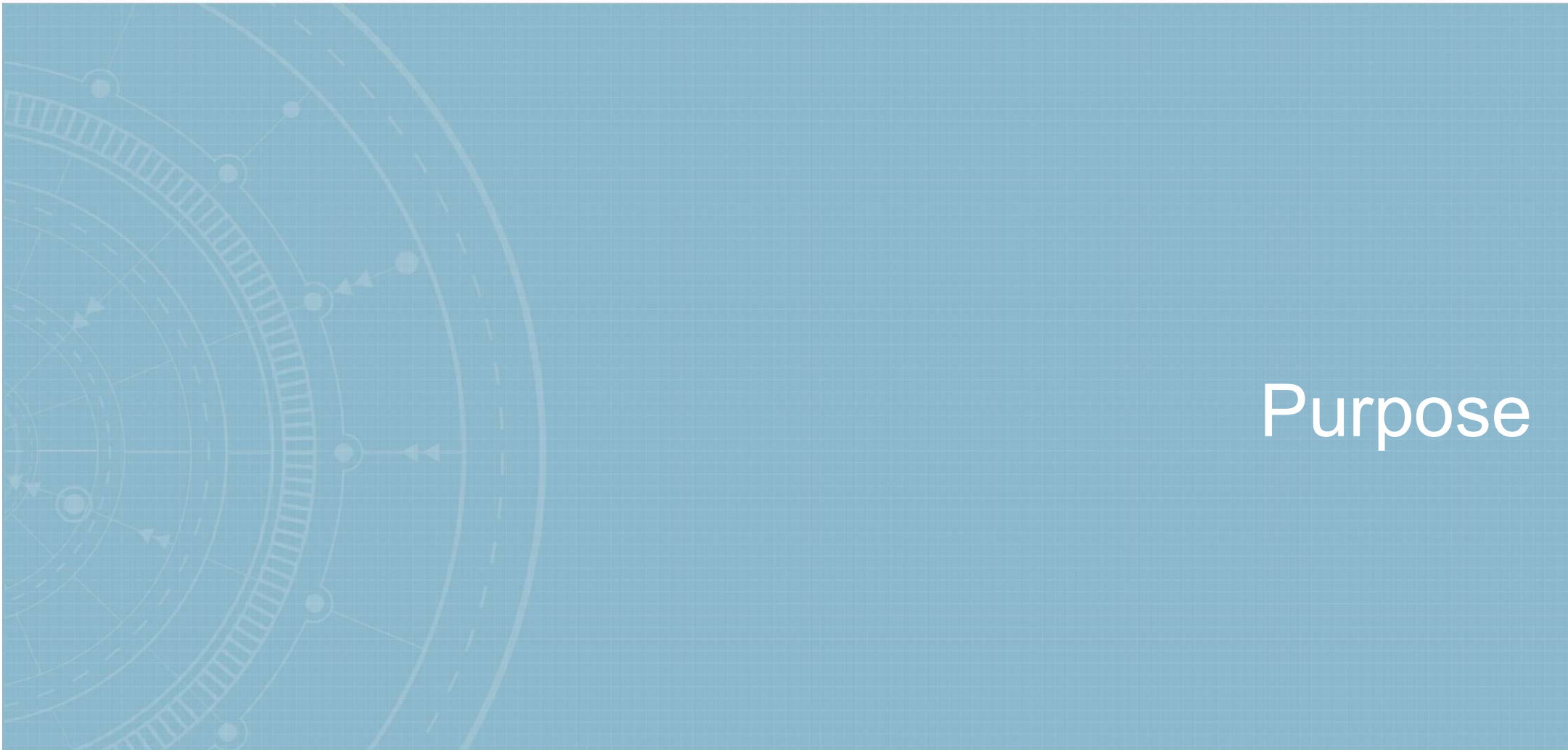
To prevent exclusion of material information that could affect users' assessments of prospects for cash flows to the entity the staff are considering whether to propose clarifying the description of 'management's view'. The clarification would be intended to explain that it may be necessary for management to provide material information that is not used directly in managing the business *if* it can be derived from analysis of data in the entity's systems.

Question 2

Is the proposed guidance on making materiality judgements and on discussing risks sufficient to prevent exclusion of information about a matter of known interest to users even if management determines that the matter is not likely to affect the entity's long-term prospects or that the effect of the matter is mitigated by management's strategy? If not, what guidance should be added and why? (see slide 26)

Question 3

Should the description of management's view in the revised Practice Statement be extended to clarify that management should provide material information that is not used directly in managing the business if it can be derived from analysis of data in the entity's systems? Does your answer depend on how readily the information can be derived? (see slide 27)



Purpose

At the November 2019 meeting, the Board discussed how to explain what an entity's business model is and whether that explanation should refer to the entity's purpose. The Board raised some concerns about what is meant by the entity's purpose and what is the link between the entity's purpose and its business model and asked the staff to seek further input from the Consultative Group.

To help the discussion, in this slide deck the staff have provided a reminder of how purpose was discussed in the context of strategy in the Stream 3 discussion and summarised the Board's concerns.

Contents:

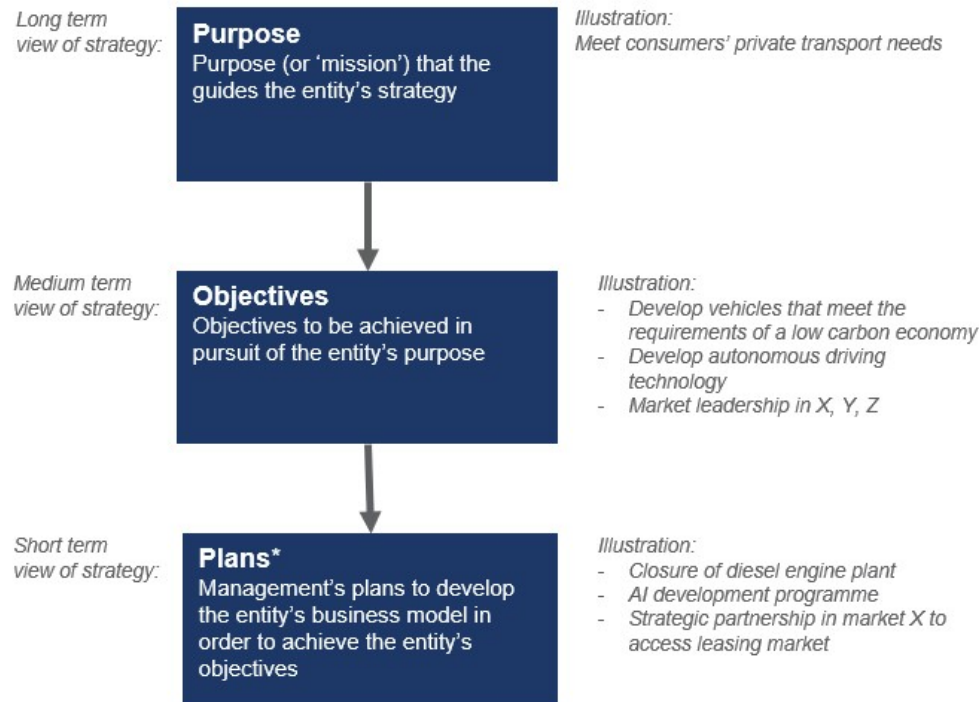
- Proposals discussed with the Consultative Group (slide 31)
- Board discussion and link to business model (slide 32)
- Question for the Consultative Group (slide 33)

Proposals discussed with the Consultative Group

In Stream 3 materials discussed with the Consultative Group, ‘purpose’ was presented as the long-term component of strategy that guides the entity’s strategy.

The Consultative Group generally agreed with the staff’s proposed approach of explaining strategy across different time frames with reference to purpose, objectives and plans. However, a few members suggested that the guidance should specifically address the intended time frames, or that it should emphasise the focus on the long term. Some members were also of the view that the ‘purpose’ of the entity should be discussed either before or together with business model, rather than as part of the discussion of strategy.

Proposed components for the strategy discussion:



* In materials for today’s meeting we use the term ‘plans’ as a working term to refer to an entity’s operational plans for taking actions the entity will take to execute its objectives. We will consider if there is a more suitable term to use in the revised Practice Statement.

In their recommendations to the Board at the November 2019 meeting, the staff recommended that the revised Practice Statement should explain what an entity's business model is by reference to **creating value** for the entity **in pursuit of the entity's purpose**.

This was to indicate to preparers that their description of an entity's business model needs to help users understand how the entity's business model seeks to meet its long-term purpose. In some cases, an entity's purpose or mission may be stated in terms of social, environmental, public good or other goals. For example, an entity's stated purpose may be to cure diabetes or create a greener way to travel.

Given the Board's focus on primary users' information needs, the staff suggested that the description in management commentary of an entity's purpose needs to **indicate how that purpose translates into creating value for the entity and the generation of future cash flows**.

The Board raised some concerns about linking the entity's purpose and its business model related to cases when:

- (a) the entity's stated purpose is more of a marketing tool and bears little relationship to how the entity generates cash flows and creates value, and therefore to its business model; and
- (b) an entity does not have a stated purpose.

The Board tentatively decided that the revised Practice Statement would, in explaining 'business model', refer to the link between an entity's business model and the entity's stated purpose. This is included in the summary of tentative Board decisions in Appendix B to Slide Deck 1. The Board also asked the staff to seek further input from the Consultative Group on the meaning of the entity's purpose and its relationship with the entity's business model.

Question 4

The staff would like the Consultative Group's views on:

- (a) what information users need about an entity's purposes, and about the link between the entity's business model and its strategy, including purpose; and
- (b) what type of guidance the Practice Statement could provide to help entities prepare that information.



Guidance on narrative coherence

Purpose of this section

We have previously discussed the need for management commentary to provide a coherent narrative and discussed aspects of guidance intended to promote narrative coherence when discussing guidance on content elements.

This section:


- (a) provides an overview of how the staff expects the notion of narrative coherence to apply to management commentary as a whole and to information about a particular matter; and
- (b) summarises the guidance intended to promote narrative coherence that the staff propose to include in guidance on each content element.

The Consultative Groups members are asked for their comments on the staff's proposals.

Contents:

- Proposed operation of narrative coherence (slides 36–38)
- Guidance supporting narrative coherence for each content element:
 - business model (slide 40)
 - strategy (slides 41–42)
 - risks and operating environment (slides 43–44)
 - performance, position and progress (slides 45–47)
- Questions for the Consultative Group (slide 48)

Note on terminology: when discussing the notion of narrative coherence with the Board's consultative groups the staff heard that the term 'narrative coherence' can be misunderstood. For example, it can be understood to apply to narrative or qualitative information only, or to refer only to providing links between related pieces of information in management commentary. This slide deck uses the term 'narrative coherence', but the staff continue searching for a better alternative



The staff's current proposals for narrative coherence

The staff have been developing the notion of ‘narrative coherence’ to promote coherent narrative in management commentary that ‘tells the story’. In discussions with the Board the staff suggested that the notion of narrative coherence applies at two levels:

- (a) to the management commentary *as a whole*; and
- (b) to information about *a particular matter* identified in management commentary.

Narrative coherence in management commentary as a whole

Providing narrative coherence in management commentary as a whole means that interrelationships between different pieces of information in management commentary, as well as between information in management commentary and in financial statements, are clear. This makes management commentary more understandable. Signposting between related pieces of information contributes to making management commentary coherent as a whole.

Narrative coherence when providing information about a matter

The notion of narrative coherence is also applicable at a lower level, that is, when providing information about matters that need to be discussed in management commentary. At this level, providing a coherent narrative means ‘telling a story’ about a matter.

To help management provide relevant information about a matter that primary users need for their assessments of the prospects for future net cash inflows to the entity and of management’s stewardship of the entity’s economic resources, the Board decided that the revised Practice Statement would explain how to consider what information about a matter needs to be provided in each content element. In particular, management would need to consider explaining:

- (a) what part of the business model is affected by the matter;
- (b) how that matter can affect, or be affected by, the risks the entity faces and its operating environment;
- (c) what management’s strategy is for managing the matter; and
- (d) what the progress is in executing that strategy and whether the potential implications of that progress are clear.

Proposed operation of narrative coherence (2/2)

The table provides an illustration of applying the notion of narrative coherence to identify material information about a matter—customer demographics influenced by social media and preference for online shopping that could affect the entity’s future success.

Content element	Disclosures in management commentary*
Business model	The clothes retail business currently has 60% of its sales from high street stores and 40% from its website. Its clothes designs are mainly targeted at the 18-35 age group.
Operating environment and risks	The market for clothes among the 18-35 age group is moving primarily towards online shopping and established online-only brands. Recommendations by social-media influencers are a direct driver for online sales.
Strategy	Management plans to shift its sales mix to 30% from high street stores and 70% online through its website within 3 years. 5 top social media influencers were identified to promote the brand and drive click-through sales to the website. Management is investing in a website upgrade to enhance the online shopping experience.
Performance, position and progress	Online sales increased by 35% during the year. 65% of this increase was from click-through sales from social media links. During the year, the company spent CUX of its marketing budget on social media. The company has spent CUY on upgrading the website.

* Disclosures in management commentary need not be organised in the same way that the guidance will be organised in the revised Practice Statement (ie by content element). Management will determine how to structure and organise the content of its management commentary.

Guidance promoting narrative coherence in guidance on content elements

In addition to the explanation that information about a matter may need to be provided across all content elements, the staff propose to include guidance for each of the content elements to promote a coherent narrative. Slides 40–47 summarise this guidance.

In general, the staff anticipate that management's thought process for developing a management commentary would begin with consideration of the business model (illustrated on slide 38).

However, it may also be the case that the process works in reverse. For example, a new strategy to respond to an emerging threat may lead management to conclude that additional business model detail is required to explain the strategy.

For this reason the staff are proposing to identify in guidance on each content element where links may exist across content elements, rather than to prescribe the process for developing a management commentary.

Materiality and narrative coherence

The staff emphasise that the proposed guidance relates to disclosures that should be *considered* by management, rather than disclosures that must be made. This is because not all disclosures would be material for each entity.

For example, many entities might recognise that their future success depends on their employees, but primary users would only need information on this matter if employee matters (such as scarcity of a particular skill-set) would affect their assessment of the prospects for the future net cash inflows to the entity or of management's stewardship of the entity's economic resources.

The table below summarises the staff's proposed guidance intended to promote narrative coherence in guidance on describing the entity's business model.

Link to	Guidance on information that may need to be reported	Illustration
Strategy	Provide qualitative and quantitative information about features of the entity's business model to help primary users understand matters that could affect the prospects for future net cash inflows to the entity, for example by affecting the entity's ability to pursue its stated strategy	A software business announces a strategy to migrate business users to a service contract model. It reports the current proportion of revenues attributable to business users and describes the key features of the new contract model.
Operating environment	Provide quantitative and qualitative information that helps primary users' understanding of the entity's ability to respond to trends or factors in its operating environment	An outsourcing business identifies changing patterns in local government procurement strategy. In describing the business model, management commentary reports the proportion of revenue attributable to local government contracts.

Guidance on strategy (1/2)

The table below summarises the staff's proposed guidance intended to promote narrative coherence in guidance on strategy.

Link to	Guidance on information that may need to be reported	Illustration
Business model	Describe plans to develop the business model in accordance with the strategy, including the resources and relationships affected	A retailer is in turnaround, and has set an objective of 'delivering the leading in-store experience'. It identifies the importance of having knowledgeable and engaged staff on the floor to deliver this, and provides an overview of the major staff training programme that supports this.
Risks and operating environment	Discuss the potential effect of risks on the entity's funding strategy	A manufacturer's discussion of its funding strategy explains (but does not quantify) how the strategy takes into account the interdependent risks associated with a product recall during the reporting period and related reputational damage.
	Discuss the potential effect of trends or factors in the operating environment on the entity's funding strategy	An extractives business identifies external factors that are increasing the time from initial exploration to development. Management commentary explains how the funding strategy takes the longer investment funding period into account.
	Explain how the entity plans to respond to trends or factors in the operating environment	A technology designer identifies increasing competition from clone products. Management commentary explains strategy to keep customers using its product.
	Explain the assumptions related to the entity's operating environment on which the strategy has been based	An engineering business explains that potential disruption to its customer base from climate-related regulation has led it to develop a strategy of applying its expertise to customers in other sectors

Guidance on strategy (2/2)

The table below summarises the staff's proposed guidance intended to promote narrative coherence in guidance on strategy.

Link to	Guidance on information that may need to be reported	Illustration
Performance, position and progress	Describe how management measures progress in executing the entity's purpose, objectives and plans and link to discussion of current performance	A manufacturer has acquired a support services business to enable it to generate service revenues from its manufactured products. It monitors, analyses and explains the proportion of product customers that have also taken a service contract.
	Link information that would help primary users evaluate progress made in implementing the entity's purpose to the description of the entity's purpose	A vehicle manufacturer describes its purpose in terms of producing the safest possible cars. Management monitors and reports current statistics for serious injuries arising from incidents involving its vehicles.
	Link description of objectives to information that helps primary users evaluate progress made in achieving the objectives	A vehicle manufacturer has an objective of halving average carbon emissions of its cars over five years. It reports average carbon economy per vehicle sold.
	Link description of plans to information that helps primary users evaluate progress made in achieving the plans	A business operates a major water-stressed site and is targeting a 50% reduction in water consumption in the next 12 months in order to maintain the viability of the site. The business reports the site's water consumption and the percentage reduction already achieved.

Guidance on risks and operating environment (1/2)

The table below summarises the staff's proposed guidance intended to promote narrative coherence in guidance on risks and operating environment.

Link to	Guidance on information that may need to be reported	Illustration
Business model	Provide information to help primary users evaluate the potential effect of risks on the operation of the entity's business model and on the prospects for future net cash inflows to the entity	A food manufacturer identifies availability of palm oil as a key risk. In describing the business model, management commentary identifies the proportion of revenue attributable to palm oil based products.
	Describe trends and factors in the operating environment that could affect the operation of the entity's business model	A pharmaceuticals business emphasises in its business model description the importance of payer relationships. The description of its operating environment explains the trends in payers' procurement policies.
	Identify and describe risks arising from the operation of the entity's business model	An extractives business states in its business model description that its expertise lies in the development of challenging assets. Its risk disclosures address the management of safety and environmental risk related to developing challenging assets.
Operating environment	Describe risks arising from a trend or factor in the operating environment	A credit scoring business identifies developments in data privacy legislation. Management commentary identifies data security as a risk.

Guidance on risks and operating environment (2/2)

The table below summarises the staff's proposed guidance intended to promote narrative coherence in guidance on risks and operating environment.

Link to	Guidance on information that may need to be reported	Illustration
Strategy	Describe trends and factors in the operating environment that could affect the execution of the strategy	A telco has an objective to maintain network quality leadership in its chosen markets. The entity explains how the outcome of next-generation spectrum auctions could affect the achievement of this objective.
	Describe risks arising from the selection and execution of the entity's strategy	A utilities business's growth strategy is dependent on re-selling additional third party services to its customer base. The entity explains the risk involved in building its re-sale business.
	Explain how the entity plans to respond to a trend or factor in the operating environment that could affect its long-term success	A technology designer identifies increasing competition from clone products. Management commentary explains strategy to keep customers using its product.
Performance, position and progress	Explain matters that affected or could affect the entity's performance, position or progress in the context of the entity's operating environment including the external trends and factors the entity faces	An upstream oil business explains that it has reduced its exploration activity in a region in response to anticipated regulatory developments.

The table below summarises the staff's proposed guidance intended to promote narrative coherence in guidance on performance, position and progress.

Link to	Guidance on information that may need to be reported	Illustration
Business model	Provide information about the potential effect of the strategy on the business model	An entity is implementing a major restructuring programme to support an efficiency objective. It identifies the categories of customer that it will no longer be able to serve as a result of the programme.
	Provide information about the scale of business activity that is potentially affected by the entity's strategy	A manufacturer's growth strategy in a major region relies on a resale partner. The business model description explains that 80% of sales for that region are made through a resale partner.
	Include in the description of the entity's business model information to help primary users understand the potential effect of matters affecting the entity's performance, position or progress	A telco identifies that growth in its customer base is attributable to new partnerships with resellers. Its business model description explains how its relationship with resale customers differs from that of its traditional customer base.
	Analyse and explain progress in managing the features of the entity's business model that the entity depends on for its success, including resources and relationships needed to achieve the entity's purpose	A retail bank relies on lifetime customer relationships. It reports customer retention statistics and the proportion of the active customer base having a five-year plus relationship.

The table below summarises the staff's proposed guidance intended to promote narrative coherence in guidance on performance, position and progress.

Link to	Guidance on information that may need to be reported	Illustration
Strategy	Include analysis and explanations of progress in implementing strategy	A manufacturer has acquired a support services business to enable it to generate service revenues attributable to its products. It analyses and explains the proportion of product customers that have also taken a service contract.
	Link the discussion of a trend affecting performance, position or progress to the discussion of management's strategy for managing those matters that affected the entity's performance, position or progress	A retailer has identified a reduction in revenues attributable to online competition. The entity's strategy explains how it is developing its in-store experience to differentiate it from online competitors.
Business model and strategy	Include analysis and explanations of amounts included in the financial statements in relation to capital and operating expenditure to help primary users understand the extent to which current levels of investment are consistent with its ongoing needs in the context of its stated business model and strategy	A pharmaceuticals business explains that it plans to double its research capability to accelerate development of a new class of drugs that are central to its strategy at a planned cost of \$X p.a.

The table below summarises the staff's proposed guidance intended to promote narrative coherence in guidance on performance, position and progress.

Link to	Guidance on information that may need to be reported	Illustration
Risk and operating environment	Analyse and explain progress in managing trends or factors in the operating environment	A utility business identifies that it is subject to increased levels of regulatory scrutiny. Management commentary reports on compliance with regulatory KPIs.
	Analyse and explain progress in managing risks including quantitative indicators used to monitor the risks	A pharmaceuticals business has suffered the loss of key staff in recent years and continues to identify the risk of key staff loss affecting its longer-term R&D pipeline. The management commentary reports on R&D staff retention rates and compares them with previous year's rates.
	Link the discussion of a trend identified in performance, position or progress to the discussion of the entity's operating environment	An outsourcing business identifies a reduction in order book. Its discussion of operating environment explains the changed government procurement practices that have given rise to this.

Question 5

Slides 37–38 provide an overview of how the staff expect the notion of narrative coherence to apply to management commentary *as a whole* and to information about a *particular matter*. Do you have any comments on this overview?

Question 6

Slides 39–47 summarise the guidance intended to promote narrative coherence that the staff propose to include in guidance on each content element. Do you think that guidance at this level of detail is likely to be helpful for providing sufficient disclosures or could it lead to excessive disclosures?

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