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Purpose of this paper

1. The purpose of this paper is to discuss what guidance should be included in the revised IFRS Practice Statement 1 *Management Commentary* (Practice Statement) on resources and relationships. In particular, this paper discusses:
   (a) the disclosure objective for resources and relationships; and
   (b) possible guidance supporting that disclosure objective.
2. This paper asks the Board for decisions on:
   (a) the disclosure objective for resources and relationships; and
   (b) identifying the key resources and relationships that would need to be addressed in management commentary. The paper does not ask the Board for decisions on other aspects of the supporting guidance but invites comments from the Board. The staff will consider those comments and will either address them in drafting the document or will present to the Board further analysis at a future meeting.

Structure of this paper

3. This paper is structured as follows:
   (a) summary of staff recommendations (paragraph 4);
   (b) summary of staff's research on resources and relationships (paragraphs 5–15);
   (c) disclosure objective for resources and relationships, including:

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(i) the headline objective (paragraphs 22–26);

(ii) main assessments typically made by investors and creditors (paragraphs 27–31);

(iii) types of information that needs to be provided (paragraphs 32–38);

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

(i) how to identify key resources and relationships (paragraphs 43–52);

(ii) what information to provide about resources and relationships (paragraphs 53–62);

(e) Appendix A—Extracts from the existing Practice Statement;

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

(g) Appendix C—Extracts from other standard-setters' requirements or guidance on resources and relationships.

Summary of staff recommendations

4. The staff recommend that the revised Practice Statement:

(a) specifies the disclosure objective for resources and relationships as follows:

> Management commentary should provide information and analysis to help investors and creditors understand the resources and relationships on which the business model and strategy depend.
>
> That information and analysis helps investors and creditors assess:
>
> (i) how much the entity depends on particular resources or relationships; and
>
> (ii) whether those resources are likely to continue to be available and whether the relationships are strong enough to sustain the entity's business model and strategy.
>
> That information and analysis shall cover:
>
> (i) the nature of resources and relationships;

(ii) how resources and relationships are accessed;
(iii) how those resources are used;
(iv) what could affect the availability of resources and the strength of relationships;
(v) how resources and relationships are managed.

That information and analysis shall focus on the key resources and relationships.

(b) specifies that an entity's key resources and relationships are those on which operation of the entity's business model or implementation of management's strategy depend.

Summary of staff's research on resources and relationships

The existing Practice Statement

5. The existing Practice Statement discusses resources and relationships together with risks as an element of management commentary, and also refers to resources in sections on Purpose, Principles and Objectives and Strategies. Appendix A includes the relevant extracts. The Practice Statement provides limited guidance and examples, with more guidance provided on resources than on relationships. The main aspects of the guidance in the Practice Statement are that management commentary should cover:

(a) the most important resources and relationships that could affect the entity's value;

(b) how resources and relationships are managed;

(c) what transactions and events change them;

(d) adequacy of financial, human and intellectual capital resources;

(e) resources that are not reported in the financial statements;

(f) plans to address surplus resources or inadequacies; and

(g) whether relationships expose the business to substantial risk.

6. The Practice Statement also explains that management commentary should provide integrated information about the entity's resources, and that disclosures about resources depend on the nature of the entity and the industries it operates in.

7. The resources discussed in management commentary are not necessarily limited to recognised or unrecognised assets, as defined in the *Conceptual Framework for Financial Reporting*.

Research on primary users' needs and gaps in reporting practice

8. In the November 2017 and November 2018 discussions with the Board[1], the staff highlighted that one concern the project is seeking to address is the narrow focus of management commentaries, with particular reference to the discussion of key resources and relationships.

9. This concern was confirmed through discussions with the Board's consultative groups, outreach with stakeholders and reports by the UK Financial Reporting Council (FRC)'s Financial Reporting Lab on business model[2] and workforce[3]. Those reports include feedback from investors and indicate that key resources and relationships are not adequately addressed in management commentaries because entities:

   (a) fail to identify their key resources and relationships; and

   (b) do not provide detailed or useful information about their key resources and relationships, even where identified.

10. The staff's research and outreach with stakeholders also showed that investors want more information on how resources and relationships contribute to the success of the business model and how they enable strategy.

11. The staff discussed resources and relationships with the MCCG at their April and December 2019 meetings. Appendix B summarises the feedback from members of the

[1] See November 2017 Agenda Paper 28A and November 2018 Agenda Paper 15A.
[2] Financial Reporting Lab Project Report: Business Model Reporting
[3] Financial Reporting Lab Project Report: Workforce-related Corporate Reporting

MCCG and explains how the staff considered the feedback in developing recommendations for this paper.

Overview of other standard-setters' guidance

12. In developing recommendation on resources and relationships, the staff reviewed reporting frameworks issued by other standard-setters to identify their requirements or guidance on resources and relationships.

13. The staff's review covered responses from 24 national standard-setters to the staff's request for information about requirements and commonly applied non-mandatory guidance on management commentary in their jurisdictions[4]. The staff also reviewed EU Non-financial Reporting Directive (2014/95/EU) and the related European Commission Guidelines on non-financial reporting, and the International Integrated Reporting <IR> Framework because some of the respondent jurisdictions either require or encourage management to use those requirements and guidance in preparing management commentary.

14. In their review, the staff noted that few frameworks provided explicit guidance on resources and relationships. Even when guidance was provided, that guidance typically wasn't detailed. The staff also noted that guidance on relationships generally was more limited than guidance on resources. In their review, the staff noted the following approaches:

    (a) providing a separate section on resources and relationships;

    (b) including discussion of resources within discussion of business model;

    (c) describing resources and relationships as inputs into business model;

    (d) focus on capital resources;

[4] See Appendix A of November 2018 Agenda Paper 15B *Summary of research into the objective of management commentary* for details of the respondents and the survey questions.

(e) an approach similar to the approach in the Practice Statement, for example discussing resources and relationships together with risk, or referring to ‘resources that must be managed to deliver results’.

15. Appendix C includes extracts from those frameworks or guidance which provide relatively more detail than others and that refer to both resources and relationships. Those frameworks or guidance provide examples of resources and relationships and also explain that the discussion of resources and relationships needs to address those resources and relationships that are essential to the business model or strategy. The two frameworks which provide the most detailed guidance are the UK FRC’s Guidance on the Strategic Report and the IIRC’s Integrated Reporting <IR> Framework. The Guidance on the Strategic Report defines key resources and relationships as those that support the generation and preservation of value, and includes customers, suppliers, the entity’s pension scheme and intellectual property as examples. The <IR> Framework refers to resources and relationships as the ‘Six Capitals’, namely financial, manufactured, intellectual, social and relationship, human and natural.

Disclosure objective for resources and relationships

16. As explained in Agenda Paper 15A *Introduction to disclosure objectives*, disclosure objectives for each area of content in management commentary are intended to support all the ‘pillars’ of the overall objective of management commentary, that is to provide information to help investors and creditors:

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

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

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

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

17. As mentioned in paragraph 5, the existing Practice Statement discusses resources and relationships together with risks. Paragraph 29 of the existing Practice Statement could be

viewed as a broad disclosure objective for resources, risks and relationships, although it is not labelled explicitly as a disclosure objective. It states that:

> Management commentary should include a clear description of the most important resources, risks and relationships that management believes can affect the entity's value and how those resources, risks and relationships are managed.

18. The staff plan to draft guidance on resources and relationships separately from guidance on risks because risks are different from resources and relationships in nature. Risks can affect the entity's resources and relationships. In addition, resources and relationships can give rise to risks but they are not the only source of risks. The staff will present to the Board their recommendations on guidance on risks in a future paper.

19. Understanding what resources and relationships are needed for the operation of an entity's business model is important to understanding of the business model. Nevertheless, the staff plan to draft guidance on resources and relationships separately from guidance on business model because:

    (a) providing guidance on resources and relationships separately may help:

        (i) highlight the importance of providing information about resources and relationships and lead to entities providing more useful information, thus helping to address one of the gaps in existing management reporting practice noted in paragraph 9.

        (ii) highlight that understanding of resources and relationships is necessary for understanding not only the entity's business model, but also its ability to implement management's strategy.

    (b) some members of the MCCG commented that guidance on resources, particularly intangible resources, and relationships should be more prominent and should not be subsumed within the discussion of business model.

20. In developing recommendations for the disclosure objective on resources and relationships the staff followed the design described in Agenda Paper 15A. As explained in that paper, the staff think that it would be useful to provide a comprehensive disclosure objective that

comprises a principle as the headline objective, a description of the assessments that investors and creditors typically make and a description of the types of information and analysis that need to be provided to support those assessments. Providing each of those components would:

(a) help management identify information and analysis that need to be included in management commentary to meet information needs of investors and creditors; and

(b) help assurers and regulators assess whether information and analysis included in management commentary meet the overall objective of management commentary.

21. Furthermore, providing such a comprehensive disclosure objective would be consistent with the approach developed in the Disclosure Initiative—Targeted Standards-level Review of Disclosures.

The headline objective

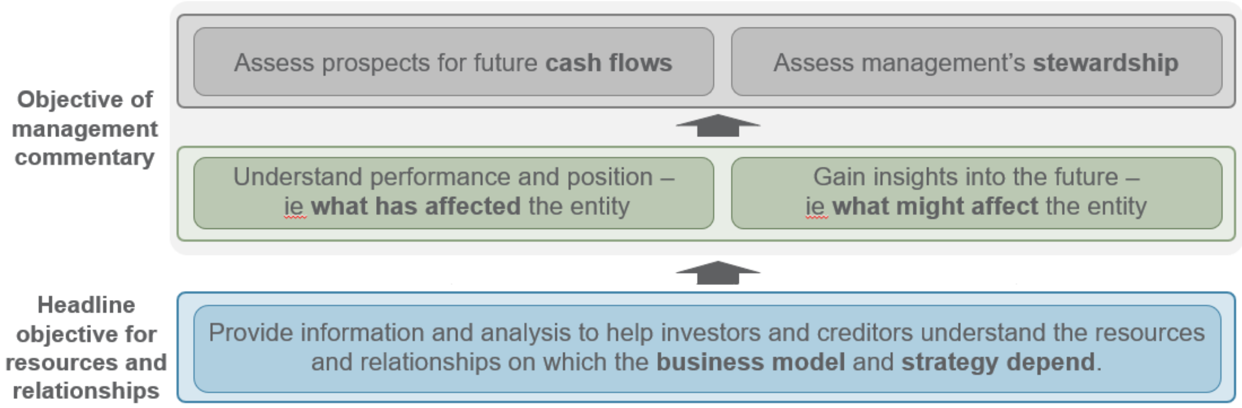
22. In developing the disclosure objective for resources and relationships, the staff considered what investors and creditors need to understand about the entity's resources and relationships to help them make their assessments of the entity's prospects for future cash flows and of management's stewardship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

23. The existing disclosure objective in the Practice Statement links provision of information on resources and relationships to the entity's value (see paragraph 5). However, the staff's research shows that investors need more information on how resources and relationships are linked not only to business model but also to strategy (see paragraph 10). In particular, they are interested in how resources and relationships contribute to the success of the business model (that is, how they affect the entity's *current* ability to create value and generate cash flows) and how they enable strategy (that is, how they affect the entity's ability to create value and generate cash flows in the *future*). Thus, the staff think that preparers need to provide information and analysis on those resources and relationships the entity depends on both for its business model and strategy.

24. Such information and analysis would help investors and creditors understand how the entity's ability to generate cash flows currently depends, and will continue to depend, on resources and relationships. That would both enhance their understanding of the entity's performance and position depicted in the related financial statements and provide insights into factors that could affect the entity's prospects, including over the long-term, and as a result would help investors and creditors assess the entity's prospects for future cash flows and management's stewardship of the entity's economic resources.

25. The relationship between the headline disclosure objective for resources and relationships and the overall objective of management commentary is illustrated in Figure 1.

Figure 1



26. Based on the analysis in paragraphs 22–24, the staff recommend that the headline objective for resources and relationships should be to provide information and analysis to help investors and creditors understand the resources and relationships on which the business model and strategy depend.

Main assessments typically made by investors and creditors

27. As explained in Agenda Paper 15A, the staff's proposed design of the disclosure objectives includes supporting the headline objective by a description of the main assessments that investors and creditors typically make using the information on that

area of content. This is intended to help preparers identify information that investors and creditors need in a particular area of content.

28. The existing Practice Statement refers to assessments by investors and creditors in respect of relationships, but does not do so for resources. Paragraph 33 of the existing Practice Statement states that information about the entity's significant relationships with stakeholders 'helps users of the financial reports to understand how an entity's relationships influence the nature of its business and whether an entity's relationships expose the business to substantial risk'.

29. Discussions with the MCCG and the CMAC, outreach with investors, as well as research of the FRC's Financial Reporting Lab's reports on business model and workforce shows that investors and creditors need information that helps them understand:

    (a) what is critical for the entity's business model or strategy;

    (b) what could give rise to concentration of risks; or

    (c) what could disrupt the operation of the business model or the implementation of the strategy by disrupting the availability of resources or by disrupting relationships.

30. Assessments identified in paragraphs 28–29 are in substance assessments of the extent of the entity's dependency on particular resources and relationships and of whether those resources and relationships will continue to be available in the future. These assessments help users assess the entity's prospects for future cash flows and of management's stewardship of the entity's economic resources because they can indicate:

    (a) how much the operation of the entity's business model and implementation of management's strategy could be affected by disruption in the availability of a particular resource or in the strength of a relationship; and

    (b) how likely the disruption is and whether management's actions to maintain and enhance the availability of resources and the strength of relationships are likely to be effective.

31. For the reasons given in paragraph 30, the staff recommend that the disclosure objective for resources and relationships should refer to information and analysis that helps investors and creditors assess:

    (a) how much the entity depends on resources or relationships; and

    (b) whether those resources are likely to continue to be available and whether the relationships are strong enough to sustain the entity's business model and strategy.

Types of information that need to be provided

32. The staff have considered the main types of information and analysis that investors and creditors would need for their assessments described in paragraph 31. In particular, the staff considered the guidance in the existing Practice Statement, the research into investors and creditors' information needs, and guidance provided by other standard-setters.

33. For resources, paragraph 30 of the existing Practice Statement states that management commentary 'should set out the critical financial and non-financial resources and how they are used in meeting management's stated objectives'. The Practice Statement then describes examples of possible disclosures for various types of resources in management commentary, including:

    (a) analysis of adequacy of the entity's financial resources; and

    (b) plans to address any surplus resources or identified and expected inadequacies.

34. For relationships, paragraph 33 of the existing Practice Statement states that management should 'identify the significant relationships that the entity has with stakeholders, how those relationships are likely to affect the performance and value of the entity, and how those relationships are managed'.

35. Building on this guidance and taking into consideration investors and creditors' needs discussed in paragraph 9–10 and 29, the staff have identified the following main types of information and analysis needed for investors and creditors':

    (a) assessments of the entity's dependency on resources and relationships:

(i) which resources and relationships are needed for the entity to operate its business model and implement management's strategy. To help achieve that, the staff think that preparers should be required to describe the nature of their resources and relationships.

(ii) whether an entity controls those resources and related relationships and how they are accessed. To help achieve that, the staff think that preparers should be required to describe how the resources and relationships are accessed.

(iii) how the resources are used, including the level of resources needed. To help achieve that, the staff think that preparers should be required to describe how the resources and relationships are used.

(b) assessments of whether those resources are likely to continue to be available and whether the relationships are strong enough to sustain the entity's business model and strategy:

(i) how easily available the resources are and how strong the entity's relationships are. To help achieve that, the staff think that preparers should be required to describe factors that may affect whether access to the resources and relationships will continue.

(ii) how the entity's management maintains the necessary level of resources and relationships, including those needed in the future to implement management's strategy. To help achieve that, the staff think that preparers should be required to describe how resources and relationships are managed.

36. As stated in paragraph 9, one of the main existing gaps in reporting practice is that entities' descriptions of resources and relationships fail to identify the resources and relationships most important for them and do not provide detailed information about them. Therefore, the staff think it would be helpful to require as part of the disclosure objective that information and analysis on the entity's resources and relationships should focus on the key resources and relationships.

37. The existing Practice Statement also refers to describing 'most important', 'critical' and 'significant' resources and relationships. However, the Practice Statement does not include guidance on how to identify those resources and relationships. The staff considered how to help preparers identify:

(a) 'key' resources and relationships (see paragraphs 43–52); and

(b) information and analysis that might need to be provided about those resources and relationships for each type of information identified in the disclosure objective (see paragraphs 53–62).

38. To conclude, the staff recommend that the revised Practice Statement requires that the information and analysis on resources and relationships in management commentary cover the following types of information:

(a) the nature of resources and relationships;
(b) how resources and relationships are accessed;
(c) how resources are used;
(d) what could affect the availability of resources and the strength of relationships;
(e) how resources and relationships are managed.

The staff further recommend that the revised Practice Statement specifies that information and analysis set out in paragraph 38 should focus on key resources and relationships.

Question 1 for the Board
The staff recommend that the revised Practice Statement specifies the disclosure objective for resources and relationships as follows: (a) management commentary should provide information and analysis to help investors and creditors understand the resources and relationships on which the business model and strategy depend. (b) that the information and analysis helps investors and creditors assess: (i) how much the entity depends on particular resources or relationships; and (ii) whether those resources are likely to continue to be available and whether the relationships are strong enough to sustain the entity's business model and strategy. (c) that information and analysis should cover: (i) the nature of resources and relationships;

(ii) how resources and relationships are accessed;
(iii) how those resources are used;
(iv) what could affect the availability of resources and the strength of relationships;
(v) how resources and relationships are managed.

That information and analysis shall focus on the key resources and relationships.

Do you agree with these recommendations?

Possible guidance supporting the disclosure objective

39. As explained in Agenda Paper 15A, the disclosure objective is intended to help management identify information and analysis that needs to be included in management commentary to meet investors and creditors' information needs. Entities that disclose that they apply the Practice Statement must comply with all aspects of disclosure objectives.

40. To help preparers apply the aspects of the disclosure objective as recommended in paragraphs 26, 31 and 38, the staff considered what supporting guidance could be included in the revised Practice Statement on:

    (a) identifying 'key' resources and relationships; and

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

        (i) the nature of resources and relationships;

        (ii) how resources and relationships are accessed;

        (iii) how those resources and relationships are used;

        (iv) what could affect the availability of resources and the strength of relationships;

        (v) how resources and relationships are managed.

41. The supporting guidance will discuss what information entities should consider including in management commentary in order to meet the disclosure objective and when and how that information should be provided.

42. As previously discussed with the Board, the staff aim to develop supporting guidance that is principle-based but provides sufficient detail to support application of the revised Practice Statement and assurability of management commentaries.

How to identify key resources and relationships

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

44. That guidance applies to all information in management commentary. To help apply that guidance in identifying material information about an entity's resources and relationships, the staff suggest providing guidance on identifying 'key' resources and relationships, information about which is likely to be material to investors and creditors' assessments.

45. Paragraph 29 of the existing Practice Statement refers to the 'most important resources and relationships that management believes can affect the entity's value'. In this paper, the staff recommend that the headline objective for resources and relationships should be to provide information to help investors and creditors understand the resources and relationships on which the business model and strategy depend. To be consistent with that recommendation, the staff recommend that the revised Practice Statement should describe the key resources and relationships as those on which operation of the entity's business model or implementation of management's strategy depend.

46. Furthermore, the staff think that the revised Practice Statement could also provide guidance to help a preparer identify those resources and relationships which are key for that entity. Considering the main assessments that investors and creditors typically make about the entity's resources and relationships (discussed in paragraphs 27–31), examples of resources and relationships that could be identified as key are resources and relationships that:

(a) provide an entity with a competitive advantage—that is their nature makes them key, such as an in-house research and development team in a cutting-edge technology company, or an exclusive right;

(b) are scarce, such as specialist employees or natural resources with a finite life, or whose continued availability is uncertain, due to factors like government intervention or climate change; and

(c) create a concentration of risk, such as when the entity relies on a small number of customers or suppliers, when there is no viable alternative for a resource which is used as the main component in producing the entity's product, or when a resource can only be sourced from one or a few countries.

47. It may also be helpful to indicate in the revised Practice Statement the types of resources and relationships that investors and creditors would typically expect to be described in management commentary. This could help preparers identify whether those resources and relationships are key for their entity and so should be described in management commentary.

48. Resources that would typically be expected to be described in management commentary include:

(a) financial resources;

(b) operating sites and infrastructure (including public infrastructure);

(c) natural resources (including processed commodities) and access to natural resources;

(d) raw and manufactured materials;

(e) human resources;

(f) expertise, know-how, and other intellectual capital;

(g) brand and reputation.

Note on next steps—financial resources

- Financial resources are expected to be key for any entity because their availability will affect the entity's ability to access other resources. Although supporting guidance on what information to provide on key resources and relationships is expected to be helpful in describing an entity's financial resources, the staff will also consider whether additional guidance on financial resources, liquidity and financing strategy would be helpful.

49. Relationships that would typically be discussed in management commentary include:

 (a) customer relationships;

 (b) distribution channels;

 (c) sourcing and outsourcing relationships (that is, the entity's supply chain);

 (d) staffing relationships (with both employees and contractors);

 (e) relationships with the entity's equity and debt providers;

 (f) wider relationships, including those with government, regulators, and local communities, to the extent they would affect the entity's business model or strategy.

50. The staff suggest that the revised Practice Statement states that key resources and relationships discussed in management commentary are not necessarily only those that are recognised or disclosed in the entity's financial statements. The existing Practice Statement does refer to resources not presented in the financial statements but does not do so in the section on resources and relationships, except with reference to financial resources. The staff think that this should be clarified as applying to other types of resources and relationships, as it helps address the discussion of intangible resources and relationships not recognised in the financial statements. The revised Practice Statement

could also emphasise that resources and relationships could be either tangible or intangible.

51. As discussed in AP15B, an entity may have more than one business model. In that case, the entity would need to discuss in its management commentary the key resources and relationships for each of its business models.

52. Preparers may have concerns on commercial sensitivity related to the discussion of resources and relationships which provide the entity with a competitive advantage. As noted in Agenda Paper 15A, the staff will consider whether the revised Practice Statement should provide guidance on sensitive information and if so, will discuss such guidance in a future paper.

Question 2 for the Board
The staff recommend that the revised Practice Statement specifies that an entity's key resources and relationships are those on which operation of the entity's business model or implementation of management's strategy depend. Do you agree with this recommendation?

What information to provide about resources and relationships

The nature of resources and relationships

53. The staff have reviewed guidance provided by other standard-setters and analysed investors and creditors' information needs in considering guidance that could be included in the revised Practice Statement on describing the nature of key resources and relationships, including how they are accessed. That description may need to cover:

(a) what the resource or relationship is—this could be one of the types mentioned in paragraphs 48 and 49.

(b) the composition of the resource or relationship—perhaps by categories with different characteristics or subject to different risks. For example, the entity's workforce could be split into direct employees, contractors and outsourcing; and the entity's customers may have different types of membership options.

How resources and relationships are accessed

54. Information about how the entity currently obtains its key resources or gains access to its key relationships may give insight into their availability or strength. The description of access to key resources and relationships may need to cover:

   (a) how the entity accesses the resource or relationship, including:

      (i) whether the resource or relationship is accessed directly or indirectly. For example, resources could be accessed directly through purchasing or leasing, or indirectly through suppliers using the resource.

      (ii) whether access to the resource or relationship is dependent on other resources or relationships.

      (iii) information about the supply chain for the resource, specifying for example the number of suppliers the entity uses, or which are available to it.

      (iv) how the entity targets and brings in new relationships.

   Link to Performance, position and progress area of content

   - Guidance on performance, position and progress may ask management to discuss expenses (whether operating or capital in nature) incurred in acquiring or accessing the resource or relationship, for example cost of extracting minerals, customer acquisition costs, leasing costs of aircraft.

   (b) whether the entity controls the resource or relationship, and if not, what the terms of its access to that resource or relationship are. For example, if access to a key resource could be terminated at a short notice, this could indicate a risk to the continued availability of the resource.

(c) where the resource (or its supplier(s)) is located or where parties to the relationship are located. For example, if an entity sources a resource from a single geographical location this could indicate a concentration of risk.

How resources and relationships are used

55. To assess how much an entity depends on a particular resource or relationship, investors and creditors need to understand how the entity uses its key resources and relationships in operating its business model and how it plans to use them in implementing management's strategy. Management might describe key resources and relationships in the description of the business model that depends on them or separately.

56. Agenda Paper 15B discusses how an entity uses resources and relationships in its cycle for creating value and generating cash flows. Management's description of how the entity uses key resources and relationships may need to cover:

(a) what the resource or relationship is used for. This could be linked to the description of the entity's cycle for creating value and generating cash flows.

(b) how much of the resource was used during the current period. This could be an indication of the scale of use, and not necessarily a quantitative measure.

Link to Performance, position and progress area of content

- Guidance on performance position and progress may ask management to include metrics for measuring utilisation of resources, for example number of employees, volume of raw materials used in production, number of production facilities.

(c) whether the entity has any underused or surplus resources and whether and how the entity intends to use that spare capacity.

57. An entity would also need to provide information on how it plans to use its resources and relationships in implementing its strategy. The description of how the entity plans to use its existing resources and relationships may need to cover changes in:

(a) how the resource or relationship will be used; and

(b) how much of the resource is needed.

58. If management will need to obtain new resources or relationships to implement its strategy, then management commentary may also need to include information about:

(a) what the resource or relationship will be used for;

(b) how management is planning to obtain that resource or relationship; and

(c) how much of the resource is expected to be needed.

What could affect the availability of resources and the strength of relationships

59. As discussed in paragraph 31, investors and creditors need information to help them assess whether key resources are likely to continue to be available and whether key relationships are strong enough to sustain the entity's business model and strategy. Some information about the nature, access to, use and management of relationships and resources may provide insight into future availability of resources and continuation of relationships. In addition, the description of what could affect the availability of a resource may need to cover:

(a) the rate of depletion of the resource and known vulnerabilities.

(b) expected remaining life of the resource—this could be expressed in a measure of time, for example the remaining years until expiry of a licence agreement, or in other measurement units, for example the remaining capacity of a mine in metric tons.

(c) expected shortages due to anticipated events such as strikes or known factors such as shortages in the resource's supply chain.

(d) assets that are stranded or likely to become stranded because of systemic trends, such as climate change or technological change.

60. The description of what could affect the continuation of a relationship may need to cover:

(a) expected life of the relationship, if the relationship is determined or governed by a contract, and whether the contract has a finite date, is rolling or could be renewed (and the likelihood of it being renewed).

(b) how well-established the relationship is—information about the length of the relationship to date can help with assessing the strength of the relationship and the likelihood of it continuing.

(c) the other party's dependency on the relationship with the entity, for example whether the entity is the sole provider of a product or service needed by the other party.

Links to other areas of content

Business model

- Guidance on business model may ask management to describe both positive and negative impacts of the entity's operations on key resources and relationships (see paragraphs 66–68 of Agenda Paper 15B).

Operating environment

- Guidance on operating environment may ask management to explain how trends and factors in the external environment are expected to affect the key resource or relationship, if the effect has the potential to affect its availability or continuation. Examples include the effects of an economic crisis in a country from which the entity sources one of its main raw materials, or the effect of cyber security threats to its reputation as an online retailer.

Risks

- Guidance on risks may ask management to explain risks arising from key resources and relationships. Examples include the risk of volatile commodity pricing which could make the commodity unaffordable, and the risk of being unable to hire required staff.

How resources and relationships are managed

61. Information about how resources and relationships are managed could provide insights into future availability of key resources and continuation of key relationships. The description of how resources and relationships are managed may need to cover:

(a) how management monitors and measures availability of resources and strength of relationships—such information provides insight into whether management is able to anticipate or detect issues that could affect availability of a resource or strength of a relationships and be able to take mitigating actions to replenish the resource, strengthen the relationship or find suitable alternatives.

(b) how the entity maintains the required level of a resource or increases its capacity or extent, for example the entity sponsors a university programme to have a pipeline of engineering talent or conducts training for its employees to improve productivity.

(c) how the entity strengthens or maintains positive relationships through:

   (i) incentivisation, such as employee bonus schemes and customer loyalty programmes; and

   (ii) taking action on feedback received, such as updating a policy as a result of a customer satisfaction survey.

Link to Performance, position and progress area of content

Guidance on performance, position and progress may ask management to:

- include metrics/KPIs for measuring:
  - availability of a resource, for example, oil and gas reserves, replacement ratio for an energy company;
  - productivity of a resource, for example revenue per employee;
  - effectiveness of management's actions to strengthen relationships, for example, employee engagement scores and employee turnover.
- discuss expenditure incurred in maintaining or enhancing existing resources or relationships, for example, expenses resulting from best-price guarantees for existing customers or costs to build a new training facility.

62. An entity's culture could be important to maintaining or strengthening its relationships. For example, an entity's culture might affect its reputation and thus affect the entity's access to resources and relationships, for example, by either attracting or deterring potential customers and employees. The staff do not think that a description of an entity's culture should be required in management commentary but management may choose to

provide commentary on culture. That could be that case, for example, if the entity's culture is expected to affect its key resources and relationships or if an entity has widely acknowledged problems with its culture—for example when there has been negative media coverage—management commentary should discuss what they are doing to fix the culture. The staff also think that guidance on providing information on resources and relationships included in this paper could help management provide information that may sometimes provide insight into the entity's culture.

Question 3 for the Board
Paragraphs 53–62 provide the staff's discussion of the guidance supporting the disclosure objective for resources and relationships that could be included in the revised Practice Statement. Do you have any questions or comments on that discussion?

Appendix A—Extracts from the existing Practice Statement

Purpose
10 Management commentary complements and supplements the financial statements by communicating integrated information about the entity's resources and the claims against the entity and its resources, and the transactions and other events that change them.
[…]

Principles
14 Management commentary should provide information to help users of the financial reports to assess the performance of the entity and the actions of its management relative to stated strategies and plans for progress. That type of commentary will help users of the financial reports to understand, for example:

[…]

(b) how resources that are not presented in the financial statements could affect the entity's operations; and […]

Elements of management commentary
24 c) the entity's most significant resources, risks and relationships

Objectives and strategies
27 […] identify the resources that must be managed to deliver results.

Resources, risks and relationships
29 Management commentary should include a clear description of the most important resources, risks and relationships that management believes can affect the entity's value and how those resources, risks and relationships are managed.

Resources
30 Management commentary should set out the critical financial and non-financial resources available to the entity and how those resources are used in meeting management's stated objectives for the entity. Disclosure about resources depends on the nature of the entity and on the industries in which the entity operates. Analysis of the adequacy of the entity's capital structure, financial arrangements (whether or not recognised in the statement of financial position), liquidity and cash flows, and human and intellectual capital resources, as well as plans to address any surplus resources or identified and expected inadequacies, are examples of disclosures that can provide useful information.

Relationships
33 Management should identify the significant relationships that the entity has with stakeholders, how those relationships are likely to affect the performance and value of the entity, and how those relationships are managed. This type of disclosure helps users of the financial reports to understand how an entity's relationships influence the nature of its business and whether an entity's relationships expose the business to substantial risk.

Appendix B—Overview of the feedback on resources and relationships received from the Management Commentary Consultative Group (MCCG)

In April 2019, the MCCG discussed the staff's proposals on resources and relationships. These proposals were included within the guidance on the business model area of content.

The staff's proposals were again discussed with the MCCG at the December 2019 meeting as part of the overview of overall proposals for guidance on management commentary. At that meeting, the MCCG also discussed the staff's proposals for guidance on management commentary on intangible resources and relationships.

The proposals discussed were to:

(a) require management to describe the resources and relationships that the entity depends on for its success;

(b) clarify that the discussion of resources and relationships must address intangible resources and relationships irrespective of whether they are recognised in the financial statements;

(c) address disclosures on intangible resources and relationships across different areas of content;

(d) specify that those resources which provide the entity with a competitive advantage or are subject to uncertainty or otherwise expected to change over time should be addressed;

(e) provide guidance to support consideration of the full range of resources and relationships the entity depends on, based on illustrations of the resources and relationships that may commonly need to be addressed;

(f) set out information that may need to be covered to help investors and creditors make assessments on availability and durability of resources and relationships, the vulnerability of the business model to disruptions to resources and relationships and the risks affecting them.

The following table summarises the feedback received from the MCCG on those proposals and explains how the feedback has been considered in the staff's revised proposals for resources and relationships. Most of the feedback received related to intangible resources and relationships.

Feedback	**Staff's response**
Suggestion that discussion of intangible resources and relationships should be given more prominence, both in the Practice Statement and in management commentary itself, rather than just be subsumed in the discussion of the business model.	As discussed in paragraph 19, the staff decided not to continue with the approach of including guidance on resources and relationships within the guidance on business model because providing the guidance on resources and relationships separately could help highlight their importance and that an understanding of resources and relationships is not only necessary for understanding business model, but also for understanding strategy. The staff do not propose to have a separate section on *intangible* resources and relationships, but the guidance on resources and relationships will specifically refer to and include examples of intangible resources and relationships. The proposed guidance would apply to both tangible and intangible resources.
Suggestion that management commentary should provide information about the potential effect of intangible resources on prospects for the entity's future cash flows.	The discussion of resources and relationships is linked to the operation of business model and the implementation of strategy. The proposals are also set out to provide information that helps users assess the entity's prospects for future cash flows. Therefore, although the staff are not proposing to require direct information on effects on prospects for future cash flows, the required information and analysis on resources and relationships as proposed in paragraph 38 would help with those assessments.
Suggestion to require that management commentary identifies the most important intangible resources and relationships (drivers of value) and provides information about key performance indicators (KPIs) used to monitor those intangible resources and relationships but not necessarily information about their valuation.	As discussed in paragraph 31, the staff recommend that the information and analysis provided focuses on key resources and relationships, that is the most important resources and relationships on which the entity's business model and strategy depend. In paragraph 61, the staff suggest that management provides information about monitoring its resources and relationships. See also the related Note on link to Performance, position and progress area of content on KPIs.
Suggestion to include a list of common drivers of value	As discussed in paragraph 47, the revised Practice Statement could discuss the types

that need to be considered for inclusion in management commentary—for example, human resources and reputation	of resources and relationships that would typically be expected to be described in management commentary.
Suggestion to require that management commentary identifies whether a resource or a relationship discussed in management commentary is controlled by the entity.	The staff propose that information about how resources and relationships are accessed could cover whether the entity controls the resource or relationship, and if not, what the terms of access are (see paragraph 54b).
Suggestion to include guidance on reporting risks outside an entity's control that could disrupt the entity's access to its intangible resources and relationships.	The staff are proposing guidance on what could affect the availability of resources and strength of relationships, which could include risks arising from trends in the external environment. Guidance on risks will be addressed in a future agenda paper.
Suggestion to require management to explain the link between information about intangible assets included in the financial statements and information about intangible resources and relationships included in management commentary	One of the roles of providing information on resources and relationships, as with any information in management commentary, is to enhance understanding of the entity's performance and position depicted in the related financial statements. In the analysis presented in this agenda paper, the staff have highlighted links with information about performance, position and progress which could include intangible assets recognised in the financial statements.
Suggestion that discussion of impacts in management commentary should be linked to discussion of resources and relationships.	See Note on Link to Other Areas of content on page 22 which explains that guidance on the business model may require a description of the impacts of the entity's operations on its key resources and relationships.
Caution against referring to intangible resources and relationships that need to be discussed in management commentary as 'intangible assets' or 'intangibles' to avoid confusion with intangible assets that are reported in financial statements.	The proposed guidance refers to intangible resources and relationships. As noted in paragraph 50, the staff suggest that the revised Practice Statement states clearly that key resources and relationships discussed in management commentary are not only those recognised or disclosed in the financial statements

Appendix C—Extracts from other standard-setters' requirements or guidance on resources and relationships

This appendix includes extracts from other standard-setters' guidance that provides more detailed guidance on resources and relationships, as identified from the survey of national standard-setters referred to in paragraph 12, as well as extracts from the International Integrated Reporting <IR> Framework.

<IR> Framework

Fundamental concept

An integrated report aims to provide insight about the resources and relationships used and affected by an organization – these are collectively referred to as "the capitals" in this Framework.

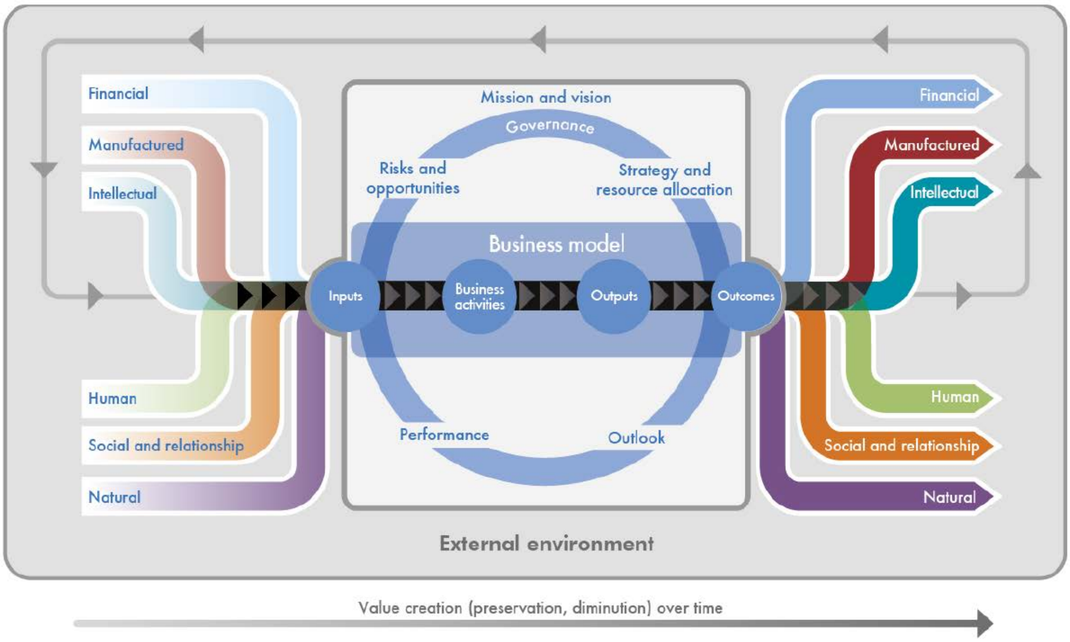
2A Introduction

2.2 An integrated report explains how an organization creates value over time. Value is not created by or within an organization alone. It is:

- Influenced by the external environment
- Created through relationships with stakeholders
- Dependent on various resources.

Note: The following extract from the <IR> Framework illustrates how an organization creates value over time (ie the valuation creation process).

Figure 2: The value creation process:



2.3 An integrated report therefore aims to provide insight about […]
• The resources and the relationships used and affected by the organization, which are referred to collectively in this Framework as the capitals and are categorized in Section 2C as financial, manufactured, intellectual, human, social and relationship, and natural.

2C The capitals

The stock and flow of capitals

2.10 All organizations depend on various forms of capital for their success. In this Framework, the capitals comprise financial, manufactured, intellectual, human, social and relationship, and natural, although as discussed in paragraphs 2.17–2.19, organizations preparing an integrated report are not required to adopt this categorization.

2.11 The capitals are stocks of value that are increased, decreased or transformed through the activities and outputs of the organization. For example, an organization's financial capital is increased when it makes a profit, and the quality of its human capital is improved when employees become better trained.
[…]

Categories and descriptions of the capitals

2.15 For the purpose of this Framework, the capitals are categorized and described as follows:

1. Financial capital	The pool of funds that is: • available to an organization for use in the production of goods or the provision of services • obtained through financing, such as debt, equity or grants, or generated through operations or investments
2. Manufactured capital	Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including: • buildings • equipment • infrastructure (such as roads, ports, bridges, and waste and water treatment plants) Manufactured capital is often created by other organizations, but includes assets manufactured by the reporting organization for sale or when they are retained for its own use.

3. Intellectual capital	Organizational, knowledge-based intangibles, including: • intellectual property, such as patents, copyrights, software, rights and licences • "organizational capital" such as tacit knowledge, systems, procedures and protocols
4. Human capital	People's competencies, capabilities and experience, and their motivations to innovate, including their: • alignment with and support for an organization's governance framework, risk management approach, and ethical values • ability to understand, develop and implement an organization's strategy • loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.
5. Social and relationship capital	The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital includes: • shared norms, and common values and behaviours • key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders • an organization's social licence to operate
6. Natural capital	All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes: • air, water, land, minerals and forests • biodiversity and eco-system health.

2.16 Not all capitals are equally relevant or applicable to all organizations. While most organizations interact with all capitals to some extent, these interactions might be relatively minor or so indirect that they are not sufficiently important to include in the integrated report.
[…]
2.18 Organizations may categorize the capitals differently. For example, relationships with external stakeholders and the intangibles associated with brand and reputation (both identified as part of social and relationship capital in paragraph 2.15), might be considered by some organizations to be separate capitals, part of other capitals or cutting across a number of individual capitals. Similarly, some organizations define intellectual capital as comprising what they identify as human, "structural" and "relational" capitals.

2.19 Regardless of how an organization categorizes the capitals for its own purposes, the categories identified in paragraph 2.15 are to be used as a guideline to ensure the organization does not overlook a capital that it uses or affects.

UK FRC's Guidance on Strategic Report

7A.16 A critical part of understanding an entity's business model is understanding its sources of value, being the key resources and relationships that support the generation and preservation of value. In identifying its key sources of value, an entity should consider both its tangible and intangible assets and also identify those resources and relationships that have not been reflected in the financial statements because they do not meet the accounting definitions of assets or the criteria for recognition as assets. This information may provide insight into how the board manages, sustains and develops these unrecognised assets.

7A.39 Disclosures should not be limited to the matters stated in the Act. Entities should consider all of the resources and relationships which are necessary for an understanding of the development, performance or position of the entity's business. Such resources and relationships could include customers, suppliers, the entity's pension scheme and intellectual property.

Questions for boards to consider:

- **Environmental matters:** Is the entity's business model reliant on natural resources such as water, land, or minerals? Does the use of these resources result in other secondary impacts on natural resources? What is the entity's impact on the environment? What are the pollution risks from the entity's activities? Will the entity's business be affected by climate change, either as a result of regulation or climate change affecting how the business can operate? What are the effects of an entity's activities on climate change?
- **Employees:** Is the entity's business model dependent on current employees' skills and experience? What is the composition of the workforce? Are there any risks associated with its employment model? How does the entity consider the interests of employees and maintain good employee relationships? What channels of communication are there with employees? Are there different approaches in different parts of the world or at different levels of seniority?
- **Social and community matters:** Is the entity's business dependent on relationships with certain communities? Does the entity perform a strategically important role in society – by providing essential or critical services for example?
- **Respect for human rights:** How does the entity's business model ensure protection of human rights? Where are the areas of risk to those rights? How does this vary in the different geographical locations in which the entity operates?

8.16 The description of the company's business model in the strategic report should provide an insight into the key resources and relationships that support the generation and preservation of value in the company. Stakeholder relationships are often a key source of value that help to ensure that an entity's success is sustainable over the longer term. It is important that boards identify its key stakeholders and the importance of those stakeholders to the long-term success of the company. The company could include a quantified analysis of allocations of free cash flow, enable users of the accounts to understand how discretionary resources have been allocated between shareholders, other stakeholders and retained in the company.

CPA Canada Management's Discussion and Analysis — Guidance on preparation and disclosure

3.4 Capability to Deliver Results — Resources, Relationships and Risk

Resources and Relationships

Readers of MD&A need to understand how well the company is equipped to execute strategy and achieve planned results. Capability refers to all the significant resources and relationships needed to deliver results and to the risks that can affect achieving these results. Resources include property, plant and equipment, intangible assets, working capital and other aspects of liquidity, capital structure, capital resources, leadership, general labour force, and system and processes.

The Hong Kong Institute of Certified Public Accountants (HKICPA) HKEx Main Board Listing Rules, Appendix 16 Disclosure of Financial Information (Appendix 16)

33. The description of the business includes a description of resources which are significant to the reporting entity's operations irrespective of whether these resources are recognised in the reporting entity's statement of financial position. For example, the description of the business may refer to corporate reputation and brand strength, natural resources, assembled workforce, distribution or supply chain networks, research and development projects, intellectual capital, licences, patents, copyrights and trademarks where relevant.