

IASB Agenda Paper 15B

Management Commentary *Disclosure objectives*

IASB Meeting – March 2020

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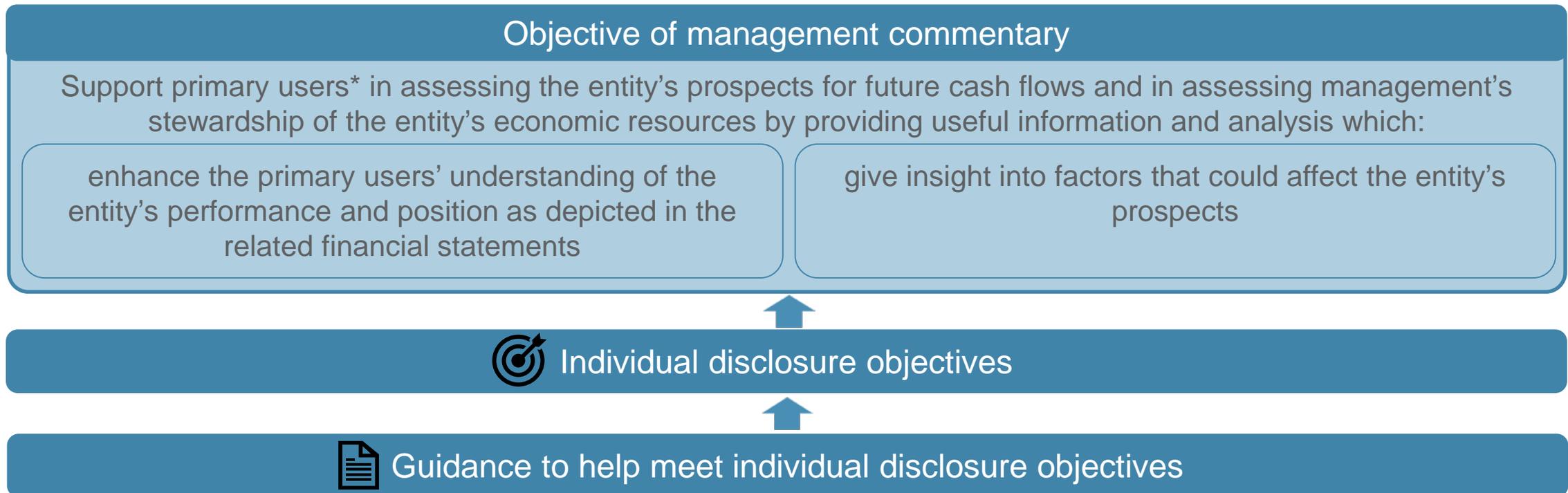
Project	Management Commentary		
Paper topic	Disclosure objectives		
Contact(s)	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743
	Jelena Voilo	jvoilo@ifrs.org	+44 (0)20 7246 6914
	Matt Chapman	mchapman@ifrs.org	

Purpose of this paper

- The purpose of this paper is to introduce the staff's initial thinking on developing disclosure objectives for types of content expected to be included in management commentary.
- This paper is for information only and does not ask the Board for decisions. However, the staff welcome Board members' comments on the ideas presented in the paper.
- The staff plan to discuss disclosure objectives at the March 2020 Capital Markets Advisory Committee meeting and April 2020 Accounting Standards Advisory Forum meeting.
- The staff plan to ask the Board for decisions on disclosure objectives when discussing individual topics at future meetings.

Link to objective of management commentary

- Agenda Paper 15A provides staff recommendation for how to describe the objective of management commentary in the revised IFRS Practice Statement 1 *Management Commentary*.
- To support that objective, the staff suggest for each type of content in management commentary:
 - introducing a disclosure objective; and
 - providing guidance to help preparers meet that disclosure objectives.



* Agenda Paper 15A asks the Board to confirm that primary users are existing and potential investors, lenders and other creditors.

Developing disclosure objectives

- The existing Practice Statement does not include explicit disclosure objectives for each type of content in management commentary, but includes guidance that addresses the objectives (see the appendix).
- The staff suggest introducing explicit disclosure objectives to help:
 - preparers identify what information to provide in management commentary to help primary users assess the entity's prospects for future cash flows and assess management's stewardship; and
 - regulators and assurers determine whether management commentary meets its objective.
- The staff will develop disclosure objectives based on their analysis of primary users' information needs that particular types of content in management commentary need to satisfy. These objectives will be supported by guidance identifying the types of information that would typically be required to meet the objectives. That guidance is not intended to be used as a checklist or a list of minimum requirements. Management will need to exercise judgement to determine whether additional information is needed to meet the disclosure objectives.
- Individual disclosure objectives for each type of content will be designed to:
 - support both primary users' assessments of the entity's prospects for future cash flows and of stewardship; and
 - help users understand performance and position in the reporting period (ie what has affected the entity) and give insights into the future (what might affect the entity).

Topics covered and important reminders

- Slides 7–19 illustrate the staff’s initial thinking on the disclosure objective and on supporting guidance for:
 - business model
 - resources and relationships
 - strategy
 - external environment
 - risks
 - performance, position and progress

The current split of content as topics for discussion with the Board and the order of presenting the topics are not intended to:

- indicate the structure of the revised Practice Statement. The staff will consider how to organise and present the proposed guidance in the most efficient and reader-friendly way once the Board completes its discussions. For example, the guidance on business model and resources and relationships may be provided in one section.
- prescribe the structure of discussion in management commentary. The staff expect that management commentary prepared following the order of the guidance would meet the objective of management commentary. However, the guidance on the topics is intended to help preparers determine what information to include in management commentary. It is up to management to decide how it organises that information in its commentary.

Business model – disclosure objective

The description of an entity's business model needs to cover what the entity does and how it does it



Provide information to help primary users understand how an entity creates, maintains or destroys value, including:

- the nature and scale of the entity's operations that create, maintain or destroy value;
- features of the entity's business model that give the entity competitive advantage or contribute to the entity's unique value proposition; and
- how resilient and adaptable the entity's business model is.

Provide fundamental context for understanding information in other sections of management commentary and in the related financial statements.

Business model – supporting guidance



Examples of the supporting guidance:

- Identify components of the description of an entity's business model, ie the entity's structure, inputs, processes, outputs and impacts (indirect wider consequences of the entity's operations)
- Require an overview of an entity's business model and a focused discussion of its 'key' features
- Set out the principle for identifying the 'key' features of business model
- Provide guidance on identifying the 'key' features of business model, eg those providing an entity with a competitive advantage
- Suggest types of information about components of the business model that can be useful to users
- Provide guidance for entities that have several business models
- Address interaction between business model and the entity's purpose
- Explain how to address effects of environmental, social and governance (ESG) matters
- Link to other content in management commentary, eg to strategy

Strategy – disclosure objective

The description of the entity's strategy needs to cover what the entity is trying to achieve and why and how it is trying to achieve that



Provide information to help primary users understand management's plans to develop and sustain the entity's ability to create value, including:

- what the entity is trying to achieve and whether management is effective in seizing opportunities to develop or maintain the entity's ability to generate value;
- management's ability to execute the strategy; and
- the potential effects of management's plans on the entity's ability to create value in the future.

Strategy – supporting guidance



Examples of the supporting guidance:

- Explain interaction between the entity's strategy and its purpose
- Identify components of the description of an entity's strategy, ie what the entity seeks to achieve (its objectives) and how management plans to achieve it
- Require the description of strategy to cover all time horizons
- Provide guidance on selecting 'key' features of an entity's strategy, eg identify types of strategies that may be of particular interest to users such as funding strategy or strategy for managing significant ESG issues
- Suggest types of information about an entity's strategy that can be useful to users, eg resources needed to implement the strategy or assumptions behind the strategy
- Provide guidance on including forecasts and targets
- Link to other content in management commentary

Resources and relationships – disclosure objective



Provide information to help primary users understand what resources and relationships the operation of the entity's business model and the implementation of its strategy depends on, including:

- how the entity's key resources and relationships are managed; and
- resilience and adaptability of the entity's resources.

Resources and relationships – supporting guidance



Examples of the supporting guidance:

- Identify types of resources and relationships to be addressed, eg financial / non-financial, controlled by the entity / controlled by others (eg key suppliers or the community) that the entity depends on, tangible / intangible, recognised / unrecognised
- Set the principle for identifying the entity's 'key' resources and relationships
- Provide guidance on identifying the entity's 'key' resources and relationships, including examples of common resources and relationships
- Suggest types of information about the entity's 'key' resources and relationships that can be useful to users, eg information about depletion, replenishment, durability, availability, vulnerability of resources
- Explain how to address effects of ESG issues
- Link to other content in management commentary

External environment – disclosure objective



Provide information to help primary users understand the external environment in which the entity operates and the features of the environment which affect the entity's ability to create value or implement its strategy, including:

- factors and trends in the external environment that have affected the entity; and
- factors and trends in the external environment that could affect the entity's operations in the future or its ability to execute the strategy.

External environment – supporting guidance



Examples of the supporting guidance:

- Suggest types of information about external environment that can be useful to users
- Explain how to address ESG issues
- Link to other content in management commentary

Risks – disclosure objective



Provide information to help primary users understand what might disrupt the direction in which the management plans to take the entity, including risks that could affect:

- the entity's ability to create value or its business model;
- the entity's ability to implement its strategy; or
- the entity's financial performance and position.

Risks – supporting guidance



Examples of the supporting guidance:

- Discuss whether description should provide both an overview and focused discussion of the 'key' risks
- Identify types of risks to be addressed, eg internal / external, controllable / non-controllable)
- Set the principle for identifying 'key' risks
- Provide guidance on identifying 'key' risks, for example common sources of risks
- Suggest types of information about 'key' risks that can be useful to users, eg progress in managing a key risk
- Explain how to address ESG issues
- Link to other content in management commentary

Performance*, position and progress – disclosure objective



Provide information to help primary users to understand:

- the results of the entity's operations for the reporting period, in particular:
 - the extent to which the entity's financial performance and position reported in financial statements give insight into the entity's ability to generate cash flows;
 - how the entity's results compare to management's previous expectations;
 - management's view of factors behind the entity's performance and position reported in financial statements and how those factors might affect the entity in the future
- how well the management has implemented its strategy.

* The reference to 'performance' is intended to capture income and expenses reported in the financial statements, cash flows, changes in financial position and changes in resources and relationships not captured in the financial statements



Examples of the supporting guidance:

- Identify components of the description of performance, position and progress
- Require to cover all time horizons
- Discuss whether the discussion should provide both an overview and focused discussion of significant matters
- Provide guidance on performance measures and indicators
- Explain how to address ESG issues
- Link to other content in management commentary

Question for the Board

Do you have any questions or comments on the staff's initial ideas for individual disclosure objectives discussed in this paper?

Appendix

Extracts from the Practice Statement

Elements	Statement similar to disclosure objective
Nature of the business and operating environment	26 Management should provide a description of the business to help users of the financial reports to gain an understanding of the entity and of the external environment in which it operates. That information serves as a starting point for assessing and understanding an entity's performance, strategic options and prospects.
Objectives and strategies	27 Management should disclose its objectives and strategies in a way that enables users of the financial reports to understand the priorities for action as well as to identify the resources that must be managed to deliver the results.
Resources and relationships	<p>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.</p> <p>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.</p>
Risks	31 Management should disclose an entity's principal risk exposures and changes in those risks, together with its plans and strategies for bearing or mitigating those risks, as well as disclosure of the effectiveness of its risk management strategies. This disclosure helps users to evaluate the entity's risks as well as its expected outcomes.
Results and prospects	34 Management commentary should include a clear description of the entity's financial and non-financial performance, the extent to which that performance may be indicative of future performance and management's assessment of the entity's prospects. Useful disclosure on those matters can help users to make their own assessments about the entity's performance, position, progress and prospects.
Performance measures and indicators	37 ... Management should disclose performance measures and indicators (both financial and non-financial) that are used by management to assess progress against its stated objectives. Management should explain why the results from performance measures have changed over the period or how the indicators have changed. This disclosure can help users of the financial reports assess the extent to which goals and objectives are being achieved.