

STAFF PAPER

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Project	Management Commentary
Paper topic	Sweep issues—Long-term prospects, intangible resources and relationships and ESG matters
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Purpose of this paper

1. At its October 2020 meeting, the International Accounting Standards Board (Board) gave the staff permission to begin the balloting process for an Exposure Draft of a revised IFRS Practice Statement 1 *Management Commentary* (Practice Statement). In December 2020, the staff circulated a pre-ballot draft of the Exposure Draft to Board members and external reviewers.
2. This paper presents for the Board’s consideration staff suggestions for revising the appendix to the Exposure Draft intended to help preparers report on matters that could affect the entity’s long-term prospects, on intangible resources and relationships and on environmental and social matters. The staff have revised the appendix in the light of comments received on the pre-ballot draft to make the appendix more helpful for preparers. The Board will be invited to comment on the staff suggestions, not asked to make any decisions.

Background

3. In October 2020, the Board discussed an overview of its proposals intended to help preparers provide information in management commentary on the following interrelated matters of particular interest to investors and creditors:
 - (a) matters that could affect the entity’s long-term prospects;

- (b) intangible resources and relationships; and
 - (c) environmental, social and governance matters (ESG) matters.
4. The Board noted that:
- (a) management commentary should provide material information about such matters and focus on key matters—that is, those matters that are fundamental to the entity’s ability to create value and generate cash flows, including in the long term.
 - (b) management commentary may need to provide some governance-related information to help investors and creditors assess management’s stewardship. However, the Exposure Draft would not provide requirements or guidance on reporting governance-related information such as information about corporate governance processes that are typically governed by local laws and regulations.
5. Matters that could affect the entity’s long-term prospects, intangible resources and relationships and environmental and social matters may relate to various areas of content in management commentary, for example, the entity’s business model, management’s strategy or the entity’s financial performance and financial position. Accordingly, requirements and guidance that would apply to reporting such matters are provided throughout the Exposure Draft.
6. However, the Board noted the growing importance to investors and creditors of information about matters that could affect the entity’s long-term prospects, about intangible resources and relationships and about environmental and social matters. Therefore, the Board wished to help management in identifying and reporting material information about such matters by making the applicable requirements and guidance more visible in the Exposure Draft. To achieve this, the Board asked the staff to provide in one place an overview of requirements and guidance for reporting on such matters. The staff suggested providing such an overview in an appendix to the Exposure Draft.

Initial draft of the appendix and comments received

7. The pre-ballot draft of the Exposure Draft included an initial draft of an appendix providing an overview of requirements and guidance for reporting on matters that could affect the entity's long-term prospects, on intangible resources and relationships and on environmental and social matters. The appendix listed requirements and guidance that appeared in the main body and would apply to reporting on such matters. The appendix also provided cross-references to the main body and included several examples of how preparers might apply those requirements and guidance. In the cover note accompanying the pre-ballot draft, the staff indicated their intention to develop the appendix further on the basis of the comments received on the pre-ballot draft, in particular by including additional examples.
8. Only a few comments on the appendix were received, including:
 - (a) a suggestion that the appendix may not be necessary if it simply repeats the requirements and guidance included in the main text;
 - (b) a concern that the overview of requirements and guidance on reporting environmental and social matters is incomplete because it misses some requirements and guidance, for example those included in the chapter on risks;
 - (c) a suggestion to emphasise in the introduction that materiality decisions are made in the context of the entity, so management commentary should include entity-specific information; and
 - (d) a few suggestions on some examples included in the appendix.

Staff suggestions for revising the appendix

9. After considering the comments received on the appendix, the staff suggest revising the appendix to make it a more helpful tool for preparers about providing useful information about matters of particular interest to investors and creditors. In particular, the staff are seeking to illustrate how requirements and guidance proposed in the

Exposure Draft would apply in identifying material entity-specific information about those matters and to improve general readability and accessibility of the appendix.

10. The staff suggest restructuring the appendix by:
 - (a) providing a more summarised description of applicable requirements and guidance instead of quoting them from the main body, with cross-references included for more detail; and
 - (b) accompanying those summarised descriptions with a brief caption identifying the topic discussed and with examples of how an entity would apply those requirements and guidance in determining what information to provide. Examples would be added throughout the appendix.
11. The staff also suggest including in the table on reporting environmental and social matters an overview of requirements and guidance set out in the chapters on risks, strategy and financial performance and financial position. The revised table shows that information related to environmental and social matters might need to be provided in all areas of content covered by management commentary.
12. The appendix to this paper includes a version of Appendix C—Long-term prospects, intangible resources and relationships and ESG matters that has been revised to reflect the staff suggestions in paragraphs 9–11. This version of Appendix C is based on the working draft of the Exposure Draft at the time of posting the paper and is subject to change as the text in the main body of the Exposure Draft is revised in the light of comments on the pre-ballot draft. The staff will also continue working on improving the drafting of the appendix and clarifying examples.

Question for the Board

Do you have any comments or questions on the revised structure and content of the appendix intended to help preparers report on matters that could affect the entity's long-term prospects, on intangible resources and relationships and on ESG matters?

Appendix. Revised version of Appendix C—Long-term prospects, intangible resources and relationships and ESG matters

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

- C1 Investors and creditors need information not only about matters that have affected the entity’s financial performance and financial position but also information about matters that could affect the entity in the future, including in the long term. Such matters include matters relating to the entity’s intangible resources and relationships—including resources not recognised as assets in the entity’s financial statements—and environmental, social and governance (ESG) matters. Management commentary shall provide material information about such matters. Information is material if omitting it from management commentary, or misstating or obscuring it within management commentary, could reasonably be expected to influence decisions that investors and creditors make on the basis of that management commentary and the related financial statements (see paragraph 4.3).
- C2 Information might be material if it relates to a key matter. Key matters are those that are fundamental to the entity’s ability to create value and generate cash flows, including in the long-term. Management commentary shall focus on those key matters.
- C3 This appendix provides an overview of requirements and guidance in this [draft] Practice Statement that an entity is most likely to need to consider in deciding what information it needs to provide about the key matters discussed in paragraphs C1 and C2. It provides examples of how the requirements and guidance might be applied but does not introduce new requirements. The appendix is intended to help management identify and report material information about matters that could affect the entity’s long-term prospects, about intangible resources and relationships and about environmental and social matters.
- C4 Management commentary may provide insights into some governance matters, for example, through the description of management’s strategy, information on progress in managing key matters or information about alignment between incentive plans and strategy. Such information may be needed to help investors and creditors assess management’s stewardship of the entity’s resources. However, this [draft] Practice Statement does not provide requirements or guidance on reporting other governance-related information, in particular information about corporate governance processes that are typically regulated by local laws which may also require entities to provide this information.
- C5 Published requirements or guidelines for narrative reporting—for example, guidelines published by an industry body or an organisation with an interest in sustainability reporting—could help management identify key environmental and social matters and

information about those matters that might be material (see paragraph 4.8). Material information identified using those requirements and guidelines shall be included in management commentary.

- C6 Management may provide in its management commentary additional information that is not material but needs to be disclosed applying such published requirements or guidelines. However, if some of that information is not material for the entity’s investors and creditors, management shall present it in a way that does not obscure material information (see paragraph 4.28).
- C7 This appendix is organised as follows:
- (a) reporting on matters that could affect the entity’s long-term prospects—Table C1;
 - (b) reporting on intangible resources and relationships—Table C2; and
 - (c) reporting on environmental and social matters—Table C3.
- C8 Tables C1–C3 are designed to help management identify material information. However, they are not intended to be used as a checklist. Material information about matters of interest for the entity’s investors and creditors is entity-specific. It is identified by management and depends on the nature of the entity and its circumstances. For example, investors and creditors might need information about the entity’s water-stressed site that it threatened with closure but might not need information on the entity’s aggregate water consumption.
- C9 Tables C1–C3 discuss reporting on matters that could affect the entity’s long-term prospects, on intangible resources and relationships and on environmental and social matters separately. However, more than one table may cover aspects of some matters. For example, a relationship with the entity’s specialist employees could be viewed as a key intangible relationship, a key social matter or a key matter affecting the entity’s long-term prospects. Therefore, in some cases more than one table would help management identify information about such matters that would be material to the entity’s investors and creditors. Conversely, some requirements and guidance are included in more than one table. For example, requirements and guidance in Chapter 9 would apply equally to identifying material information about a key intangible relationship and about a key social matter. Material information identified applying those requirements or guidance does not need to be duplicated.

Table C1. Reporting on matters that could affect the entity’s long-term prospects

Overview of applicable requirements and guidance		Example
Chapter 3—Objective of management commentary		
Ability to create value and generate cash flows across all time horizons, including in the long term	<p>Paragraph 3.1 specifies that management commentary provides insight into factors that could affect the entity’s ability to create value and generate cash flows across all time horizons, including in the long term.</p> <p>Paragraphs 3.5–3.8 set out guidance for determining whether information would affect investors’ and creditors’ assessments of that ability.</p>	<p>An entity’s business activity may create value in the short term by generating revenues but deplete value in the long term by damaging the entity’s reputation. The entity might need to provide information about potential effects of this activity on the entity’s ability to create value and generate cash flows across all time horizons, including in the long term.</p>
Management’s stewardship of the entity’s resources over the long term	<p>Paragraph 3.2(b) states that management commentary provides information that helps investors and creditors to assess management’s stewardship of the entity’s resources—that is how efficiently and effectively management has used and protected those resources.</p>	<p>An entity might need to provide information about the long-term effects of a business activity on the entity’s ability to retain customers to help investors and creditors assess management’s stewardship of the entity’s resources as well as predict how efficiently and effectively management will use the entity’s resources in the future.</p>
Chapter 4—Attributes of information in management commentary		
Long-term factors affecting materiality judgements	<p>Paragraph 4.10 and the related note specify that in making materiality judgements entities need to consider the potential effects of a matter on the amount, timing or uncertainty of the entity’s future cash flows, including in the long term.</p>	<p>An entity might identify as material information about a matter expected to affect the entity over ten or more years if that matter could cause the curtailment of its operations.</p>
Chapter 6—Introduction to Part B—Areas of content		
Key matters fundamental to the entity’s ability to create value and generate cash flows in the long term	<p>Paragraph 6.4 explains that management commentary should focus on key matters, that is those that are fundamental to an entity’s ability to create value and generate cash flows, including in the long term.</p>	<p>An entity might determine that its strategy for entering a new market is a key matter if its long-term prospects depend on that market.</p>

Overview of applicable requirements and guidance	Example
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Chapter 7—Business model	
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<p>Alignment of the entity’s business model with its stated purpose</p>	<p>If the entity has published a statement of purpose (which typically indicates what the entity is ultimately seeking to achieve), paragraph 7.12 requires the entity to present information in a way that helps investors and creditors understand how the business model serves the entity’s stated purpose.</p>	<p>An entity whose purpose is to prevent a particular medical condition might need to identify both the features of its business model involved in producing existing mitigating treatments and those involved in developing preventative treatment to achieve the entity’s purpose.</p>
<p>Resilience, adaptability and durability of the entity’s business model</p>	<p>Paragraphs 7.5(c)–(e) require management commentary to provide sufficient basis for investors and creditors to assess the resilience, adaptability, and durability of an entity’s business model—that is the entity’s ability to continue creating value and generating cash flows, including in the long term.</p>	<p>A business that is declining in scale might need to provide information on the extent of its dependence on a single customer or small group of customers.</p>
<p>Features of the entity’s business model that create uncertainty in the long term</p>	<p>Paragraph 7.8 explains that the key features of the entity’s business model that management commentary should focus on might include features that create uncertainty about the entity’s ability to create value and generate cash flows in the future, including in the long term.</p>	<p>An entity’s might identify its reliance on relationships that might readily transition to a competitor as a key feature of its business model.</p>
<p>Features of the business model that create value and generate cash flows in the long term</p>	<p>Paragraph 7.1 specifies that an entity’s business model includes those processes that create value and generate cash flows in the long term.</p>	<p>An entity might need to describe processes designed to maintain a high level of staff expertise or quality of service if they provide a competitive advantage.</p>
<p>Impacts of the entity’s operations that could affect its ability to create value and generate cash flows in the long term</p>	<p>If the environmental or social impacts of the entity’s operations could affect the entity’s ability to create value and generate cash flows, including in the long term, paragraph 7.6(c) requires information to enable investors and creditors to understand those impacts. Paragraph 7.16 provides guidance on identifying material information that needs to be provided about such impacts.</p>	<p>An entity involved in the extraction of natural resources might need to explain how the effects of its activities could affect its ability to maintain existing extraction licences and secure new licences.</p>

Overview of applicable requirements and guidance	Example
Chapter 8—Strategy	
Focus on key aspects of strategy	<p>Paragraph 8.6 requires management commentary to focus on key aspects of strategy—those fundamental to sustaining and developing the entity’s ability to create value and generate cash flows in the future, including in the long term.</p> <p>An entity might need to identify as key an aspect of strategy related to managing the possible regulatory curtailment of a major class of business activities in the next 10 years.</p>
How the entity’s purpose has driven management’s strategy	<p>Paragraph 8.5(a) specifies that management commentary should enable investors and creditors to understand the drivers of the management’s strategy.</p> <p>If the strategy is driven by the entity’s stated purpose, paragraph 8.11 requires disclosure of material information on how the purpose drives its strategy.</p> <p>An entity whose purpose is to meet business global telecommunications needs might need to explain how this purpose has influenced its network development strategy.</p>
The long-term aims of management’s strategy	<p>Paragraphs 8.5(b)–(d) specify that management commentary should enable investors and creditors to understand the long-term aims of management’s strategy and milestones and plans for achieving those aims. Paragraphs 8.12–8.14 provide guidance on reporting the long-term aims, milestones and plans.</p> <p>A manufacturer aiming to establish a leading reputation for product safety might need to explain this aim and its plans to insource its production facilities to achieve this aim.</p>
Progress in implementing management’s strategy, including the long-term aims	<p>Paragraph 8.5(f) specifies that the description of management’s strategy should enable investors and creditors to understand progress in implementing the strategy, including progress towards achieving the long-term aims.</p> <p>Paragraph 8.16 provides guidance on reporting progress in implementing the entity’s strategy.</p> <p>An entity whose strategy depends on developing a reputation for premium service might be monitoring and might need to report its progress in maintaining and improving customer loyalty and staff expertise.</p>
Incentive plans linked to the long-term aspects of strategy	<p>Paragraph 8.16(d) asks for material information explaining how incentive schemes for management or other employees are linked to progress in implementing the strategy (including in the long term).</p> <p>An extractives business might identify the employee safety metrics that are incorporated into its incentive schemes.</p>

Overview of applicable requirements and guidance	Example
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The capital required to implement the entity’s strategy	Paragraph 8.15(a) asks for material information on the entity’s capital requirements to implement its strategy.	An entity that has adopted a business transformation strategy might need to describe how it intends to finance this strategy.
The entity’s financing arrangements	Paragraph 8.15(b) asks for material information on the terms and covenants on which the entity’s facilities are available, the extent to which management intends to rely on short-term financing facilities, and targets or policies relating to the entity’s financial position.	An entity funding a new strategy might need to provide information on changes to its target capital structure.

Chapter 9—Resources and relationships
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Factors creating uncertainty over access to key resources in the long term	Paragraph 9.15(a) asks for material information about factors creating uncertainty over the entity’s continued access to a resource, including in the long term, and includes systemic factors as an example of such factors.	An entity whose activities are perceived to be environmentally damaging might need to provide information on regulatory factors that could affect its ability to continue in operation.
Factors affecting the strength of key relationships in the long term	Paragraph 9.15(b) asks for material information about factors that affect the strength of a relationship, including in the long term.	A consultancy business that depends on a reputation for the integrity of advice provided might need to provide information on aspects of its culture that are important to support this.

Chapter 10—Risks

The entity’s exposure to long-term risks	Paragraph 10.6 requires focus on key risks—those that could fundamentally disrupt the entity’s ability to create value and generate cash flows, including in the long term. Such risks include risks that could severely disrupt management’s strategy for sustaining the entity’s business model or threaten its business model, including if any disruption could occur only in the long term (paragraphs 10.7 and 10.9). Paragraphs 10.3–10.5 set out disclosure objectives for risks.	An entity whose business model is threatened by the emergence of alternative solutions to its customers’ needs might need to identify the proportion of its revenues competing with the alternative solutions.
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Overview of applicable requirements and guidance

Example

Chapter 11—External environment

The effect of the external environment on the entity, including in the long term

Paragraph 11.8 requires management commentary to focus on key factors and trends in the entity’s external environment—those that have had, or could have, a fundamental effect on the entity’s ability to create value and generate cash flows, including in the long term. Such factors and trends could include factors and trends attributable to demographic or cultural changes, or trends and factors relating to the natural environment. Paragraphs 11.5–11.8 set out disclosure objectives for external environment.

A life insurance business may need to describe how its investment policy is designed to manage exposure to long term demographic changes.

Chapter 12—Financial performance and financial position

Factors that could affect financial performance and financial position in the long term

Paragraphs 12.3–12.5 set out disclosure objectives for financial performance and financial position, including that information should enable investors and creditors to understand the factors—including matters discussed in other areas of content—that could affect the entity’s financial performance and financial position in the future, including in the long term. Paragraphs 12.14–12.15 provide guidance on reporting such information.

A business that intends to withdraw from an activity in the long term might need to provide information on the revenue and costs related to that activity and reflected in the current period financial statements.

Table C2. Reporting on intangible resources and relationships

Overview of applicable requirements and guidance	Example
Chapter 9—Resources and relationships	
Intangible resources and relationships to be reported	<p>Chapter 9 sets out requirements and guidance for providing information on an entity’s resources and relationships, including its intangible resources and relationships.</p> <p>An entity might need to provide information on its customer base or reliance on know-how, even though those assets are not recognised in the entity’s statement of financial position.</p>
Focus on key intangible resources and relationships	<p>Paragraph 9.8 requires management commentary to focus on the entity’s key resources and relationships—those on which the entity’s ability to create value and generate cash flows fundamentally depends.</p> <p>Paragraph 9.9 explains that resources or relationships might be key if, for example, they provide the entity with a competitive advantage, cannot readily be substituted, or create a concentration risk.</p> <p>Paragraph 9.10 highlights that sometimes only a specific category of a resource or relationship should be identified as key.</p> <p>An entity might identify specific distributor relationships as key because they are the only means by which a particular market can be accessed.</p>
Assessments that information about the entity’s intangible resources and relationships needs to support	<p>Paragraph 9.6 requires information in management commentary to provide sufficient basis for investors and creditors to assess:</p> <ul style="list-style-type: none"> (a) the extent to which the business model and strategy depend on particular resources and relationships; and (b) the entity’s ability to obtain the resources and maintain the relationships on which the business model and strategy depend. <p>An entity might need to provide information to help investors and creditors assess its dependence on retaining scarce engineering expertise; or its ability to maintain the reseller relationships it depends on to reach key sections of its customer base.</p>
Information about intangible resources and relationships	<p>Paragraph 9.5 requires management commentary to provide information that enables investors and creditors to understand the resources and relationships on which the entity’s business model and management’s strategy depend.</p> <p>Paragraph 9.7 requires that the information provided on the entity’s resources and</p> <p>An entity that depends on a base of subscribers might need to report metrics used to monitor levels of active subscriber retention and describe actions taken to increase subscriber loyalty.</p>

Overview of applicable requirements and guidance	Example
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<p>relationships should enable investors and creditors to understand:</p> <ul style="list-style-type: none"> (a) their nature; (b) how the entity accesses and deploys its resources and relationships; (c) factors that could affect the availability of resources or the strength of relationships, including in the long term; and (d) progress in managing the resources and relationships. <p>Paragraphs 9.13–9.16 provide guidance on information that may need to be provided.</p>	
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Chapter 7— Business model	
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<p>Key processes involved in maintaining or enhancing intangible resources and relationships</p>	<p>Paragraph 7.15(c) asks for material information on processes involved in obtaining, maintaining or enhancing intangible resources and relationships.</p>	<p>An entity might need to provide information on its investment in key research and development or staff training programmes.</p>
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Chapter 8—Strategy	
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<p>Management’s strategy for preserving or enhancing intangible resources and relationships</p>	<p>Paragraph 8.7(e) states that key aspects of an entity’s strategy that management commentary should focus on may include its strategy for preserving or enhancing the entity’s access to resources or relationships, or the quality of those resources and relationships</p>	<p>A consumer products business might identify aspects of its strategy for maintaining its reputation for ethical behaviour as key.</p>
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Chapter 10—Risks	
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<p>Risks relating to intangible resources and relationships</p>	<p>Paragraph 10.3(c) requires management commentary to provide information on risks of events or circumstances that could disrupt the entity’s resources or relationships. Paragraph 10.7 provides examples of types of risks that may be key. Paragraphs 10.12–10.15 provide guidance on reporting such risks.</p>	<p>An entity might need to report key risks related to:</p> <ul style="list-style-type: none"> (a) a regulatory or government relationship, the breakdown of which could lead to its operations being curtailed; (b) its reliance on the expertise of key staff that could not be readily replaced;
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Overview of applicable requirements and guidance	Example
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	<p>(c) its dependence on a reseller relationship to access key markets;</p> <p>(d) its reputation for product quality that could be affected by production failures; or</p> <p>(e) its dependence on its subscriber base to generate advertising revenues.</p>
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Chapter 11—External environment		
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Factors and trends in the external environment affecting the entity’s intangible resources and relationships	Chapter 11 provides requirements and guidance for providing information on the entity’s external environment, including factors and trends that have affected or could affect the entity’s key intangible resources and relationships.	An entity might identify changes in customer preferences that affect customer loyalty as a key factor in its external environment.
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Chapter 12—Financial performance and position		
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Matters relating to key intangible resources or relationships affecting the entity’s financial performance or position	Chapter 12 sets out requirements and guidance for providing information on factors that have affected or could affect an entity’s financial performance or position, including the effect of key intangible resources and relationships or matters related to them (see paragraphs 12.5 (b), 12.13(c), 12.4(e) and 12.15(c)).	<p>An entity might need to explain how its plan to build its subscriber base had led to operating losses in the current reporting period.</p> <p>An entity might explain how a shortage of skilled labour could constrain its growth.</p>
Expenditure on enhancing and maintaining intangible resources and relationships	Paragraph 12.16(b) asks for material information on expenditure on enhancing or maintaining the entity’s operations.	A business that depends on the ongoing development of new products might need to provide analysis of research and development expenditure.

Table C3. Reporting on environmental and social matters

Overview of applicable requirements and guidance		Example
Chapter 6— Introduction to Part B-Areas of content		
Identifying key matters	<p>Paragraph 6.5 provides guidance on identifying key matters, including that matters raised by the entity’s customers, suppliers, employees or other stakeholders may be key if they are fundamental to the entity’s ability to create value and generate cash flows.</p>	<p>A business that is the subject of severe public concern over its supply chain integrity may need to identify this as a key matter.</p>
Chapter 9—Resources and relationships		
Natural resources and social relationships to be reported	<p>Chapter 9 sets out requirements and guidance for providing information on the entity’s resources and relationships. Paragraph 9.8 requires management commentary to focus on resources and relationships on which the entity’s ability to create value and generate cash flows fundamentally depends.</p> <p>Paragraph 9.2(c) states that an entity’s resources may include, for example, rights over natural resources and commodities.</p> <p>Paragraph 9.4(b) states that an entity’s relationships may include those with governments, regulators, non-governmental organisations or local communities.</p> <p>Paragraph 9.9 explains that such resources or relationships might be key if they provide the entity with a competitive advantage, enable access to a scarce resource, or result in concentration risk.</p>	<p>A manufacturing business may need to provide information on its dependency on a scarce natural resource.</p>
Information to be provided on a natural resource or social relationship	<p>Paragraphs 9.5–9.7 set out disclosure objectives for resources and relationships. For a key natural resource or social relationship, paragraph 9.7 requires information to enable investors and creditors to understand its nature; how the entity obtains and deploys it; factors that could affect the availability of a resource or the strength of a relationship; and progress in managing it.</p> <p>Paragraphs 9.12–9.16 provide guidance on information about natural resources and social relationships that could be material.</p>	<p>A regulated business that is required to meet certain social objectives might need to report on its regulatory compliance.</p>

Overview of applicable requirements and guidance

Example

Chapter 11—External environment

Environmental and social matters related to the external environment

Chapter 11 sets out requirements and guidance for providing information on the entity’s external environment. Paragraphs 11.4(d)–(e) explain that this information may need to cover factors and trends relating to society, the natural environment and related regulation.

A business may need to explain how trends in climate-related regulation are expected to affect its business model.

Environmental and social matters to be reported

Paragraph 11.5 requires management commentary to provide information that enables investors and creditors to understand how the entity’s external environment, including environmental and social matters, have affected or could affect:

- (a) the entity’s business model;
- (b) management’s strategy for sustaining and developing this model;
- (c) the entity’s resources or relationships; or
- (d) risks to which the entity is exposed.

Paragraph 11.7 sets out specific disclosure objectives for the entity’s external environment, including environmental and social matters.

An entity might need to provide information to enable investors and creditors to understand:

- (a) environmental matters that could affect the availability of a scarce raw material that the entity depends on;
- (b) regulations or societal concerns that have affected the entity’s strategy for maintaining a reputation for ethical behaviour;
- (c) political or social factors that the entity’s license to operate depends on; or
- (d) public concerns about the entity’s environmental impacts that may affect its ability to operate in a particular market.

Assessments that information about environmental and social matters needs to support

Paragraph 11.6 requires that the information in management commentary should provide sufficient basis for investors and creditors to assess:

- (a) how factors and trends in the entity’s external environment have affected and could affect the entity; or
- (b) how effectively management monitors and responds, or is capable of responding, to those factors and trends.

An entity might need to provide information to help investors and creditors to assess an entity’s exposure to changes in commodity prices as a consequence of environmental regulation or taxes or to assess an entity’s progress implementing its strategy for managing climate-related regulatory risks.

Overview of applicable requirements and guidance

Example

Key environmental and social matters

Paragraph 11.8 requires management commentary to focus on key factors and trends in the entity’s external environment, that is those that have had, or could have, a fundamental effect on the entity’s ability to create value and generate cash flows, including in the long term.
Paragraphs 11.9–11.10 provide guidance on identifying key environmental or social matters.

An emerging social trend may have no effect on the entity’s current period financial statements, but may be key because of the risk that it could lead to the curtailment of key business activities.

The nature of the key environmental or social matter

Paragraph 11.13 asks for material information on the nature of a key trend or factor, which could include key environmental and social matters. Material information could include explanations of developments during the period, metrics used to monitor the factor or trends, and assumptions about future developments on which management decisions have been based.

An entity might need to describe the proportion of the entity’s activities that are exposed to potential developments in climate-related regulation, and the assumptions management has made about such regulation when making capital investment decisions.

How the key environmental or social matter could affect the entity

Paragraph 11.14 asks for material information about how factors and trends have affected or could affect the entity, including information that may need to be provided to help investors and creditors assess how the factor or trend has affected or could affect the entity; and how the factor or trend is likely to develop.

An entity exposed to climate-related regulation might need to provide information on how management’s strategy has been adapted to take account of potential future regulation, and information to assess which of the entity’s activities might become uneconomic under different regulatory outcomes.

How management has responded to the key environmental or social matter

Paragraph 11.15 asks for material information about how management has responded or plans to respond to the factors and trends, including a description of how management has responded or plans to respond and explanation of the effects of the steps management has taken, supported by metrics used to monitor the effects.

An entity exposed to climate-related regulation information might need to include a description of plans to diversify away from exposed products and metrics on the proportion of revenues attributable to exposed products.

Overview of applicable requirements and guidance

Example

Chapter 7—Business model

Key features of the business model that are exposed to environmental and social matters

Paragraph 7.7 requires management commentary to focus on the key features of business model—including key environmental and social impacts—that underpin the entity’s ability to create value and generate cash flows.

A water-intensive business might need to identify the part of its production capacity attributable to water-stressed sites.

Environmental or social impacts of the entity’s operations

Paragraph 7.6(c) requires information in management commentary to enable investors and creditors to assess the environmental and social impacts of the entity’s operations if such impacts have affected, or could affect, the entity’s ability to create value and generate cash flows, including in the long term. Paragraph 7.16 provides examples of information that may need to be provided.

A business operating a water-stressed site might need to identify the revenues attributable to the site and explain the regulatory conditions for the site to continue in operation.

Progress in managing environmental and social impacts

Paragraph 7.17 asks for material information about progress in managing the entity’s environmental and social impacts including a description of actions management has taken; and an explanation of the effects of those actions, supported by metrics.

A business exposed to regulatory action from pollution incidents might need to describe how it mitigates pollution risk; and report metrics on the number of polluting incidents.

Chapter 8—Strategy

Aspects of management’s strategy related to environmental and social matters

Chapter 8 sets out requirements and guidance for providing information on management’s strategy.

Paragraph 8.7 identifies that key aspects of the strategy on which information may need to be provided could include those that relate to:

- preserving or enhancing the entity’s access to resources or relationships, or the quality of those resources and relationships; and
- responding to a factor or trend in the entity’s external environment.

Paragraph 8.5(f) specifies that information about management’s strategy should enable investors and creditors to understand the entity’s progress in implementing its strategy.

A business might need to explain an aspect of management’s strategy for transitioning to less environmentally damaging methods of production in response to changing customer or regulatory requirements.

Overview of applicable requirements and guidance
Example
Chapter 12—Financial performance and financial position

Key aspects of financial position and financial performance

Paragraph 12.7 states that key aspects of performance that need to be reported in management commentary may include aspects related to environmental matters if understanding such aspects is fundamental to understanding the entity's ability to create value or generate cash flows. Chapter 12 provides requirements and guidance on reporting financial performance and financial position.

A business that has incurred environmental rehabilitation obligations might need to explain any discretionary actions it plans to take to manage the matter.

How a key environmental or social matter have affected or could affect the entity's financial performance or financial position

Paragraphs 12.13(c), 12.14(e) and 15(c) specify that management commentary may need to provide an explanation of how key matters discussed in other areas of content in management commentary have affected the entity's future financial performance or future financial position or could affect them in the future, including in the long term.

A business operating a key water-stressed site that is vulnerable to closure may need to describe the revenue attributable to that site that would be at risk in the event of its closure.