

Management Commentary

Joint CMAC-GPF meeting
June 2021
Agenda Paper 3

A grayscale world map is centered in the background. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. A network of thin, dotted white lines is also visible, forming a grid-like pattern across the map.

Purpose of this session and overview of materials

Purpose of this session



For CMAC and GPF members to discuss and provide feedback on the Board's proposed objectives-based approach for management commentary centred on information needs of investors and creditors.



Question 1: focus on CMAC members

- Has the Board correctly identified investors and creditors' information needs in the proposed disclosure objectives for areas of content in management commentary? If not, what refinements to the objectives would you suggest and why?



Question 2: focus on GPF members

- Would the proposed disclosure objectives for the areas of content and supporting requirements and guidance provide preparers with a suitable and sufficient basis to identify and provide information in management commentary? If not, why and what would you suggest instead?

Breakout discussion

- We ask all breakout groups to discuss both questions.
- If any of the proposals would be difficult for preparers to apply, we would like the breakout groups to consider alternative suggestions for meeting investors and creditors' information needs.

Breakout groups 1–4

1	Question 1: Disclosure objectives for the areas of content – identifying investors and creditors' information needs
2	Question 2: Disclosure objectives for the areas of content – providing suitable and sufficient basis to preparers for meeting investors and creditors' information needs

Before the session

- Before the meeting, could you please review the project [Snapshot](#). The discussion at the meeting will focus on the Board's proposed disclosure objectives for the areas of content (see pages 6–8 of the Snapshot).
- In addition, we ask GPF members to review [Chapter 15](#) *Examples of information that might be material* of the Exposure Draft *Management Commentary* that is intended to help preparers meet the disclosure objectives.
- During the meeting, we will provide a brief overview of the Board's proposals in the Exposure Draft before moving on to the breakout discussion.

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are dotted lines forming a grid-like pattern across the map, suggesting latitude and longitude.

Background and overview of proposals

What is management commentary?



A financial report

- Complements financial statements
- Provides insights into a company's ability to create value and generate cash flows
- Aimed at investors and creditors
- May be useful for a wider range of stakeholders but is not aimed at them

IFRS Practice Statement 1
Management Commentary

Management commentary



Why is the IASB doing the project?



Changing information needs

Increased demand for information about:

- Long-term prospects
- Intangibles
- Environmental, social and governance (ESG) matters



Gaps in current reporting practice

- Too much generic information
- Lack of focus on matters important to the entity's prospects
- Short-term focus
- Fragmentation
- Lack of balance



Developments in narrative reporting

- Notions of 'enterprise value' and 'value creation'
- Focus on resources and relationships, including intangibles
- Developments in sustainability reporting

What is the IASB aiming to achieve?

Comprehensive framework focused on investors and creditors' information needs

Provides an effective basis for:

- **preparers** to tell a coherent story
- **regulators** to mandate the Practice Statement
- **auditors** to provide external assurance

Can be applied alongside local laws and regulations and other narrative reporting requirements

Incorporates innovations in narrative reporting and addresses gaps in reporting practice

Objectives-based approach

The objective of management commentary

Disclosure objectives for areas of content

Headline objective

Assessment objectives

Specific objectives

Examples of information that might be material

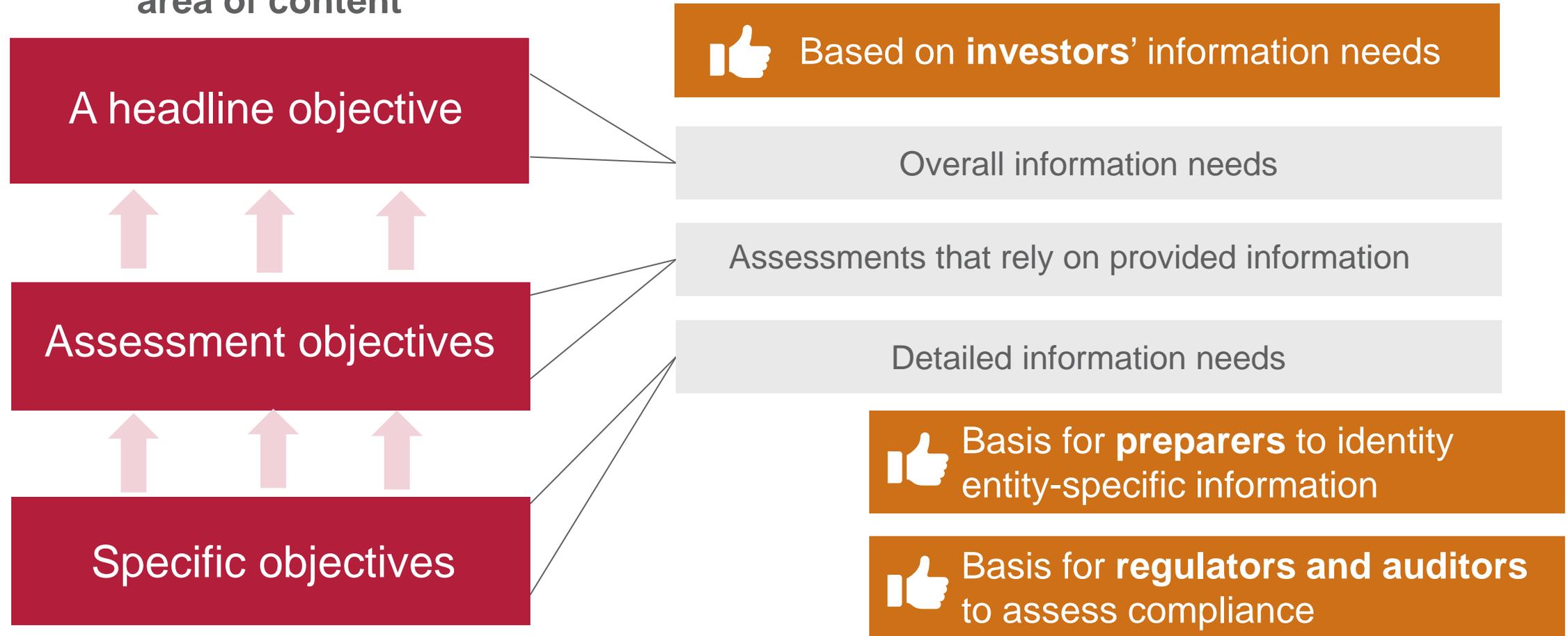
Areas of content

- Business model
- Strategy
- Resources and relationships
- Risks
- External environment
- Financial performance and financial position

Focus on key matters

Disclosure objectives: the design

Disclosure objectives for each area of content



Disclosure objectives: Business model as an example

Disclosure objectives

A headline objective

Business model

Enable investors and creditors to understand:

- How the company's business model creates value and generates cash flows

Assessment objectives

Provide a sufficient basis for investors and creditors to assess:

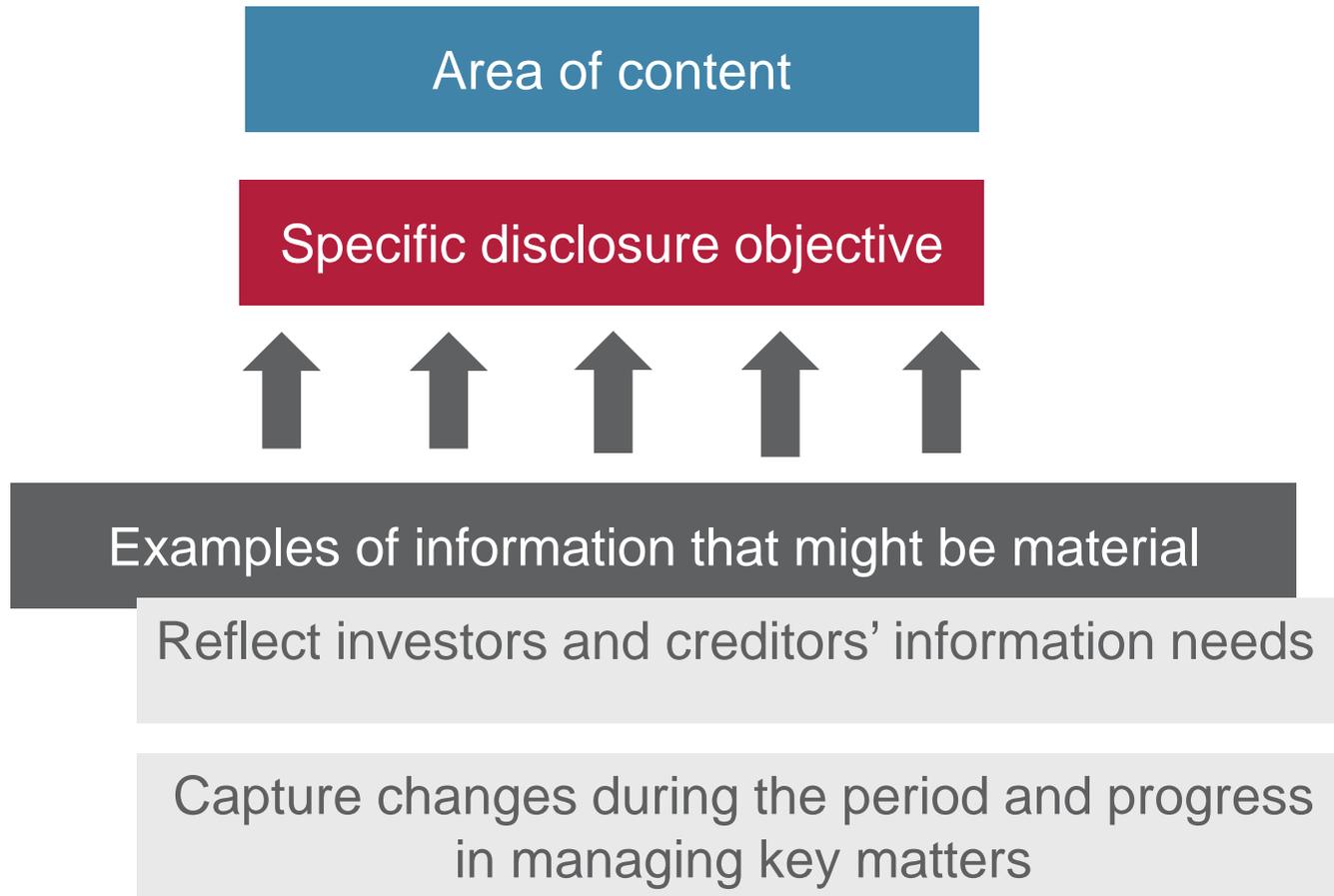
- How effective the company's business model is
- How scalable and adaptable it is
- How resilient it is

Specific objectives

Enable investors and creditors to understand:

- The range, nature and scale of the company's operations
- The cycle of creating value and generating cash flows
- Environmental and social impacts of the company's activities
- Progress in managing the company's business model

Examples of material information



Management needs to apply judgement:

- is the information material in the company's circumstances?
- is other information needed to meet the disclosure objective?

The expected benefits of the proposals

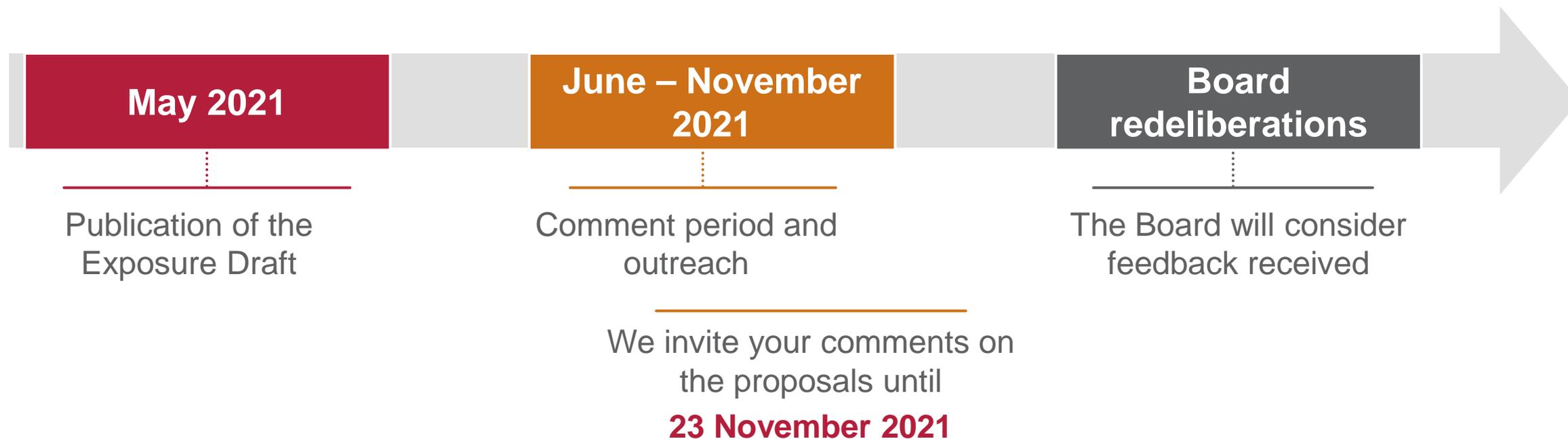
Investors and creditors

- Focus on matters that are fundamental to the company's long-term prospects
- Company-specific metrics to help assess the company's prospects and progress
- Financial, sustainability and other information brought together in one coherent narrative

Preparers

- Clarity about investors and creditors' information needs
- Better guidance for making materiality judgements
- Effective basis for telling the company's story
- Reporting based on the information management uses to manage the business
- Intended to be compatible with local laws and regulations

Next steps and how can you help?



A grayscale world map is the background, showing continents and oceans. Overlaid on the map are several thick, curved, light-gray lines that sweep across the globe from the bottom left towards the top right. Additionally, there are several dotted lines that form a grid-like pattern across the map, representing latitude and longitude lines.

Questions?

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