

STAFF PAPER

April 2022

IASB® meeting

Project	Management Commentary		
Paper topic	Feedback summary—Detailed feedback on disclosure objectives and supporting examples		
CONTACTS	Jaco Jordaan	jjordaan@ifrs.org	+44 (0)20 7246 6423
	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743
	Matt Chapman	mchapman@ifrs.org	+44 (0)20 7246 6971

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

Purpose of paper

- 1 The papers for this meeting summarise feedback on the International Accounting Standards Board (IASB)'s proposals for a revised Practice Statement on management commentary (Practice Statement), as set out in the Exposure Draft *Management Commentary* (Exposure Draft).
- 2 Agenda Paper 15E [Feedback summary—Disclosure objectives and areas of content](#) for the IASB's March 2022 meeting (March 2022 Agenda Paper 15E), focused on feedback on the proposed design of the disclosure objectives and the six areas of content for which disclosure objectives were proposed. This paper summarises detailed feedback on the proposed disclosure objectives for the six areas of content and supporting examples.
- 3 This paper should be read in the context of Agenda Paper 15 *Feedback summary—Cover paper* which explains some of the terminology used and how we have quantified feedback.
- 4 This paper does not ask the IASB to make decisions but invites IASB members' questions and comments on the feedback.

Structure of paper

- 5 This paper includes:
- (a) a recap of the Exposure Draft proposals (paragraphs 6–8);
 - (b) an overview of key messages in the feedback (paragraphs 9–12);
 - (c) summaries of the feedback on:
 - (i) disclosure objectives for the areas of content (paragraphs 13–26); and
 - (ii) supporting examples (paragraphs 27–31).

Exposure Draft proposals

- 6 As discussed in the March 2022 [Agenda Paper 15E](#), the Exposure Draft proposed disclosure objectives for six areas of content:
- (a) the entity’s *business model*;
 - (b) management’s *strategy* for sustaining and developing that business model, including the opportunities management has chosen to pursue;
 - (c) the entity’s *resources and relationships*, including resources not recognised as assets in the entity’s financial statements;
 - (d) *risks* to which the entity is exposed;
 - (e) the entity’s external environment; and
 - (f) the entity’s *financial performance and financial position*—including how they have been affected or could be affected in the future by the matters discussed for the other areas of content.
- 7 For each area of content, the disclosure objectives included three components:
- (a) a headline objective—describing the overall information needs of investors for the area of content;

- (b) assessment objectives—describing the assessments that rely on information provided for the area of content; and
 - (c) specific objectives—describing the detailed information needs of investors for the area of content.
- 8 For each specific disclosure objective, Chapter 15 of the Exposure Draft provided examples of information that might be needed to meet the objective. These examples were meant to assist preparers in identifying material information needed to meet the disclosure objectives and were not intended to be used as a checklist of information that would always be required.

Key messages in feedback

- 9 As reported in the March 2022 [Agenda Paper 15E](#), there was broad support for the proposed areas of content and for the disclosure objectives proposed for those areas of content. In particular, investors stated that the proposed disclosure objectives correctly identify their information needs.
- 10 However, as also reported in the March 2022 [Agenda Paper 15E](#):
- (a) some respondents suggested adding ‘governance’ as a distinct area of content, and some suggested incorporating explicit requirements for governance-related information throughout requirements for areas of content;
 - (b) some respondents suggested broadening the ‘risks’ area of content to include both risks and opportunities; and
 - (c) some investors suggested giving greater prominence to specific information that is of particular importance to investors—for example, information about management’s funding and capital allocation strategies and metrics that play a role in determining management compensation.

- 11 Comments on specific types of information that investors consider important were included in an appendix to Agenda Paper 15B [*Feedback summary – Investor feedback*](#) for the IASB’s March 2022 meeting (March 2022 Agenda Paper 15B).
- 12 In addition to those suggestions:
- (a) some respondents made more specific suggestions for additional disclosure objectives or refinements to some of the proposed disclosure objectives.
 - (b) many respondents commented on the proposed examples of information that might be material. Most of the respondents commenting expressed the view that these examples would be helpful to preparers in identifying material information that is needed to meet the disclosure objectives for the different areas of content.
 - (c) some respondents expressed concerns that the examples might be used in a way that results in information overload.

Disclosure objectives for the areas of content

General

- 13 A few respondents made general suggestions on the proposed disclosure objectives applicable across areas of content, including:
- (a) giving greater prominence to social and environmental matters and intangible resources and relationships across all areas of content (see Agenda Paper 15B *Long-term prospects, intangible resources and relationships and ESG matters*).
 - (b) for each area of content, adding specific requirements for management commentary to discuss how changes during the reporting period affected the entity.
 - (c) defining the terms used to describe the areas of content, including ‘business model’, ‘strategy’, ‘resources and relationships’ and ‘risks’.

- (d) adding more guidance to highlight linkages between areas of content.
- (e) removing duplicate disclosure objectives:

The duplication, both between disclosure objectives and across content areas, adds to the length and complexity of the Exposure Draft. This duplication is probably most apparent in Chapter 11, for example for ‘External environment’ the Assessment objectives asks the preparer to consider ‘how factors and trends in the entity’s external environment have affected or could affect the entity’ and the specific objectives asks again ‘how those factors and trends have affected or could affect the entity’. *CL48 Australian Institute of Corporate Directors*

- (f) addressing the potential overlap between areas of content.
- (g) adding illustrative examples to explain principles set out in the guidance, for example the statement that information about interrelated factors or trends may be clearer and more concise if those factors or trends and their effects are discussed collectively, rather than in isolation.
- (h) clarifying that information required by local laws and regulations relating to all areas of content can be included in management commentary even if it is not material, as long as it doesn’t obscure material information.
- (i) aligning the wording of the disclosure objectives and supporting guidance in the Practice Statement with the requirements and guidance being developed in the IASB’s project Disclosure Initiative—Targeted Standards-level Review of Disclosures. The [Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach*](#) proposed to:
 - (i) use the term ‘overall objective’ rather than ‘headline objective’; and
 - (ii) introduce supporting guidance with the phrase ‘while not mandatory, the following information may enable an entity to meet the specific disclosure objective’ rather than with the phrase ‘material information could include’.

- (j) reconsidering the proposed process for identifying information required to meet the disclosure objectives:

...we would like to raise some reservations as regards the process that an entity's management has to perform in identifying the information needed to meet the disclosure objectives for the areas of content. This bottom-up process as outlined in para. 4.4 of the [Exposure Draft] introduces a high level of complexity by requiring an entity's management to verify on each level of hierarchy whether the disclosures identified in applying the IASB's guidance are actually sufficient to meet the users' information needs. *CL39 Accounting Standards Committee of Germany (DRSC)*

- 14 Some respondents made suggestions for additional disclosure objectives or for refinements to some of the proposed disclosure objectives. These suggestions are set out by area of content below.

Business model

- 15 A few respondents suggested providing more guidance and examples for entities with more than one business model:

Paragraph BC 91 sets out that 'In the light of the Board's proposals on coherence, information about the entity's business model would need to be provided in a way that allows investors and creditors to relate that information to information about operating segments in the entity's financial statements.' However, it is unclear how to make such a relation. *CL44 Petrobras*

... where a group that has three equal sized subsidiaries in three completely different industries, how it should go about describing the business model in these circumstances? Should three separate business models be disclosed or just one? And if it's just one, how might that be done? *CL59 Grant Thornton*

- 16 Respondents also suggested that the IASB should:

- (a) require management commentary to discuss how the entity’s business model creates value and generates cash flows over the short, medium and long term; and
- (b) clarify what is meant by a business model being ‘resilient’ and ‘durable’.

Strategy

- 17 As noted in para 10(c), many investors suggested that more prominence should be given to management’s capital allocation and funding strategies (see paragraph A2 of the appendix to the March 2022 [Agenda Paper 15B](#)).
- 18 A few respondents suggested additional disclosure objectives in relation to management’s strategy for sustaining and developing the entity’s business model, including providing information on:
- (a) management’s approach to managing and mitigating risks that might impact the likely success of the strategy;
 - (b) management’s approach to allocating all the entity’s resources and relationships in implementing the strategy (in addition to information about management’s approach to allocating financial resources);
 - (c) the success of past strategies; and
 - (d) management’s decision to change their strategy.

Resources and relationships

- 19 A few respondents suggested positioning ‘resources and relationships’ as an underlying principle for preparing management commentary rather than as an area of content. They argued that such an approach would be more consistent with the International Reporting Council (now Value Reporting Foundations)’s International Integrated Reporting Framework ([<IR> Framework](#)). One of these respondents suggested that an area of content should be created specifically for ‘stakeholder

relationships’ to reflect the significance of these relationships for the entity’s ability to create value.

- 20 A few respondents suggested that in the examples of key matters and metrics more prominence should be given to specific topics, including information about:
- (a) employee relationships (including ensuring that the entity has a pipeline of suitably qualified employees);
 - (b) resources that the entity depends on but does not control;
 - (c) the quality and affordability of resources that the entity depends on; or
 - (d) the interdependencies and trade-offs between the resources and relationships that the entity depends on.

Risks

- 21 A few respondents asked the IASB to specify the types of risks that should be covered in management commentary, for example interest rate risk, credit risk, liquidity risk, foreign currency risk, environmental risk, operational risk, compliance risk, reputation risk, security risk, fraud risk and the risk of other industries affecting the entity’s business model.
- 22 Furthermore, a few respondents asked the IASB to add requirements to provide information about:
- (a) the cause and the context of the entity’s risk exposures to help identify the mitigation of the risks;
 - (b) management’s processes for identifying and evaluating risks
 - (c) management’s ranking of the most significant risks that the entity is facing and any changes to this ranking in the reporting period; and
 - (d) incidents that occurred during the reporting period in relation to the entity’s key risks.

External environment

- 23 Many investors highlighted the importance of information about the entity’s external environment, in particular information about:
- (a) the entity’s competitive landscape, including the concentration of competitors and competing technologies;
 - (b) the entity’s current and target market share in various market segments; and
 - (c) the evolution of the marketplace, such as new entrants into the market.

Financial performance and financial position

- 24 A few respondents did not support a separate area of content for the entity’s financial performance and position. Instead, they suggested expanding that area of content to also include the entity’s non-financial performance and non-financial position.
- 25 In contrast, a few investors argued that information about the entity’s financial performance and financial position is of primary importance for investors and should therefore play a central role in management commentary (see paragraph 48 of the March 2022 [Agenda Paper 15B](#)).
- 26 Some respondents, including investors, commented on particular types of information relating to the entity’s financial performance and financial position:
- (a) a few investors suggested adding a requirement to report in management commentary financial performance measures—such as operating margins—by operating segment;
 - (b) with regards to forecasts and targets:
 - (i) a few investors emphasised the usefulness of forecasts of financial information together with information about the assumptions used in management’s forecasts, as well as explanations of differences between actual financial performance and previous forecasts;

- (ii) a few other respondents suggested removing the disclosure objectives which refer to investors' expectations of the entity's financial performance
- (c) a few respondents, including investors, suggested adding a requirement to provide information about the entity's long-term contractual commitments that are not reflected in the financial statements.

Supporting examples

- 27 Many respondents commented on the proposed examples of information that might be material. Most of these respondents expressed the view that these examples would be helpful to preparers in identifying material information that is needed to meet disclosure objectives for the areas of content.
- 28 Some respondents expressed concerns about how preparers might use such examples. Most of these respondents still supported providing examples of material information, but a few respondents argued that the examples would not be helpful. These respondents expressed concerns that preparers might:
- (a) misinterpret the examples as requirements;
 - (b) use the examples as a checklist, which could result in information overload; or
 - (c) attempt to apply a 'one size fits all' approach rather than appreciate that material information is entity-specific.
- 29 A standard-setter stated that some of the examples included in Chapter 15 appear to be restatements of the disclosure objectives rather than true examples.

Whilst we think the concept of providing examples is likely to be useful to many preparers, we do think that as currently drafted some of the examples may potentially weaken the disclosure objectives. This is because in many cases the example listed repeats the disclosure objective but instead of being a requirement, the example is offered as something that 'could be included.' ...

As such we suggest some of the drafting be reconsidered so that only true 'examples' are included, rather than restatements of the disclosure objectives.

CL10 UK Financial Reporting Council

- 30 A few respondents suggested presenting the examples differently, including:
- (a) incorporating the examples into the chapters on individual areas of content instead of including the examples as a separate chapter;
 - (b) incorporating the examples in Chapter 12 *Making materiality judgments*;
 - (c) including the examples as an appendix to the Practice Statement instead of including them as a chapter in the body of the Practice Statement;;
 - (d) issuing the examples in a separate educational document.
- 31 In addition, a few respondents suggested publishing illustrative management commentaries for entities in various industries.

Question for IASB members

Question for IASB members

Do you have any questions or comments on the feedback reported in this paper?