

Management Commentary

Overview of the Exposure Draft

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Welcome



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A grayscale world map serves as the background for the slide. Overlaid on the left side of the map are several concentric, curved lines that sweep from the bottom left towards the center. These lines include both solid and dotted segments, creating a sense of global connectivity or a network.

Polling question 1

A grayscale world map serves as the background, with several thick, curved, light-gray lines and dotted lines overlaid, suggesting a globe or a network. The text "Polling question 2" is written in a large, white, sans-serif font on the right side of the map.

Polling question 2

Introduction

Objectives-based approach

Areas of particular interest

Intended benefits and next steps

Appendix—Disclosure objectives for areas of content



Introduction

Why is the Board doing the project?

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

Challenges in reporting

Generic information
and lack of focus on
what's important

Short-term focus

Fragmentation

Lack of balance

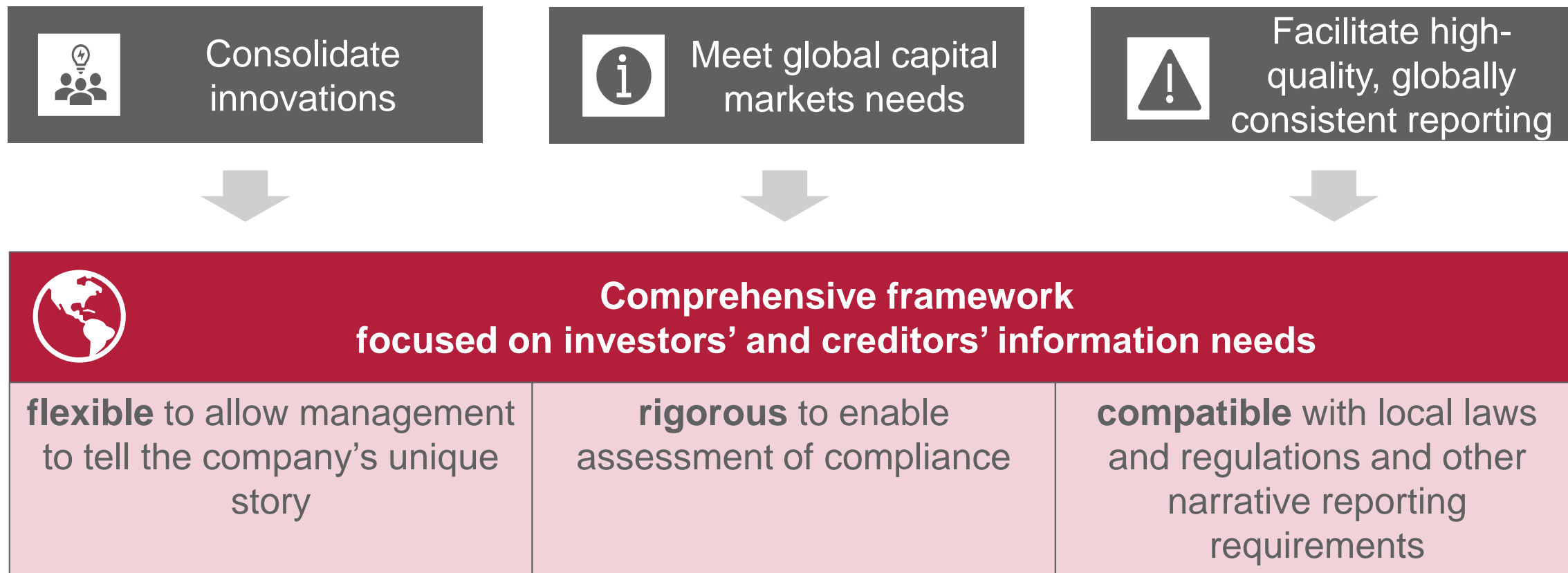
Increased interest
in intangibles and
ESG matters

Difficult to reconcile
to financial
statements

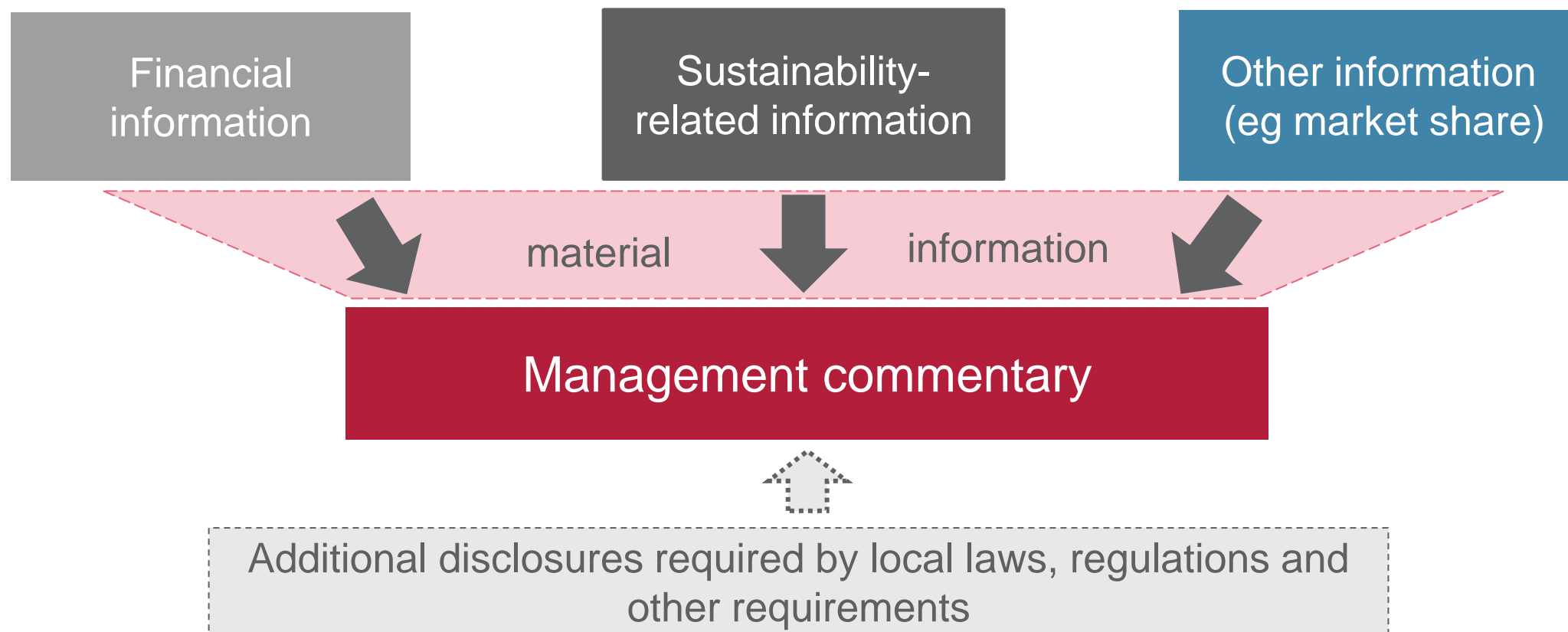
A grayscale world map serves as the background, with several thick, curved, light-gray lines and dotted lines overlaid, suggesting a globe or a network. The text "Polling question 3" is written in a large, white, sans-serif font on the right side of the map.

Polling question 3

What is the IASB aiming to achieve?

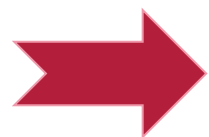


Focal point for connectivity

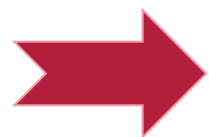


Can provide a reporting channel for information to be required by the proposed new International Sustainability Standards Board

Who would apply the new framework?



Local **lawmakers or regulators** may decide to require compliance



Companies may choose to comply even if not required



A company's financial statements can comply with IFRS Standards even if:

- they are not accompanied by management commentary
- management commentary does not comply with the Practice Statement



Statement of compliance

Unqualified

- Complies with all requirements

Qualified

- Complies with some, but not all, requirements
 - must identify departures and reasons for them



Provides useful information to investors and creditors about the **basis of preparation**

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Objectives-based approach

What is the IASB proposing?

Comprehensive objectives-based framework

Objective of management commentary

Disclosure objectives for areas of content

Requirements and guidance on selecting and presenting material information



Proposals cover reporting on:

- long-term prospects
- intangible resources and relationships
- ESG matters

Areas of content

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

Focus on key matters

The objective of management commentary



Management commentary provides information that:

- enhances understanding of the company's **financial statements**

what has affected the company

- provides insight into the company's **ability to create value and generate cash flows**

what might affect the company, including in the long-term

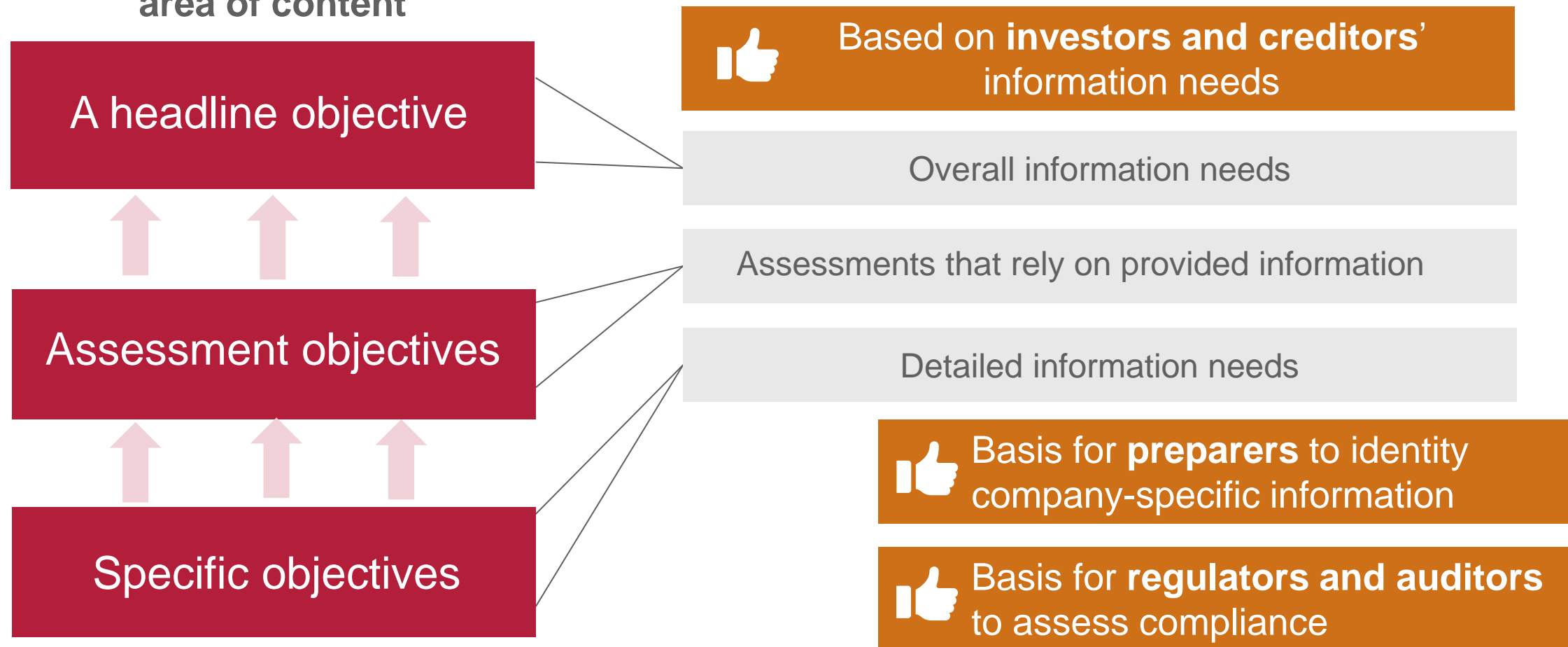


Information is provided if **material** for investors and creditors' assessments of:

- the company's prospects for future cash flows
- management's stewardship of the company's resources

Disclosure objectives: the design

Disclosure objectives for each area of content



Disclosure objectives: Business model example

Disclosure objectives

Business model

A headline objective

Enable investors and creditors to understand:

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

Assessment objectives

why?

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 and durable it is

Specific objectives

what?

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

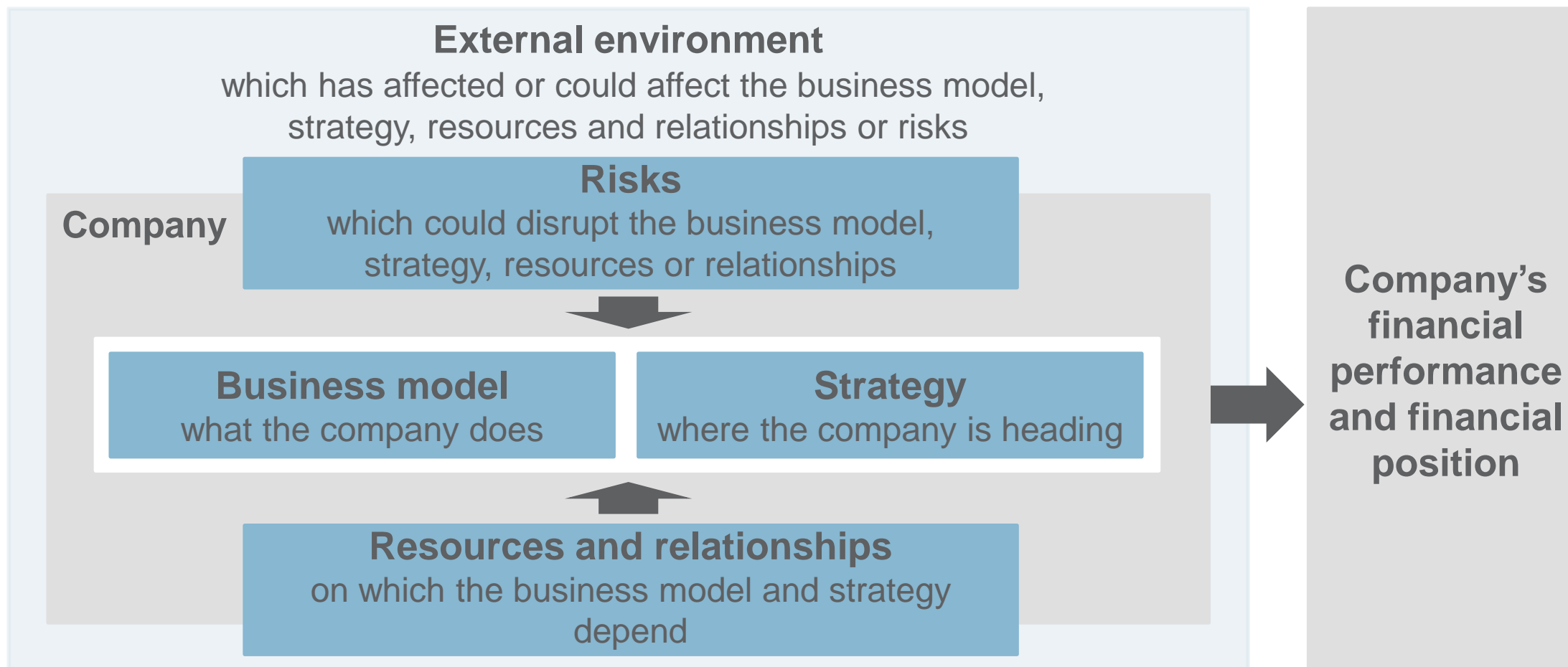


Refer to the Appendix for disclosure objectives for all areas of content

Relationships between areas of content



Financial, sustainability and other material information about the company



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Polling question 4

Materiality and focus on key matters

Proposed tools to help preparers identify material information

Key matters

Fundamental to the company's ability to create value and generate cash flows, including in the long term

Likely to be **monitored and managed** by management

Likely to be **pervasive** and relate to more than one area of content



Much (but not all) of the information material to investors and creditors will relate to key matters

Other proposals

- disclosure objectives and examples of information that might be material
- indications that information might be material
- guidance on aggregation
- guidance on uncertain future events

Key matters

What are key matters?

Fundamental to the company's ability to create value and generate cash flows

What makes key matters fundamental to the entity's ability to create value and generate cash flows?



Key features of the company's business model

Key aspects of management's strategy

Key resources and relationships

Key risks

Key factors and trends in the external environment

Key aspects of financial performance and financial position

Fundamentally underpin that ability

Are fundamental to sustaining and developing that ability

That ability fundamentally depends on them

Could fundamentally disrupt that ability

Fundamentally affect that ability

Fundamental to understanding that ability

Example: a company's ability to retain its competitive advantage provided by its cutting-edge technologies



Polling question 5

Attributes of useful information

Completeness

Balance

Accuracy

**Clarity and
conciseness**

Comparability

Verifiability



Coherence

Based on the *Conceptual Framework*

Simplified terminology

Some additional guidance

- Within management commentary
- Across the company's reports

A grayscale world map serves as the background. Overlaid on the left side are several concentric, curved lines, some solid and some dotted, resembling a stylized globe or a network diagram. The text "Areas of particular interest" is centered in a white, sans-serif font.

Areas of particular interest

Metrics

Material information is likely to include metrics

- Derived from metrics managements uses to
 - **monitor key matters**
 - **measure progress** in managing those matters
- Depend on the company's activities and the industry in which it operates

Requirements for metrics

Relate to:

- clarity and accuracy
- comparability
- coherence
- management compensation
- forecasts and targets

Examples of metrics for an area of content

For business model metrics may relate to:

- the scale of the company's operations
- the inputs involved in those operations
- environmental or social impacts of the company's activities
- effects of impacts on the company

Long-term prospects, intangible resources and ESG

Affect companies differently → need to be discussed across management commentary



Dedicated appendix

- **Overview** of requirements and guidance to consider in providing information about:
 - environmental and social matters
 - intangible resources and relationships
 - matters that could affect the company's long-term prospects
- **Examples of application** in described fact patterns

Information is reported if **material** to investors and creditors



Help **preparers** identify material company-specific information and focus on what is important to investors and creditors

Reporting on long-term prospects

Examples of applicable requirements and guidance

- The objective of management commentary
- Guidance on materiality of information about uncertain future events
- Disclosure objectives for areas of content
- Descriptions and examples of key matters for areas of content



The proposals do not require management to include forecasts or targets

- but if they are included, the proposals include requirements for providing useful information about those forecasts or targets

Reporting on ESG or sustainability matters

Examples of applicable requirements and guidance

- **Environmental and social** matters are covered by requirements and guidance throughout the Practice Statement
- Information provided would cover both:
 - effects of these matters on the company
 - environmental and social impacts of the company's activities if they have affected or could affect the company's ability to create value and generate cash flows
- Management commentary provides insights into a company's **governance** but it does not replace its governance report



Sustainability frameworks:

- can help identify information that might be material
- immaterial information specified by those frameworks can be included if it does not obscure material information

Reporting on intangibles

Examples of applicable requirements and guidance

- Covered by requirements and guidance on resources and relationships:
 - capture intangible resources and relationships not recognised in financial statements;
 - require focus on key intangible resources and relationships, for example, a group of specialist employees
- Matters related to key intangible resources and relationships might need to be discussed throughout management commentary, for example:
 - the scale of activities dependent on them
 - risks related to them
 - factors or trends in the external environment that could affect them.



Intended benefits and next steps

The intended benefits of the proposals



Investors and creditors

- Focus on **company-specific** matters that are fundamental to **long-term** prospects
- Financial, sustainability and other **material information** brought together in one **coherent** narrative
- Improved **electronic reporting** by enabling more granular tagging of information



Preparers

- **Clarity** about investors and creditors' information needs
- **Flexibility** to tell the company's unique story
- Reporting based on the **information management uses** to manage the business
- Better guidance for making **materiality judgements**
- **Compatible** with local laws and regulations



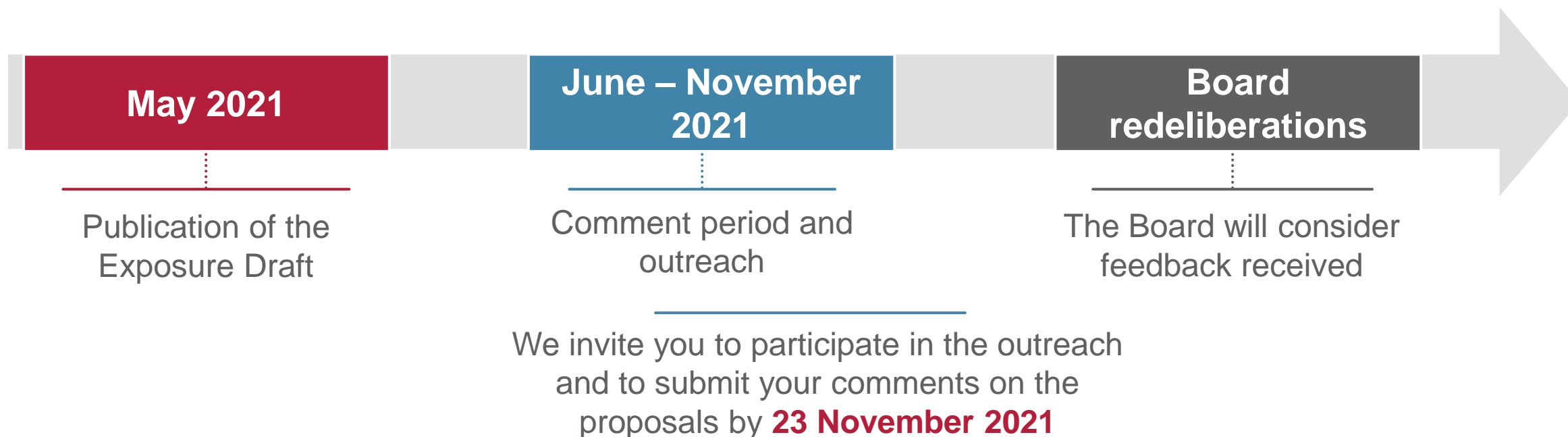
Regulators and auditors

- Reflect **developments in narrative reporting** and address **gaps** in current practice
- Designed to **meet global capital markets needs**
- Effective basis for **enforcement** and **assessing compliance**

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Polling question 6

Next steps



- Project information <https://www.ifrs.org/projects/work-plan/management-commentary/>
- The Exposure Draft can be found [here](#)
- The snapshot summarising the proposals in the Exposure Draft can be found [here](#)



Appendix

Disclosure objectives for areas of content

Business model

Disclosure objectives

Business model

A headline objective

Enable investors and creditors to understand:

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

Assessment objectives

why?

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 and durable it is

Specific objectives

what?

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

Strategy

Disclosure objectives

Strategy

A headline objective

Enable investors and creditors to understand:

- Management's strategy for sustaining and developing the company's business model

Assessment objectives

why?

Provide a sufficient basis for investors and creditors to assess:

- How effective the strategy is likely to be in developing the company's ability to create value and generate cash flows
- Management's ability to implement the strategy

Specific objectives

what?

Enable investors and creditors to understand:

- The drivers of the strategy, including the opportunities pursued
- The aims of strategy
- Milestones on the path towards those aims
- Plans for reaching the milestones and aims
- The financial resources required to implement the strategy and management's approach to allocating financial resources
- Progress in implementing the strategy

Resources and relationships

Disclosure objectives

A headline objective

Resources and relationships

Enable investors and creditors to understand:

- The resources and relationships on which the company's business model and management's strategy depend

Assessment objectives

why?

Provide a sufficient basis for investors and creditors to assess:

- The extent to which the business model and management's strategy depend on particular resources and relationships
- The company's ability to obtain the resources and maintain the relationships needed

Specific objectives

what?

Enable investors and creditors to understand:

- The nature of the company's resources and relationships and how the company deploys them
- How the company obtains its resources and maintains its relationships
- Factors that could affect the availability or the quality of the resources and relationships in the future, including in the long term
- Progress in managing the resources and relationships

Risks

Disclosure objectives

A headline objective

Risks

Enable investors and creditors to understand the risks that could disrupt:

- The company's business model
- Management's strategy
- Resources and relationships

Assessment objectives

why?

Provide a sufficient basis for investors and creditors to assess:

- The extent of the company's exposure to risks
- How effectively management monitors and manages the exposure to risks

Specific objectives

what?

Enable investors and creditors to understand:

- The nature of the risks to which the company is exposed
- The company's exposure to those risks
- How management monitors and manages the risks
- How management will mitigate disruption if it occurs
- Progress in managing risks

External environment

Disclosure objectives

External environment

A headline objective

Enable investors and creditors to understand how the company's external environmental has affected or could affect:

- The company's business model
- Management's strategy
- Resources and relationships
- Risks

Assessment objectives

why?

Provide a sufficient basis for investors and creditors to assess:

- How factors and trends in the external environment have affected or could affect the company
- How effectively management monitors and responds to those factors and trends

Specific objectives

what?

Enable investors and creditors to understand:

- The nature of factors and trends in the company's external environment
- How those factors and trends have affected or could affect the company
- How management monitors and plans to respond to those factors and trends
- Progress in responding to those factors and trends

Financial performance and financial position

Disclosure objectives

Financial performance and financial position

A headline objective

Enable investors and creditors to understand:

- The company's financial performance and position reporting in the company's financial statements

Assessment objectives

why?

Provide a sufficient basis for investors and creditors to assess:

- Drivers of the company's financial performance and position
- How performance and position compare with investors' previous expectations, and the extent to which they are indicative of the company's future ability to create value and generate cash flows
- The company's financial resilience

Specific objectives

what?

Enable investors and creditors to understand:

- What factors have affected the company's financial performance and position in the reporting period or could affect them in the future
- How management has allocated financial resources in the reporting period
- How the company's financial performance and position compare with forecasts and targets

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