

# Management Commentary

## *Overview of the Exposure Draft*

IASB & ASCG Joint Outreach Event  
26 October 2021

# Purpose of this session

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## Purpose

- Provide an overview of the Board's proposals on Management Commentary
- Invite initial views on the proposals from a German perspective

## Key questions

- Within the context of current and future requirements in Germany and the EU, what are your initial impressions of:
  - the Board's proposed objective-based approach and areas of content?
  - the proposed requirements and guidance on selecting and presenting material information?
  - the Board's approach to addressing information relating to long-term prospects, intangible resources and relationships and ESG matters?

# Agenda

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Introduction

Objectives-based approach

Selecting and presenting material information

Appendix—Disclosure objectives for areas of content

A grayscale world map is the background for the top half of the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. A network of thin, dotted lines is also visible, connecting various points across the map. The overall aesthetic is clean and professional.

# 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

# Focus on global capital markets needs

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High-quality, globally consistent reporting

**Comprehensive framework**

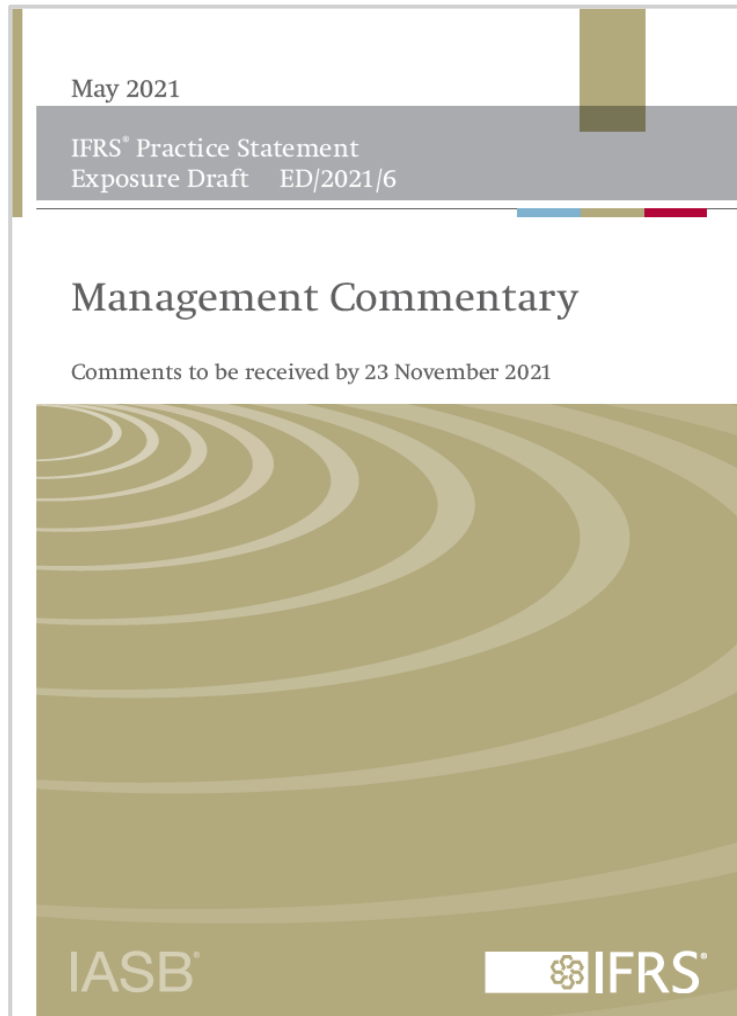
Flexibility



Discipline

**compatible** with local laws and regulations

# A catalyst for change



 **For regulators to consider**

- adopt
- adapt
- no action

**Companies** may choose to comply even if not required by local regulators

# European context

## EU requirements

### Accounting Directive

#### Management report

The management report shall include a **fair** review...The review shall be a **balanced** and **comprehensive** analysis

...to the extent necessary for an understanding of the undertaking's **development, performance or position**

An indication of...the undertaking's **likely future development**



National guidance

### Non-Financial Reporting Directive / Proposed Corporate Sustainability Reporting Directive

#### Non-financial statement

...relating to, as a minimum, **environmental, social and employee matters**, respect for human rights, anti-corruption and bribery matters...



National and EU guidance





# Objectives-based approach

# What is the IASB proposing?



## Comprehensive objectives-based framework

**Objective of management commentary**

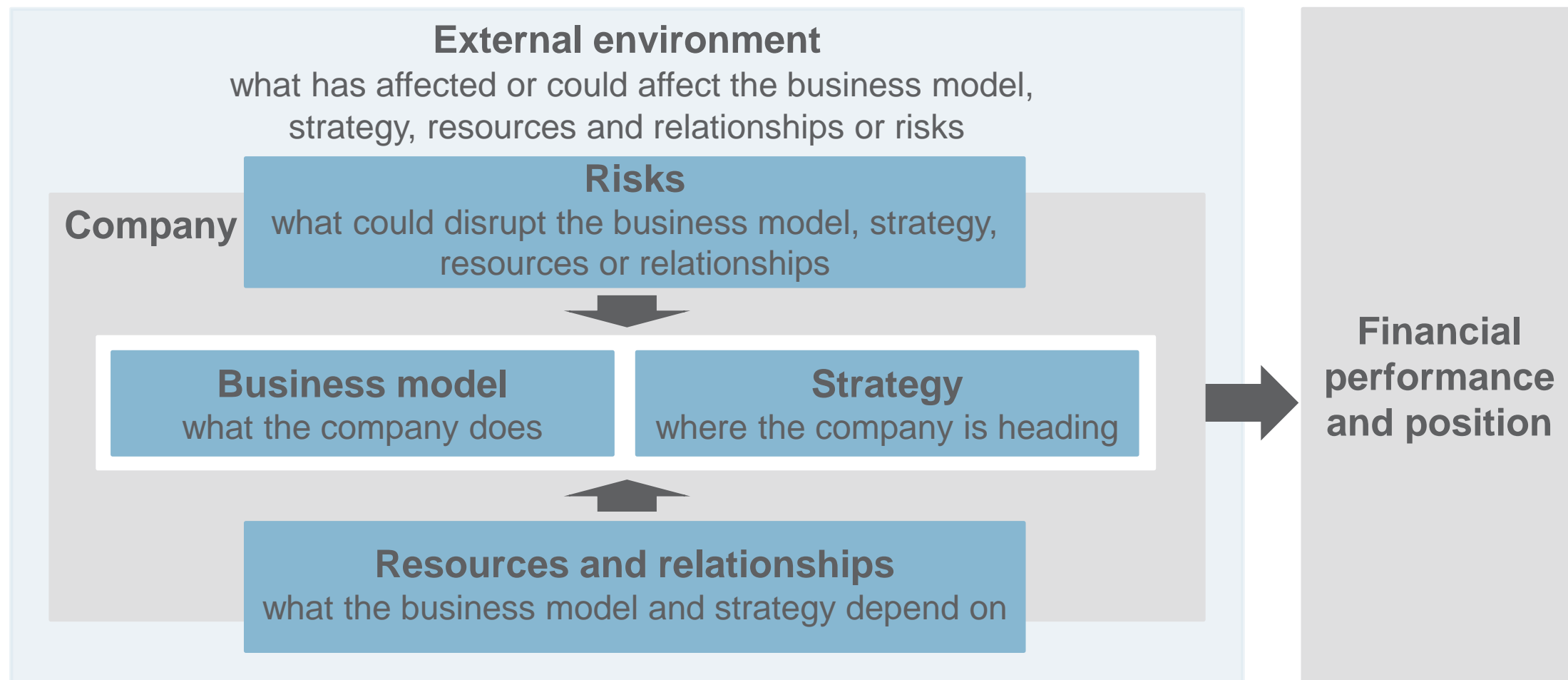
**Disclosure objectives for areas of content**

**Selecting and presenting material information**

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

**Focus on key matters**

# Areas of content



# Disclosure objectives

## Business model

### Headline objective

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 and durable it is

### Specific objectives

- Range, nature and scale of operations
- The cycle of creating value and generating cash flows
- Impacts of the company if enterprise value relevant
- Progress in managing the company's business model

## Examples of material information

Refer to Appendix for disclosure objectives for all areas of content

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 several dotted white lines that form a grid-like pattern across the map, intersecting the curved lines.

# Selecting and presenting material information

# Selecting and presenting material information

A toolkit to help preparers identify material information

## Focus on 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

## Example of a key matter

A trend towards online shopping and increased influence of social media could be a key matter for a clothing retailer affecting all areas of content.

## Attributes of useful information

**Coherence** within and across reports

# 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, intangibles and ESG matters

Affect companies differently → need to be discussed across management commentary



## Long-term prospects

- The objective of management commentary
- Disclosure objectives for areas of content
- Guidance on materiality
- Key matters



## Intangible resources and relationships

- Separate area of content for resources and relationships
- Covers intangibles not recognised in financial statements
- Key intangibles may have implications for other areas of content



## Environmental and social matters

- Effects of ESG matters on the company
- Impacts of the company's activities if relevant to enterprise value
- Not meant to replace governance report



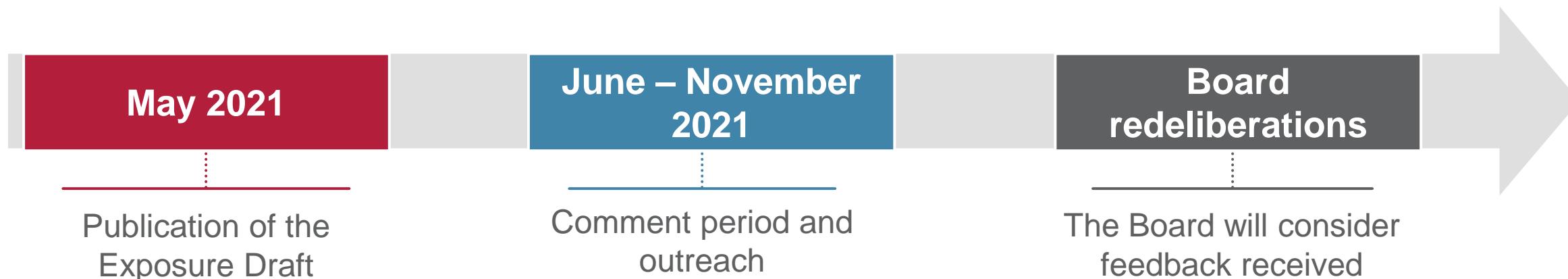
**Sustainability reporting requirements** can help identify material information

including those by the proposed ISSB



# Next steps

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We invite you to participate in the outreach and to submit your comments on the proposals by **23 November 2021**



- 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](#)

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?



# Appendix

Disclosure objectives for areas of content

# Business model

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## 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

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

Assessment objectives

why?

Specific objectives

what?

## 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

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

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

Assessment objectives

why?

Specific objectives

what?

## Risks

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

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

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

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 environment 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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