



Management Commentary

Board Education Session
on IASB ED/2021/6

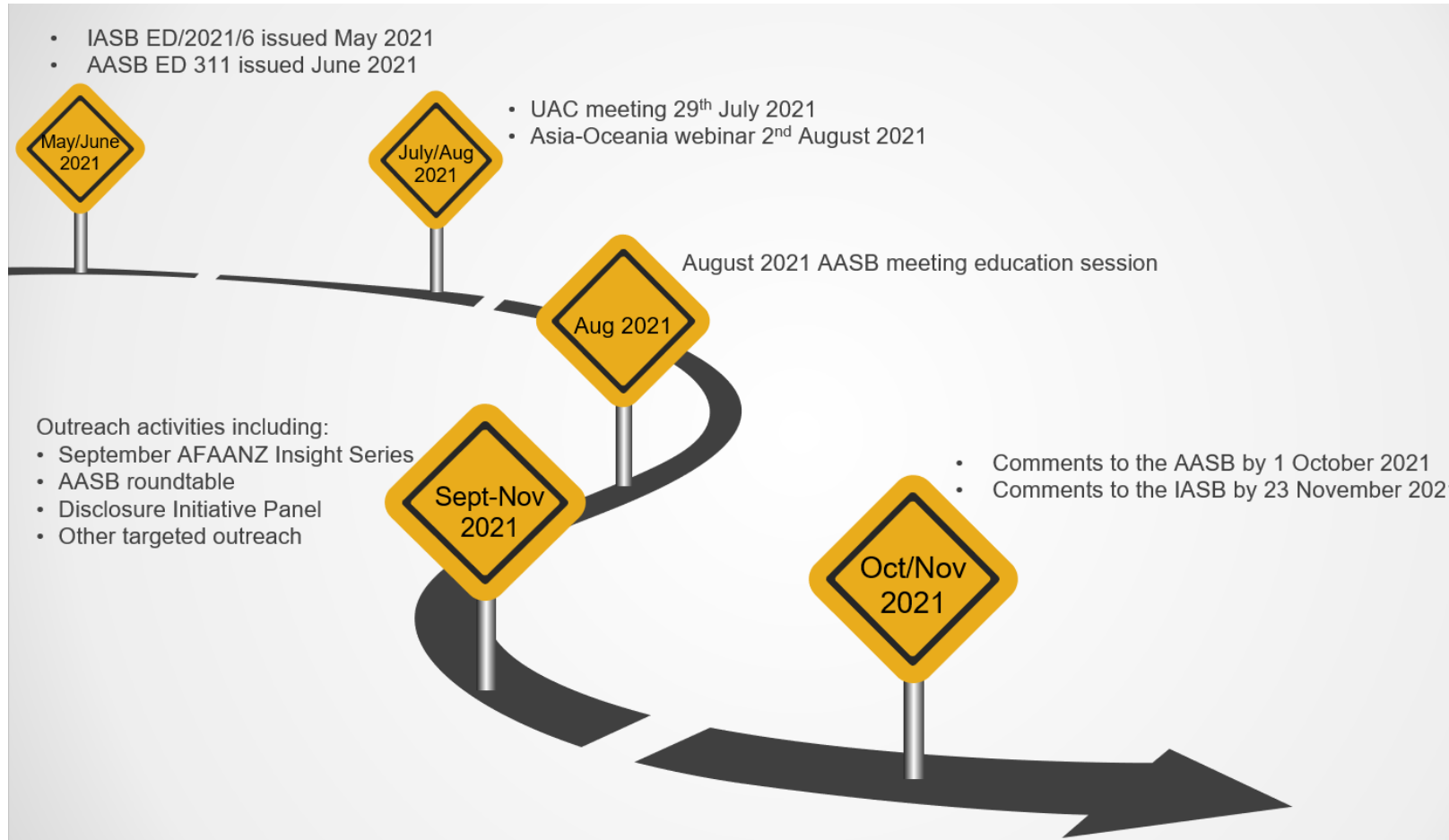
AASB Meeting
September 2021

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IASB ED/2021/6

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Overview of key narrative reporting requirements in Australia

Listed entities (mandatory requirements)	Corporations Act – Section 299A ASIC Regulatory Guide 247: Effective disclosures in an Operating and Financial Review 2019 (RG 247)
Listed entities (voluntary guidance)	ASX Guidance Note 10: Review of Operations and Activities: Listing Rule 4.10.17
Non-listed entities (mandatory requirements)	Corporations Act – Section 299 Certain small proprietary companies are exempt from the narrative reporting requirements.
Non-listed entities (voluntary guidance)	No
Subject to audit?	No
Forms part of the financial statements?	No

PART A General requirements	PART B Areas of content	PART C Selection and presentation of information	Other comments
<ul style="list-style-type: none"> • Identification, authorisation and statement of compliance • Objective of management commentary 	<ul style="list-style-type: none"> • Business model, strategy, resources and relationships, risks, external environment, and financial performance and financial position • Overview of disclosure objectives 	<ul style="list-style-type: none"> • Making materiality judgements • Completeness, balance, accuracy and other attributes • Metrics • Examples of information that might be material 	<ul style="list-style-type: none"> • Effective date • Effects analysis • Other comments
<p>Questions 1-3</p>	<p>Questions 4-9</p>	<p>Questions 10-13</p>	<p>Questions 14-16</p>

Part A—General requirements

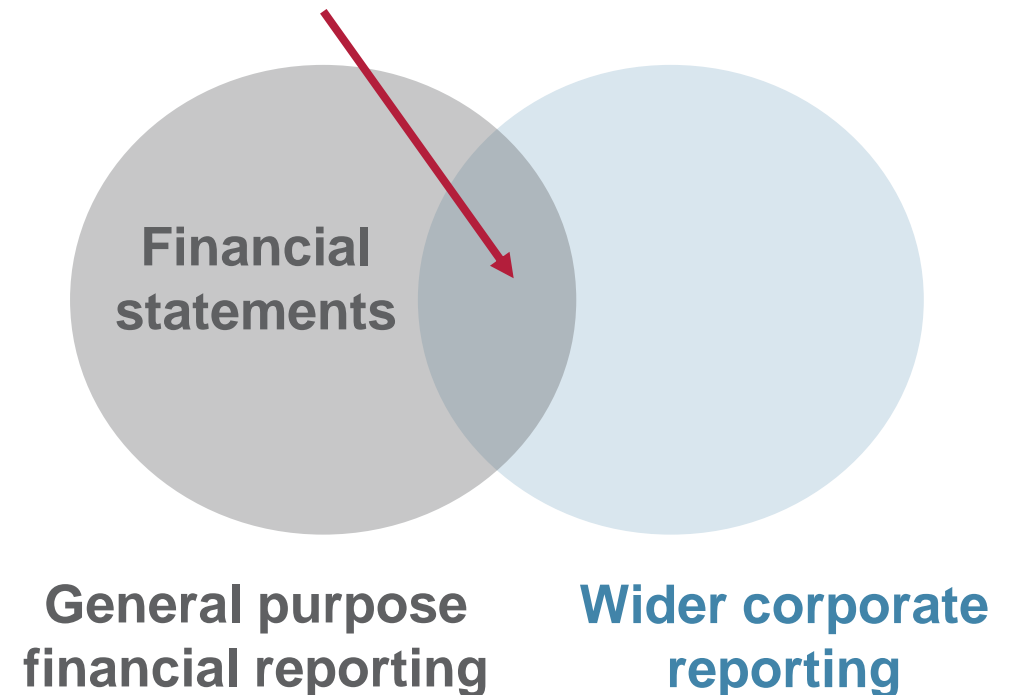


A financial report

- 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

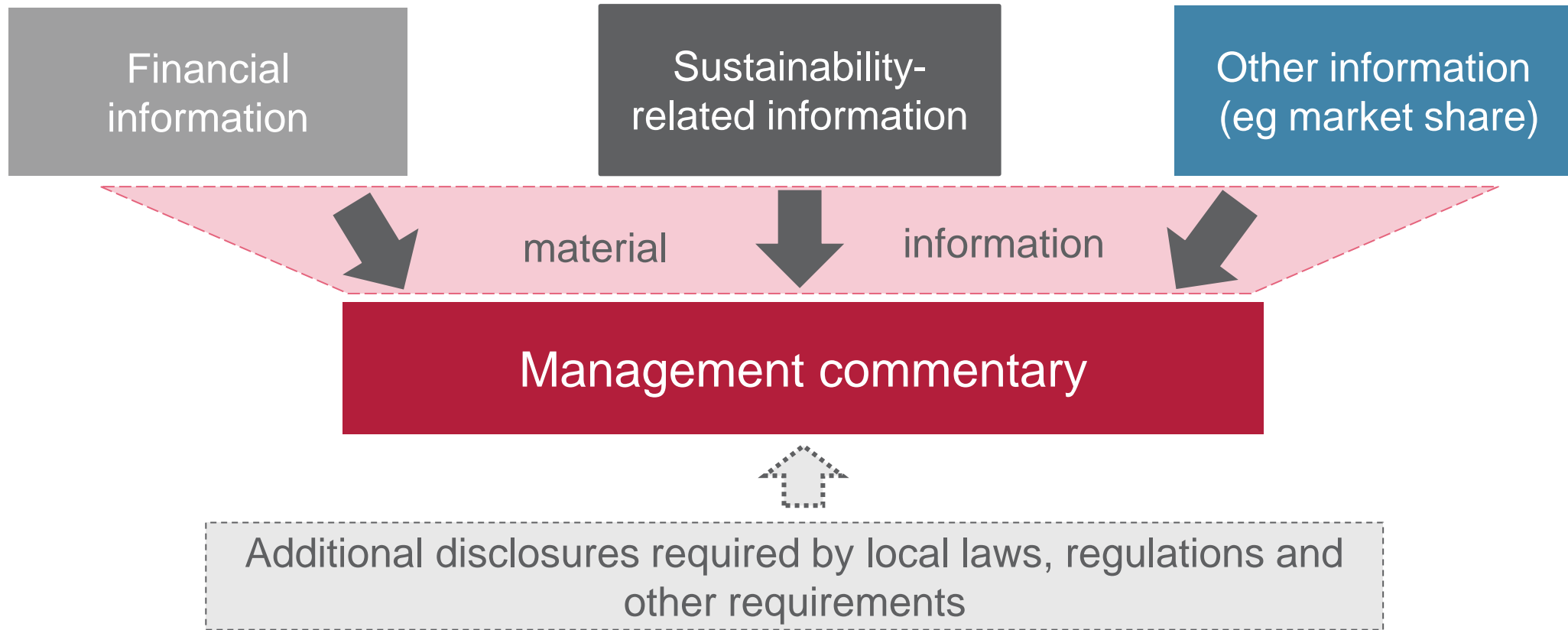


Developments in narrative reporting

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



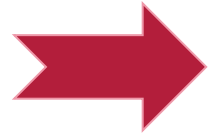
Why is the IASB doing the project?



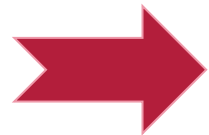
Can provide a reporting channel for information to be required by the proposed new International Sustainability Standards Board



Why is the IASB doing the project?



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

Part B—Areas of Content

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 for each area of content

A headline objective



Assessment objectives



Specific objectives

 Based on **investors'** information needs

Overall information needs

Assessments that rely on provided information

Detailed information needs

 Basis for **preparers** to identify entity-specific information

 Basis for **regulators and auditors** to assess compliance

Disclosure objectives

A headline objective

Assessment objectives

Specific objectives

Business model

Enable investors and creditors to understand:

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

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

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



Affect companies differently → need to be discussed across management commentary



Dedicated appendix

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

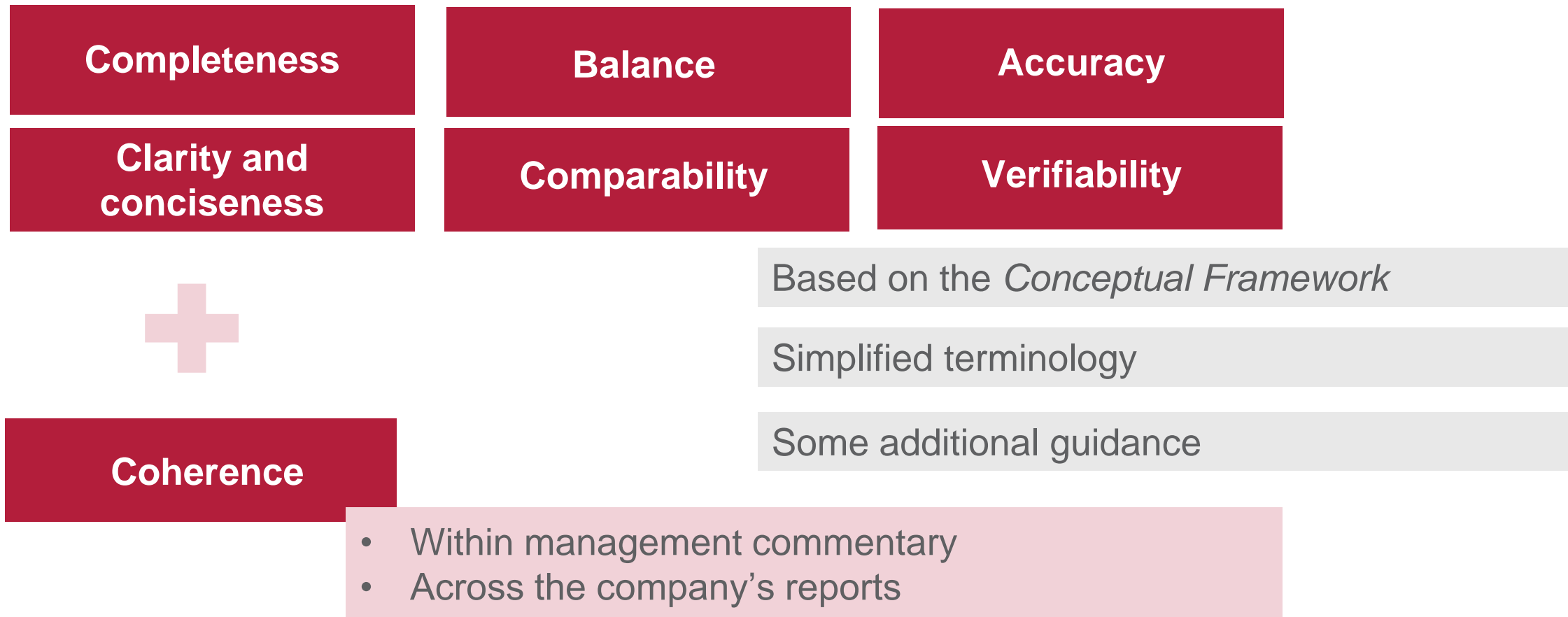
Information is reported if **material** to investors and creditors



Other sustainability frameworks:

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

Part C—Selection and presentation of information



Company-specific

- Material information likely to include metrics that management uses to:
 - **monitor key matters**
 - **measure progress** in managing those matters
- Depend on the company's activities and the industry in which it operates

The Exposure Draft proposes

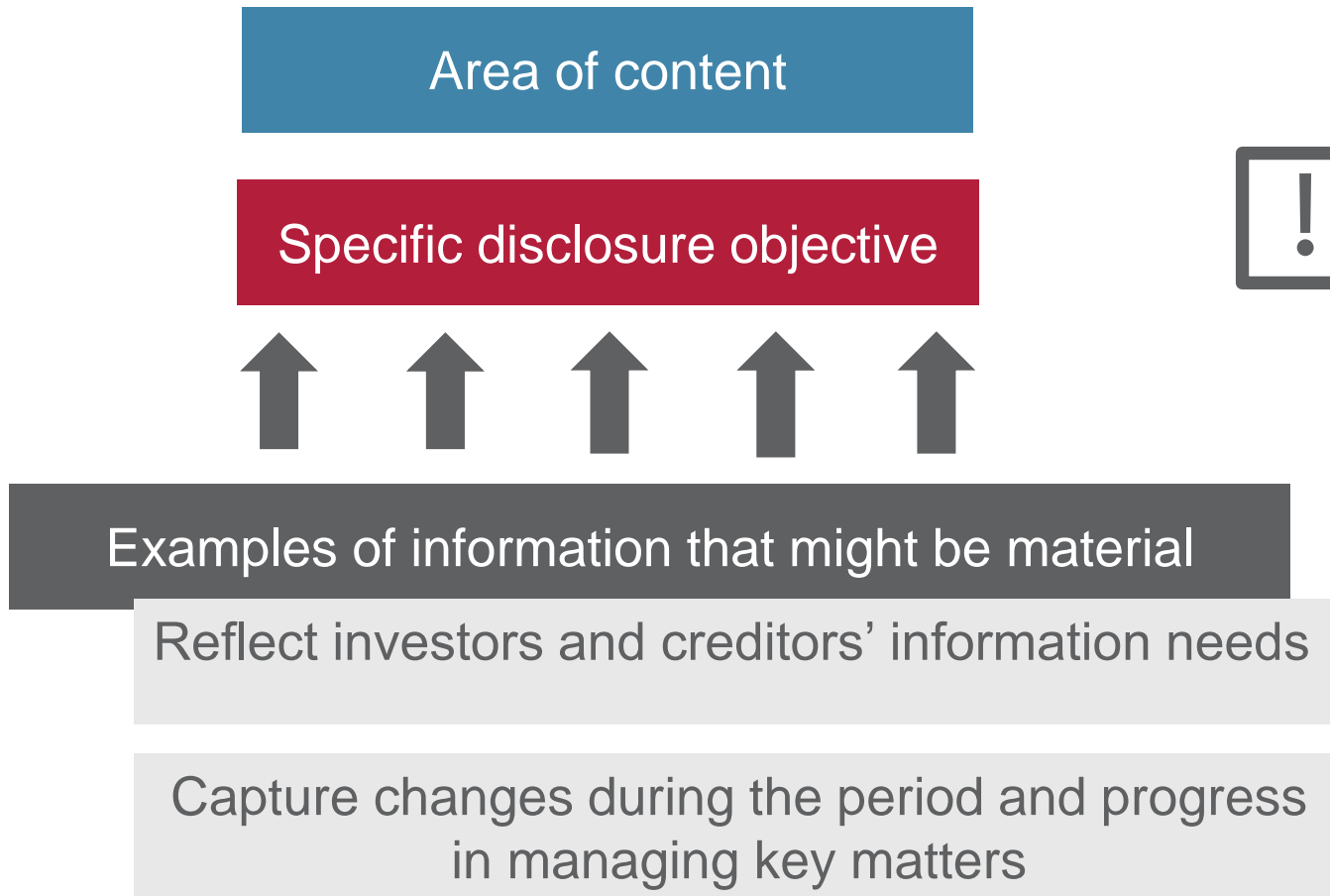
Examples of metrics for each area of content

- 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

Requirements for metrics

- Relate to:
- clarity and accuracy
 - comparability
 - coherence





Management needs to apply judgement:

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

Question for Board members

Do Board members have any questions, or observations about IASB ED/2021/6?

IASB ED/2021/6

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