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Management Commentary Practice Statement

Issues Paper

Objective

- 1 The objective of the session is to provide an update on the IASB project to revise the Management Commentary Practice Statement Project (the 'revised MCPS') focusing on the tentative decisions made by the IASB since the project was last discussed by EFRAG TEG in December 2019.
- 2 The IASB has extensively discussed the project in several recent meetings: in March (Objectives of the MCPS), April (Business Model Strategy, Resources and relationships) and May 2020 (Risks and External environment). No discussion is scheduled for June and the next discussion (July or later) will be to cover outstanding matters including:
 - (a) What information management commentary should provide on an entity's performance, position and progress, aggregation of information in management commentary; and
 - (b) The status of the Practice Statement and questions related to identification of management commentary.
 - (c) Whether the proposed guidance sufficiently and appropriately addresses topics of particular interest to the IASB's stakeholders such as:
 - (i) Environmental, social and governance (ESG) matters;
 - (ii) Intangible resources and relationships;
 - (iii) Information to help primary users reach conclusions about an entity's long-term prospects.

Project Background

- 3 In November 2017, the Board added to its agenda a project to update the Management Commentary Practice Statement (MCPS). The IASB expects to publish **an Exposure Draft on the revised MCPS in the second half of 2020**.
- 4 The MCPS had not been updated since it was initially issued in 2010 and many developments in financial and non-financial reporting have occurred since (e.g., the rise in importance of ESG matters, importance of value creation information reported outside the financial statements, increase in number of wider corporate reporting frameworks including integrated reporting). In undertaking the project, one of the objectives is to assess how broader corporate reporting information could complement financial statements prepared applying IFRS Standards.
- 5 The revised MCPS presents an opportunity to develop a rigorous approach to determining which matters to address and the information to provide in the

management commentary and, where needed, to incorporate developments from other corporate reporting frameworks.

- 6 The table below provides a summary of the tentative decisions made so far by the IASB and related EFRAG TEG and EFRAG CFSS discussion sessions.

Topics	Discussion by EFRAG ¹
Objective of management commentary (IASB November 2018, and March 2020)	EFRAG TEG-CFSS – November 2018 And at the present meeting (see paragraphs 24 and following)
Making relevance and materiality judgements (IASB July 2019)	EFRAG TEG-CFSS – November 2018
Faithful representation (IASB September 2019)	EFRAG TEG December 2019
Enhancing qualitative characteristics (IASB October 2019)	EFRAG TEG-CFSS – July 2019 (discussion based on the July 2019 ASAF papers)
Business model (IASB Nov 2019 and April 2020)	EFRAG TEG – April 2019 EFRAG TEG December 2019 And at the present meeting (see paragraphs 30 and following).
Strategy and opportunities	At the present meeting (see paragraphs 45 and following).
Resources and relationships,	At the present meeting (see paragraphs 56 and following).
Risks and factors and trends in the external environment	At the present meeting (see paragraphs 68 and following).

EFRAG TEG and CFSS previous discussions

- 7 EFRAG TEG and EFRAG CFSS received updates on the MCPS project at their November 2018, March 2019 and July 2019 meetings.
- 8 EFRAG TEG also received updates at its April and December 2019 meetings. EFRAG TEG has not made any decisions on this project at this stage. The following views were expressed at the previous meetings.
- 9 EFRAG TEG and EFRAG CFSS members made the following comments: that will be considered in assessing the forthcoming ED:
- (a) To be useful, the Management Commentary should be kept as clear and concise as possible and avoid technical / conceptual language. Members encouraged the IASB to use clearer, more concise and actionable language. In doing so, the IASB should identify which is the expected audience for Management Commentary Practice Statement and ensure that the proposed content and the communication is fit for them.
 - (b) Caution should be observed when addressing forward looking information. Some members expressed concerns about the IASB Staff's proposals to include in the Management Commentary 'all forecasts and targets that are

¹ Summary of TEG Discussions provided in the following section of this paper.

published elsewhere'. This is because the notion of 'published' was unclear and could unintendedly result in broadening the scope of the Management Commentary.

- (c) Regarding the IASB Staff proposals regarding Environment Social and Governance (ESG) matters, EFRAG TEG members generally agreed that the MCPS should remain in its originally stated scope to address financial and non-financial information that assists and provides context in the interpretation of a complete set of financial statements and improves users' ability to make better economic decisions (e.g. focus on outside-in matters that affect the entity's prospects for future cash flows and consider inside-out matters only to the extent that they are pre-financial in nature and can crystallise into financial effects for the entity).
 - (d) EFRAG TEG members, however, also encouraged the IASB to consider the interactions of MCPS with other frameworks, including on non-financial information, and strive to offer a platform that facilitates the interoperability and integration of information required by other frameworks.
- 10 Regarding the application of materiality and the other general principles for preparing the Management Commentary:
- (a) Most members considered that more clarity on the objective and content areas of the MC was needed before discussing the application of materiality or the principles to apply in its preparation and guidance on the application of materiality is welcomed
 - (b) Some members mentioned that the linkage (or coherence) principle is important but it should not be considered to encompass completeness which should be recognised as a principle in its own right for the purpose of the MC.
 - (c) Some members supported the provision of principle-based guidance on the use of cross-references between the MC and other reports but suggested that the IASB reconsiders the issues that were identified when similar guidance was considered as part of the Principles of Disclosure project; and
 - (d) Some members suggested to consider referring to terms such as 'balanced' or 'unbiased' (as either alternatives or accompanying guidance to the concept of neutrality).
 - (e) Regarding the concept narrative coherence and entity's long-term success: some members considered that the emphasis on narrative coherence as a principle guiding the content of the MC was confusing. Other members considered that narrative coherence was more about consistency between and across reports, including MC and financial statements.

Interactions with EFRAG's the project on Intangibles

- 11 At its 26 September 2019 meeting, EFRAG TEG discussed the possible interaction of MCPS consultation and the EFRAG research project on intangibles, and it was noted that the IASB had clarified that the MCPS would remain a principle-based document that would not provide detailed reporting requirements or suggest KPIs.
- 12 Instead, as explained above in the section on Resources and relationships (paragraphs 56 and following), it is expected that the MCPS would set as a principle, that when management identifies 'resources and relationships that the entity depends on for its long-term success', it would need to provide qualitative and quantitative information necessary for primary users' understanding of the nature and importance of those resources and relationships (and their continued availability) to the future operation of the business.
- 13 The IASB staff does not propose to have a separate section on intangible resources and relationships, but the guidance on resources and relationships will specifically

refer to and include examples of intangible resources and relationships. The proposed guidance would apply to both tangible and intangible resources.

- 14 The proposed guidance will refer to ‘intangible resources and relationships’ (rather than intangible ‘assets’) to make it clear that key resources and relationships discussed in management commentary are not only those recognised or disclosed in the financial statements. In other words, in identifying its key resources and relationships, an entity should consider both its tangible and intangible assets and also identify those resources and relationships that have not been reflected in the financial statements because they do not meet the accounting definition of assets or the criteria for recognition as assets.
- 15 EFRAG Secretariat will continue monitoring developments in the MCPS project with a view to having another update to EFRAG TEG in September 2020 and discuss preliminary views on the proposals and key messages for the future comment letter.
- 16 EFRAG TEG discussed in April 2020 the scope and approach to the EFRAG research project on Intangibles and agreed that the research will inform EFRAG DCL on the revised MCPS, to the extent that evidence may be made available in time.
- 17 As such, EFRAG Secretariat plans to consult the Advisory Panel on Intangibles (API), over the second half of 2020, in preparation of the TEG discussion on the key messages for the forthcoming comment letter. EFRAG Secretariat considers that the EFRAG research has to be synergistic with other ongoing Standard Setters initiatives, not to duplicate any work. The IASB revised MCPS is one of the tools to achieve better communication on intangibles that EFRAG Secretariat plans to test as part of the research, starting from the views and inputs of EFRAG AIP.

Overview of the approach retained by the IASB in sequencing the discussions

- 18 In 2020, in addition to setting the objectives of the revised MCPS (March meeting), the IASB discussion focused on the types of content that is expected to be covered in management commentary. Given the interaction between topics, some were or will be discussed jointly rather than in isolation:
 - (a) Business model, resources and relationships, strategy and opportunities (IASB meeting in April 2020);
 - (b) Risks and external factors and trends (IASB meeting in May 2020); and
 - (c) Performance, position and progress (future discussion).
- 19 Importantly, the order of discussing the topics is not intended to be indicative nor to prescribe the structure of the revised Practice Statement. The guidance on the topics is intended to help preparers determine what information is to be included in management commentary but it will be up to entities to decide how they organise that information in its commentary.
- 20 For each ‘content topic’ discussed the following were identified (see Appendix A for details):
 - (a) A headline disclosure objective for the topic that is intended to support the objective of management commentary as a whole;
 - (b) An analysis of the assessments that primary users (i.e. existing and potential investors and creditors) make based on the information provided;
 - (c) Principles for identifying ‘key’ items to be disclosed and guidance for applying that principle; and
 - (d) Supporting guidance on the types of information about the identified ‘key’ items that would be useful to primary users.

- 21 As the focus of this paper is on areas where tentative decisions were made by the IASB, the supporting possible guidance (item 20(d) above) suggested by the IASB staff is not further discussed in this paper as the IASB was not asked to make any decisions at the meetings. This tentative guidance is available in the April and May meeting papers and includes the following:
 - (a) Business Model ([here](#), paragraph 49 to 68);
 - (b) Strategy ([here](#), paragraphs 57 to 76 below); and
 - (c) Resources and Relationships ([here](#), paragraphs 43 to 62 below).
 - (d) Risks ([here](#) paragraphs 44 to 59) and external environment ([here](#), paragraphs 54 to 69).
- 22 In addition to this discussion with EFRAG TEG, a meeting is scheduled with EFRAG User Panel at its next meeting on 15 July 2020 to address, in particular, the assessment that primary users do based on information provided in the Management Commentary.
- 23 A tabular summary of the proposals (Objective - User needs - Focus-Key items) is provided in the appendix A. More details are provided below.

Objective of the Management Commentary (IASB meeting – April 2020)

- 24 At its March 2020 meeting, the IASB tentatively decided that the revised MCPS should describe the objective of management commentary as supporting primary users in assessing **an entity's prospects for future cash flows and management's stewardship of the entity's economic resources** by providing useful information and analysis that:
 - (a) Enhances the primary users' understanding of the entity's performance and position as depicted in the related financial statements; and
 - (b) Gives insight into factors that could affect the entity's prospects.
- 25 The IASB also tentatively decided that the revised MCPS should:
 - (a) Retain that the statement that management commentary is prepared for existing and potential investors, lenders and other creditors and refer to them as 'primary users'; and
 - (b) Explain that primary users are expected to have a reasonable knowledge of business and economic activities and to review and analyse the information diligently; but such users are not expected to have knowledge of the entity to which the management commentary relates.
- 26 The IASB also discussed (but did not make any decisions on) a working draft of guidance on the objective of management commentary to be included in the revised Practice Statement, including guidance on:
 - (a) the notion of 'management's view'; and
 - (b) the link between the notions of 'an entity's prospects for future cash flows' and 'value creation'.

Existing guidance in the current MCPS

- 27 Once all the decisions are made by the IASB on all the content topics, the EFRAG Secretariat will prepare a complete comparison of the existing requirements (MCPS 2010) and the proposed changes that will be presented at a future meeting.
- 28 The [current MCPS](#) defines the purpose of the Management Commentary as follows:

Purpose

9 Management commentary should provide users of financial statements with integrated information that provides a context for the related financial statements. Such information explains management's view not only about what has happened, including both positive and negative circumstances, but also why it has happened and what the implications are for the entity's future.

10 Management commentary complements and supplements the financial statements by communicating integrated information about the entity's resources and the claims against the entity and its resources, and the transactions and other events that change them.

11 Management commentary should also explain the main trends and factors that are likely to affect the entity's future performance, position and progress. Consequently, management commentary looks not only at the present, but also at the past and the future.

Questions for EFRAG TEG

- 29 Do EFRAG TEG members have comments on the objective assigned to the Management Commentary (paragraph 24, above) in the IASB' tentative decisions?

Business model Strategy Resources and relationships (IASB meeting - April 2020)

- 30 At its April 2020 meeting, the IASB tentatively decided to specify the disclosure objectives and description of key items set out in Appendix A to this paper.
- 31 In particular, the IASB tentatively decided to specify in the disclosure objectives that management commentary should provide information and analysis to help investors and creditors understand:
- (a) How an entity's **business model** creates value and generates cash flows;
 - (b) Management's **strategy** for sustaining and developing the entity's ability to create value and generate cash flows in the future; and
 - (c) The **resources and relationships** on which the business model and strategy depend.
- 32 The IASB also discussed possible supporting guidance that explicitly apply the disclosure objectives but was not asked to make any decisions on that guidance (see paragraph 21 above).

Business Model

- 33 The IASB tentatively agreed that the revised MCPS specifies the disclosure objective for business model as follows: the Management commentary shall provide information and analysis to help investors and creditors understand how the entity's business model creates value and converts that value into cash flows.
- 34 The IASB also tentatively decided that the revised MCPS should, in explaining 'business model', refer to the value the entity creates for itself (as opposed to value for third parties or society at large). The Practice Statement should also make clear that the notion of value created for an entity is related to the entity's ability to generate cash flows on the long-term.
- 35 However, the IASB also tentatively decided that the Practice Statement should require an entity's management to discuss indirect wider consequences or impacts of the operation of the entity's business model, **if those impacts could affect the entity's ability to generate cash flows in the future.**
- 36 Information about business model is meant to help investors and creditors assess:

- (a) How effective the entity's business model is in creating value and converting it into cash flows;
 - (b) How scalable the entity's business model is; and
 - (c) How durable, resilient and adaptable the entity's business model is.
- 37 That information and analysis shall cover:
- (a) The range, nature and scale of the entity's operations;
 - (b) The entity's cycle for creating value and generating cash flows; and
 - (c) The impacts of the entity's operations that could affect the entity's ability to generate cash flows.
- 38 That information and analysis shall focus on the key features of the entity's business model.
- 39 The IASB discussion centred primarily on two issues, the use of the term 'converts' into cash flows above and the notions of 'durable, resilient and adaptable' in part 36c above.
- (a) Many Board members were concerned that the term 'converts' would imply that any value created would be ultimately distributed rather than reinvested or redeployed within the business. Staff agreed that drafting would alleviate this concern.
 - (b) Some members noted that the use of 'durable, resilient and adaptable' instead of 'sustainable' is useful given the diversity in the use and understanding of the term 'sustainability' in practice.
- 40 Some members also suggested that a greater link to the financial statements in the objective would be useful – management commentary provides context of the business but it and the financial information should be linked where possible (for example, revenue generation and value creation).
- 41 The IASB tentatively decided that the revised MCPS specifies that the key features of the entity's business model are those that underpin the entity's ability to create value and generate cash flows.

Existing guidance in the current MCPS

- 42 The current Practice Statement does not refer to the business model but rather to the 'nature of business' and provides the following:

Nature of the business

26 Management should provide a description of the business to help users of the financial reports to gain an understanding of the entity and of the external environment in which it operates. That information serves as a starting point for assessing and understanding an entity's performance, strategic options and prospects.

Depending on the nature of the business, management commentary may include an integrated discussion of the following types of information:

- (a) *the industries in which the entity operates;*
- (b) *the entity's main markets and competitive position within those markets;*
- (c) *significant features of the legal, regulatory and macro-economic environments that influence the entity and the markets in which the entity operates;*
- (d) *the entity's main products, services, business processes and distribution methods; and*
- (e) *the entity's structure and how it creates value*

Questions for EFRAG TEG

- 43 Does EFRAG TEG have comments on the objective assigned to information on Business Model (paragraphs 33 and 34, above) in the IASB' tentative decisions?
- 44 Does EFRAG TEG have comments on the description of how primary users make assessment based on the information provided (paragraph 36) the principles for identifying 'key' items to be discussed (paragraphs 38 and following).

Strategy

- 45 The IASB tentatively decided that the revised MCPS specifies that the Management commentary objective for disclosures on strategy shall provide information and analysis to help investors and creditors understand management's strategy for sustaining and developing the entity's ability to generate cash flows in the future.
- 46 Regarding the disclosure objective it was noted that, strategy, 'fundamentally relates to how management intends to sustain and develop the business model in future including leveraging on? key resources and relationships and reflects consideration of opportunities and threats'.
- 47 Information about strategy is meant to help investors and creditors assess the potential impact of the strategy on the entity's ability to generate cash flows; and the entity's ability to execute the strategy.
- 48 That information and analysis shall cover:
 - (a) What drives management's strategy;
 - (b) What management sets out to achieve in the long term;
 - (c) How management plans to achieve that; and
 - (d) How management will monitor and measure success.
- 49 That information and analysis shall focus on the key aspects of management's strategy.
- 50 Some IASB members expressed concerns that the stated objective appeared to focus on the generation of cash flows but did not reference value creation. The IASB staff reiterated that they would want the underlying principle to be consistent with that of business model i.e. that value creation be considered along with the generation of cash flows. It was suggested that the objective should be redrafted to clarify this to ensure consistency across the topics to be included in management commentary.
- 51 The IASB tentatively decided that the revised MCPS specifies that the key aspects of management's strategy are those that will significantly affect the entity's ability to generate cash flows in the future.
- 52 Some members also noted the importance of the link of strategy to executive compensation; and information about the entity's capital management.

Existing guidance in the current MCPS

- 53 The current Practice Statement provides the following:

Objectives and strategies

27 Management should disclose its objectives and strategies in a way that enables users of the financial reports to understand the priorities for action as well as to identify the resources that must be managed to deliver results. For example, information about how management intends to address market trends

and the threats and opportunities those market trends represent provides users of the financial reports with insight that may shape their expectations about the entity's future performance. Management should also explain how success will be measured and over what period of time it should be assessed.

28 Management should discuss significant changes in an entity's objectives and strategies from the previous period or periods. Discussion of the relationship between objectives, strategy, management actions and executive remuneration is also helpful.

Questions for EFRAG TEG

- 54 Does EFRAG TEG have comments on the objective assigned to information on Strategy (paragraphs 45 and 46, above) in the IASB' tentative decisions?
- 55 Does EFRAG TEG have comments on the description of how primary users make assessment based on the information provided (paragraph 47) the principles for identifying 'key' items to be discussed (paragraphs 48 and following).

Resources and relationships

- 56 The IASB tentatively decided that the revised MCPS specifies the disclosure objective for resources and relationships as follows: the Management commentary '*should provide information and analysis to help investors and creditors understand the resources and relationships on which the business model and strategy depend*'.
- 57 That information and analysis helps investors and creditors assess:
 - (a) How much the entity depends on particular resources or relationships; and
 - (b) Whether those resources are likely to continue to be available and whether the relationships are strong enough to sustain the entity's business model and strategy.
- 58 That information and analysis shall cover:
 - (a) The nature of resources and relationships;
 - (b) How resources and relationships are accessed;
 - (c) How those resources are used; what could affect the availability of resources and the strength of relationships;
 - (d) How resources and relationships are managed.
- 59 That information and analysis shall focus on the key resources and relationships.
- 60 Members emphasised the need to emphasise the link between resources and relationships, value creation and the generation of cash flows. It was also noted that information about resources and relationships is vital as these items may lead to value creation but may not be recognised in the financial statements.
- 61 The IASB also tentatively decided that that the revised MCPS specifies that an entity's key resources and relationships are those on which operation of the entity's business model or implementation of management's strategy depend.
- 62 The IASB recommended additional use of examples to help preparers. Furthermore, it may be useful to emphasise materiality, or else too many immaterial items may be disclosed in instances where an entity has multiple business models.

- 63 Finally, it was noted that there is some overlap between the staff's proposals and the IIRC's six capitals². The IASB Staff noted that this was not necessarily the aim, albeit that the work conducted by the IIRC had contributed to their research.
- 64 Some members also highlighted the need to emphasise opportunities in addition to risks relating to relationships (i.e. leveraging a relationship with a supplier of a scarce resource).

Existing guidance in the current MCPS

- 65 The current Practice Statement discusses together resources, risks and relationships and provides the following:

Resources, risks and relationships

29 Management commentary should include a clear description of the most important resources, risks and relationships that management believes can affect the entity's value and how those resources, risks and relationships are managed.

Resources

30 Management commentary should set out the critical financial and non-financial resources available to the entity and how those resources are used in meeting management's stated objectives for the entity. Disclosure about resources depends on the nature of the entity and on the industries in which the entity operates. Analysis of the adequacy of the entity's capital structure, financial arrangements (whether or not recognised in the statement of financial position), liquidity and cash flows, and human and intellectual capital resources, as well as plans to address any surplus resources or identified and expected inadequacies, are examples of disclosures that can provide useful information.

Risks

31 Management should disclose an entity's principal risk exposures and changes in those risks, together with its plans and strategies for bearing or mitigating those risks, as well as disclosure of the effectiveness of its risk management strategies. This disclosure helps users to evaluate the entity's risks as well as its expected outcomes. Management should distinguish the principal risks and uncertainties facing the entity, rather than listing all possible risks and uncertainties.

32 Management should disclose its principal strategic, commercial, operational and financial risks, which are those that may significantly affect the entity's strategies and progress of the entity's value. The description of the principal risks facing the entity should cover both exposures to negative consequences and potential opportunities. Management commentary provides useful information when it discusses the principal risks and uncertainties necessary to understand management's objectives and strategies for the entity. The principal risks and uncertainties can constitute either a significant external or internal risk to the entity.

Relationships

33 Management should identify the significant relationships that the entity has with stakeholders, how those relationships are likely to affect the performance and value of the entity, and how those relationships are managed. This type of disclosure helps users of the financial reports to understand how an entity's relationships influence the nature of its business and whether an entity's relationships expose the business to substantial risk.

² The [IIRC six capitals](#) are financial, natural, human, intellectual, social and manufacturing.

Questions for EFRAG TEG

- 66 Does EFRAG TEG have comments on the objective assigned to information on Strategy (paragraph 56, above) in the IASB' tentative decisions?
- 67 Does EFRAG TEG have comments on the description of how primary users make assessment based on the information provided (paragraph 57) the principles for identifying 'key' items to be discussed (paragraphs 58 and following).

Risks and factors and trends in the external environment (IASB meeting - May 2020)

- 68 At its April 2020 meeting, the IASB tentatively decided to specify the disclosure objectives and descriptions of key items set out in Appendix A to this paper.
- 69 In particular, the IASB decided to specify in the disclosure objectives that management commentary should provide information and analysis to help investors and creditors understand:
 - (a) The risks that could disrupt the entity's business model; strategy for sustaining and developing that model; or resources and relationships; and
 - (b) How the environment in which an entity operates affects its business model; strategy for sustaining and developing that model, its resources and relationships; or risks.
- 70 The IASB also tentatively decided to specify, in the revised Practice Statement, that investors and creditors use the information and analysis in management commentary to assess:
 - (a) The magnitude and likelihood of future disruption to the entity's ability to create value and generate cash flows;
 - (b) How effectively the entity's management identifies and manages risks;
 - (c) How factors and trends in the external environment affect the entity;
 - (d) How effectively management monitors and responds to such factors and trends.
- 71 Lastly, the revised MCPS will also specify that:
 - (a) The key risks are risks that could disrupt the entity's ability to create value and generate cash flows.
 - (b) The key factors and trends in the external environment are those that affect the entity's ability to create value and generate cash flows.
- 72 Key risks and key factors and trends in the external environment are those that the entity's management monitors and manages. That is, areas on which management are focussed as they run the business and determine strategy. Focus on these would, hopefully, eliminate 'boilerplate' risk disclosures.
- 73 The IASB discussions centred around the need to emphasise the 'key risks' of a business. These risks are those that would affect investor decisions and are subject to ongoing monitoring and mitigation by management (i.e. areas on which management are focussed as they run the business and determine strategy). Focus on these would, hopefully, eliminate 'boilerplate' risk disclosures.
- 74 Some IASB members express concerns that that the word 'disrupt' could be read and understood differently: many things could cause disruption; this could be quite broad and lead to a lengthy list of risks being disclosed. The following comments were made:
 - (a) The focus should be on the 'key', material risks.

- (b) A few IASB members highlighted that it would be useful to know whether management had previously identified the 'right' risks and how effectively these were mitigated and managed and what risks are being identified as management look forward (i.e. feedback loop).
 - (c) The IASB Staff should, clarify whether disclosure of the 'nature of the risk' or the 'disruption the risk could lead to' should be the emphasis.
- 75 The IASB also discussed possible supporting guidance on risks and the external environment but was not asked to make any decisions. A few comments were made about the supporting guidance. These included that the Practice Statement would be more effective if it is consistent with other frameworks (e.g. TCFD). The IASB staff indicated that this would be the case.
- 76 In the discussion on 'key factors and trends' it was noted that:
- (a) Consideration should be given of management commentary's anticipated audience and their level of assumed knowledge.
 - (b) Disclosure of opportunities that may arise as a result of risks would be useful and important in providing a balanced message to users. However, a boilerplate list of potential opportunities should be avoided as this would be of little value to users.
- 77 The concept of materiality (which was discussed in previous meetings) was referred to again with the confirmation that guidance would be provided in the context of management commentary which provides different information to financial statements - it is more qualitative and forward-looking.

Existing guidance in the current MCPS

- 78 Information about risks in the current MCPS is discussed together with resources and Relationships (see paragraph 64, above).

Questions for EFRAG TEG

- 79 Do EFRAG TEG members have comments on the objective assigned to information on **Risks and external factors and trends** (paragraph 69, above) in the IASB' tentative decisions?
- 80 Do EFRAG TEG members have comments on the description of how primary users make assessment based on the information provided (paragraph 70) the principles for identifying 'key' items to be discussed (paragraphs 7158 and following)?

Questions for EFRAG TEG

- 81 Do EFRAG TEG members have any other comments on update provided?

Appendix A—Disclosure objectives and descriptions of key items for areas of content discussed by the IASB to date

	Business Model	Strategy	Resources and relationships	Risks	External environment
Headline disclosure objective (WHAT)	Management commentary shall provide information and analysis to help investors and creditors understand...				
	how an entity's business model creates value and generates cash flows.	management's strategy for sustaining and developing the entity's business model in the future.	the resources and relationships on which the entity's business model and management's strategy for sustaining and developing that model depend.	The risks that could disrupt: the entity's business model; management's strategy for developing and sustaining that model; or the entity's resources and relationships.	how the environment in which the entity operates affects: the entity's business model; management's strategy for sustaining and developing that model; the entity's resources and relationships; or its risks.
Assessments investors & creditors make (WHY)	Information and analysis should help investors and creditors assess...				
	(a) how effective the entity's business model is in creating value and generating cash flows. (b) how scalable it is; and (c) how resilient, adaptable and durable it is.	(a) the potential effect of the strategy on the entity's ability to create value generate cash flows; and (b) the entity's ability to execute the strategy.	(a) how much the entity depends on particular resources or relationships; and (b) whether those resources are likely to continue to be available and whether the relationships are likely to strengthen and continue.	(a) the magnitude and likelihood of potential future disruption to the entity's ability to create value and generate cash flows; and (b) how effectively management identifies and manages risks.	(c) how factors and trends in the external environment affect the entity; and (d) how effectively management monitors and responds to factors and trends in the external environment.

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	Business Model	Strategy	Resources and relationships	Risks	External environment
The disclosed information and analysis shall....					
(HOW)	Focus on the key features of the entity's business model and cover: (a) the range, nature and scale of the entity's operations; (b) the entity's cycle for creating value and generating cash flows; and (c) indirect wider consequences or impacts of the entity's operations if they could affect the entity's ability to create value and generate cash flows.	Focus on the key aspects of management's strategy and cover: (a) what drives management's strategy; (b) what management aims to achieve in the long term; (c) how management plans to achieve those aims; and (d) how management will monitor and measure success.	Focus on the key resources and relationships and cover: (a) the nature of the resources and relationships; (b) how the resources and relationships are accessed; (c) how they are used; (d) what could affect the availability of the resources and the strength of the relationships; and (e) how the resources and relationships are managed.	Focus on the key risks and cover: (a) a description of the risks and of the entity's exposure to those risks; (b) how management monitors and manages the risks and would mitigate disruption if it occurs.	Focus on the key factors and trends and cover: (a) a description of factors and trends in the external environment; (b) how those factors and trends affect the entity; and (c) how management monitors and responds to those factors and trends.
Description of key items (KEY ITEMS)	The key features of the entity's business model are those that underpin the entity's ability to create value and generate cash flows	The key aspects of management's strategy are those designed to sustain or develop the entity's ability to create value and generate cash flows in the future.	An entity's key resources and relationships are those on which the entity's ability to create value and generate cash flows depend.	An entity's key risks are those that could disrupt the entity's ability to create value and generate cash flows.	The key factors and trends in an entity's external environment are those that affect the entity's ability to create value and generate cash flows