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Management Commentary Practice Statement

Cover Note

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 Practice Statement') focusing on the tentative decisions made by the IASB since the project was last discussed by EFRAG TEG in July 2020.

Project Background

- 2 In November 2017, the Board added to its agenda a project to update the Management Commentary Practice Statement. The IASB expects to publish an Exposure Draft on the revised Practice Statement in April 2021.
- 3 The IASB's research indicated that the existing Practice Statement (not revised since 2010) did not always provide investors and creditors with the information they need and that it:
 - (a) lacked focus on matters that are important for the entity's prospects;
 - (b) contained too much generic information and not enough entity-specific information; and
 - (c) provided insufficient discussion of matters that could affect the entity in the long term.
- 4 The revised Practice Statement is expected to propose a principles-based approach that involves providing a structured set of requirements supported by application guidance including:
 - (a) an objective for management commentary as a whole, supported by a set of disclosure objectives for six identified areas of content.
 - (b) requirements for the attributes that information in management commentary should possess; including descriptions of those attributes and application guidance to help entities identify and provide information that possesses those attributes-; or example, that management commentary should provide information that is material to investors and creditors, and be complete and balanced.
 - (c) application guidance providing examples of possible key matters and of information that management commentary might need to provide to satisfy the disclosure objectives.
- 5 The six areas of content in management commentary discussed in the revised Practice Statement are:

Management Commentary Practice Statement - Issues Paper

- (a) *the entity's business model* that is the way the entity creates and preserves value for itself, and hence for its investors and creditors, including in the long term;
- (b) *management's strategy* for sustaining and developing that business model-including the opportunities management has chosen to pursue;
- (c) *the resources and relationships* on which the business model and strategy depend-including intangible resources not recognised as assets in the entity's financial statements;
- (d) *the risks* that could disrupt the business model, strategy, resources or relationships;
- (e) *the factors and trends in the external environment* that could affect the business model, strategy, resources, relationships or risks; 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.

6 The table below references previous discussion on the content elements of the revised Practice Statement at EFRAG TEG and EFRAG CFSS.

Topics	Discussion by EFRAG ¹
Objective of management commentary	EFRAG TEG-CFSS – November 2018 EFRAG TEG July 2020
Making relevance and materiality judgements	EFRAG TEG-CFSS – November 2018
Faithful representation	EFRAG TEG December 2019
Enhancing qualitative characteristics	EFRAG TEG-CFSS – July 2019
Business model	EFRAG TEG – April 2019 EFRAG TEG December 2019 EFRAG TEG July 2020
Strategy and opportunities	EFRAG TEG July 2020
Resources and relationships	EFRAG TEG July 2020
Risks and factors and trends in the external environment	EFRAG TEG July 2020
Reporting financial resources	At the present meeting (see agenda paper 09-02)
Reporting on Performance, Position and Progress	At the present meeting (see agenda paper 09-02)
Status of the MCPS and Statement of Compliance	At the present meeting (see agenda paper 09-02)

Agenda Papers

7 In addition to this to this cover note, agenda paper *10-02 Update on the Management Commentary Project* has been provided for the session.