



Project:	Management commentary	Meeting:	M183
Topic:	Education session and summary of feedback received to date on ED 311 <i>Management Commentary</i>	Agenda Item:	7
		Date:	23 August 2021
Contact(s):	Eric Lee elee@asb.gov.au Helena Simkova hsimkova@asb.gov.au	Project Priority:	High
		Decision-Making:	None – for information only
		Project Status:	Develop Board response to IASB ED

Objective of this paper

- 1 The objective of this agenda item is to provide the Board an education session on the overview of [IASB ED/2021/6 Management Commentary](#) and feedback received to date.

Attachment

- Agenda Paper 7.2 Slide deck on overview of ED 311 *Management Commentary*
- Agenda Paper 7.3 [ED 311 Management Commentary](#) [supporting documents folder]
- Agenda Paper 7.4 Draft minutes of July 2021 AASB UAC Meeting [Board only, supporting documents folder]

Background and reasons for bringing this paper to Board

- 2 In May 2021, the IASB published an [Exposure Draft ED/2021/6 Management Commentary](#) for comment by 23 November 2021. IASB ED/2021/6 proposes a comprehensive new framework that provides entities guidance to help management identify and disclose relevant information focusing on investors' and creditors' needs. The new proposed framework is intended to replace [IFRS Practice Statement 1 Management Commentary](#), issued by the IASB in December 2010.
- 3 AASB ED 311 *Management Commentary*, corresponding to IASB ED/2021/6 was issued in June 2021 and is open for comment by 1 October 2021.
- 4 Although the IASB has concluded that management commentary is within the scope of financial reporting, the Practice Statement is not an IFRS, and, consequently, entities applying IFRSs are not required to comply with the IFRS Practice Statement unless otherwise required by a regulator. Consistent with this, the AASB has included the existing IFRS Practice Statement on the AASB website, thereby making it available for all entities, including public sector entities. Currently, in Australia, there is no requirement to comply with the Practice Statements.

- 5 At the [November 2019 meeting](#), the Board approved a [project plan](#) and agreed to make a submission to the IASB's proposals on management commentary, which was eventually published as ED/2021/6.
- 6 As part of the project plan, staff undertook a benchmarking exercise to compare narrative reporting requirements between various countries. In May 2021, findings were published as an AASB Staff Paper, [Comparison of Narrative Reporting Requirements Applicable to For-Profit Entities](#). The findings will be used when drafting the AASB's submission.
- 7 Although the focus of this agenda is to provide the Board an overview of the proposals in IASB ED/2021/6, this paper also provides the Board a summary of feedback heard from recent outreach activities.

Outreach activity

- 8 To date, staff conducted the following educational and outreach activity to gather views from stakeholders:
 - (a) 29 July 2021 – AASB User Advisory Committee meeting (UAC meeting)
 - (b) 2 August 2021 – IASB and AASB webinar (educational session).
- 9 The IASB and AASB webinar on 2 August 2021 was an educational session, inviting stakeholders from the Asia-Oceania region to attend. There were 60 attendees. The webinar provided an overview of the IASB ED/2021/6. The session was recorded and is available on the AASB website for [viewing](#). As the session's objective was to educate stakeholders and present the overview of the IASB ED/2021/6, limited feedback was received. This paper does not provide a feedback summary from the webinar but rather focuses on the discussion held at the 29 July 2021 UAC meeting.

UAC meeting

- 10 The UAC meeting on 29 July 2021 was attended by nine UAC members and three AASB members. IASB project staff and Board member Ann Tarca also attended and presented at the meeting.
- 11 The ED has three parts with sixteen questions for comments:
 - (a) Part A – specifies requirements for identifying management commentary and the related financial statements, for authorising management commentary and for including a statement of compliance. It also sets out the objective of management commentary.
 - (b) Part B – specifies six areas of content for management commentary and requirements of providing information that meets disclosure objectives for each of those areas of content.
 - (c) Part C – contains additional requirements and guidance on the selection of information to include in management commentary and on the presentation of that information.
- 12 The summary of feedback received from the UAC meeting focus on matters related to Part A and Part B of the ED.
- 13 The meeting included a number of polling questions to obtain views. These polling questions may not have been the exact wording of questions from the ED. They were, however, related to the management commentary proposals for discussions.

Feedback summary

Part A of the ED

Polling question 1

How important is narrative information provided in financial reports for your decision making?

- Extremely important**
- Important**
- Not important**
- Unsure**

- 14 Six members voted “Extremely Important”, three members voted “Important”, and one member voted “Unsure”.
- 15 The member who voted unsure commented that the quality of narrative information is important to be considered when making decisions.
- 16 Members also provided the following comments:
- (a) Good quality narrative information is often unavailable. However, they acknowledged that determining whether the information quality is good or bad may be subjective.
 - (b) One member highlighted that the U.S 10-K form, which is a document that the U.S. Securities and Exchange Commission requires all U.S. public companies to file each year, generally provides a good understanding of a company’s position in industry structure, competitors, and insights into what the business does. However, one member was of the view that information in 10-K is often generic.
 - (c) Members were of the view that in Australia, the continuous disclosure obligations are effective for users who closely follow entities’ activities and announcements. However, other users of financial reports who rely on periodic disclosures may not have sufficient information in the reports for decision-making.

Polling question 2

What do you consider the most significant shortcomings of narrative information currently produced by entities? Select all that apply:

- lack of focus on important matters;**
- too much generic information and not enough entity-specific information;**
- insufficient discussion of an entity’s long-term prospects;**
- insufficient information about intangible resources and relationships ;**
- insufficient information about ESG matters ;**
- fragmented or incoherent commentary;**
- difficulty in reconciling to information in the entity’s financial statements or other reports;**
- difficulty in comparing information to prior periods or to other similar entities;**
- incomplete information on the implications of important matters; and**
- undue emphasis on the positive aspects of the entity’s performance.**

- 17 Members generally concurred that all items listed are shortcomings of narrative information currently produced by entities. In particular, the two highest votes from members were:
- too much generic information and not-enough entity-specific information; and
 - difficulty in reconciling to information in the entity's financial statements or other reports.

AASB Staff provided a brief background on IASB's Exposure Draft (ED) 2021/6 *Management Commentary* including the Statement of Compliance. IASB Staff provided further clarification on IASB's proposals.

Polling question 3

Suppose an entity has chosen to comply with the IASB's Management Commentary Practice Statement. How important is it to provide an explicit and unqualified statement of compliance to the Management Commentary Practice Statement?

- Extremely important**
- Important**
- Not that important**
- Unsure**

- 18 Two members voted that it is extremely important to provide an explicit and unqualified statement of compliance to the Practice Statement, four members voted that it was important, two members voted not that important, and two members were unsure.
- 19 Members also commented that:
- (a) Entities may be discouraged from adopting the Practice Statement if a statement of compliance (either qualified or unqualified) is required.
 - (b) The statement of compliance may restrict what entities should or should not disclose and give rise to producing generic management commentaries.
 - (c) Management may be wary of issuing a statement of compliance (either qualified or unqualified) as they would be exposed to litigation risks.
 - (d) Assurance provided by auditors should be limited to verifying the consistencies of management assertions and the information provided in the financial statements.

Polling question 4

If an entity has complied with some, but not all, requirements of the Management Commentary Practice Statement, what disclosure would a qualified statement of compliance be useful?

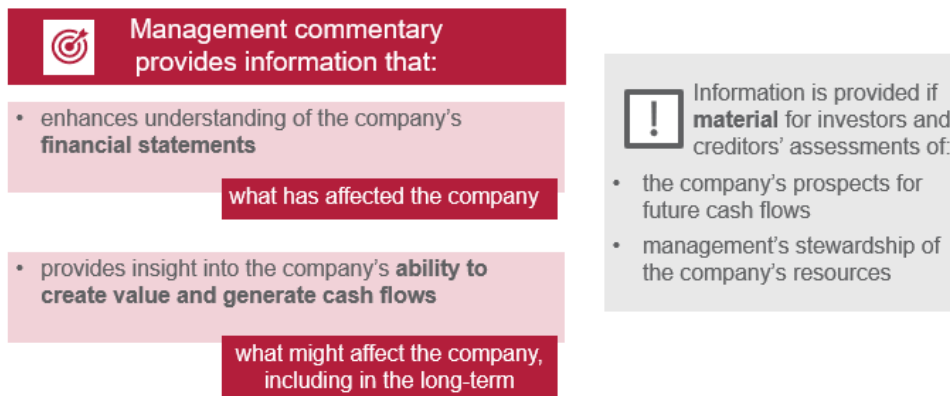
- Yes**
- Yes, if accompanied by explanations of departures from the Practice Statement**
- No**

- 20 All members agreed that if an entity has complied with some, but not all, requirements of the Practice Statement, a qualified statement of compliance with explanations of departures from the Practice Statement would be useful.

AASB staff and IASB staff provided the UAC with an overview of IASB's Exposure Draft (ED) 2021/6 Management Commentary, including what the IASB is trying to achieve through the proposals and the proposed objective of management commentary.

The diagram below provides a summary of the proposed objective of management commentary.

The objective of management commentary



(Source: IASB's Management Commentary presentation)

Polling question 5

Do you agree with the proposed objective of management commentary?

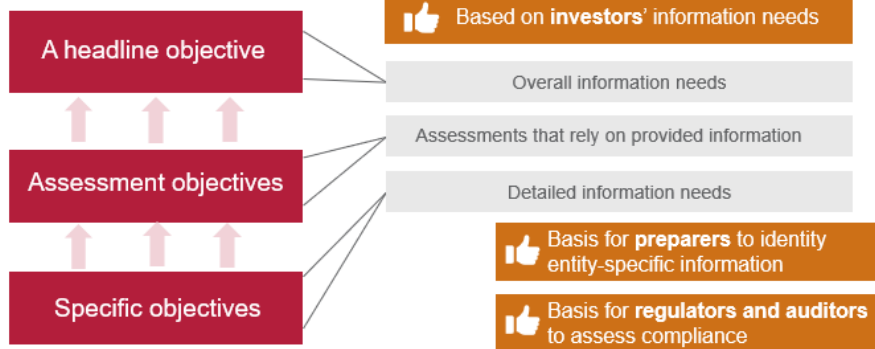
- Agree
- Partially agree/disagree
- Disagree
- Unsure

21 Eight members agreed with the proposed objective of management commentary, while one member partially agreed. There was no other comment provided.

The following diagram provides a summary of the proposed design of the disclosure objectives:

Disclosure objectives: the design

Disclosure objectives for each area of content



(Source: IASB's Management Commentary presentation)

Polling question 6

Do you agree with the proposed design of the disclosure objectives?

- Agree
- Partially agree/disagree
- Disagree
- Unsure

- 22 Members generally agreed with the IASB's proposed disclosure objectives, with seven members voted agreed and three members voted partially agreed.
- 23 Members commented that, rather than having a disclosure checklist, disclosure objectives may encourage entities to provide better information. Entities are likely to provide generic information if disclosure requirements are overly prescriptive.

IASB Staff provided an overview on disclosure objectives. In particular, UAC members were asked to provide any comments or concerns on business model disclosure objectives. The following diagram provides a summary of the proposed disclosure objectives on business model:

Disclosure objectives (1/6): Business model

Disclosure objectives	Business model
A headline objective	Enable investors and creditors to understand: <ul style="list-style-type: none"> How the company's business model creates value and generates cash flows
Assessment objectives	Provide a sufficient basis for investors and creditors to assess: <ul style="list-style-type: none"> How effective the company's business model is How scalable and adaptable it is How resilient and durable it is
Specific objectives	Enable investors and creditors to understand: <ul style="list-style-type: none"> 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

(Source: IASB's Management Commentary presentation)

24 Members provided the following feedback:

- (a) One member was keen to see a discussion on key value drivers in the headline objectives.
- (b) One member agreed with the proposal on the disclosures of metrics, in particular, the member was interested to see disclosure of key measurements such as revenue or growth rate that provides indications on entities directions.
- (c) One member generally appreciated the proposals but raised concerns that entities may disclose only positive information and avoid disclosing bad news.
- (d) The proposed assessment disclosure objectives are about providing a sufficient basis for investors and creditors to make decisions. One member expressed the view that the concept of "sufficient basis" is a challenging hurdle for companies to meet because preparers and auditors may not be able to stand in an investor's shoes to assess whether the information is sufficient or insufficient.
- (e) Members generally agreed with the proposed disclosures on:
 - key matters that may impact future cash flows; and
 - milestones of an entity's short-, medium- and long-term strategy.
- (f) Members generally commented that an entity's resources and relationships information is generally useful, such as: Are there any significant contractual relationships? What is the nature of the relationships? Are the entity's resources evergreen? How much would it cost to replace those key resources?
- (g) Members were of the view that quantitative disclosures could be helpful. For example, staff turnover can be measured and disclosed quantitatively.

Polling question 7

Do you agree that long-term prospects, intangible resources and, relationships and ESG matters are important information for decision making?

- Agree**
- Partially**
- Disagree**
- Unsure**

- 25 Eight members agreed that long-term prospects, intangible resources, and relationships and ESG matters are important information for decision making, with one member disagreeing.
- 26 The member who disagreed commented that financial information should be faithfully represented and therefore intangibles information should not be disclosed and recognised in the financial reports. The member raised concerns that intangibles information may impair the quality of the financial information. The member also commented that disclosures about ESG matters could be useful, but only if such information is relevant to the business.

Polling question 8

Do you agree that the Practice Statement should require management commentary to focus on key matters?

- Agree**
- Partially agree/disagree**
- Disagree**
- Unsure**

- 27 All members agreed that the Practice Statement should require management commentary to focus on key matters. No other comment was provided.
- 28 As there was not sufficient time to go through the remaining questions (Part C of the ED), members agreed to continue the discussion in its upcoming November 2021 meeting.

Next steps

- 29 Staff expect to continue conducting further outreach activities and to bring a summary of outreach feedback and draft comment letter to the November 2021 meeting.