



IFRS[®]
Accounting

June 2025

Management Commentary

IFRS[®] Practice Statement 1

International Accounting Standards Board

IFRS Practice Statement 1

Management Commentary

IFRS Practice Statement 1 *Management Commentary* was issued in June 2025 for application from 23 June 2025. It superseded IFRS Practice Statement 1 *Management Commentary* issued in December 2010.

Practice Statement 1 *Management Commentary* is issued by the International Accounting Standards Board (IASB).

Disclaimer: To the extent permitted by applicable law, the International Accounting Standards Board (IASB) and the Foundation expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

© 2025 IFRS Foundation

All rights reserved. Reproduction and use rights are strictly limited. Please contact the Foundation for further details at permissions@ifrs.org.

Copies of IASB publications may be ordered from the Foundation by emailing customerservices@ifrs.org or by visiting our shop at <https://shop.ifrs.org>.



The IFRS Foundation has trade marks registered around the world including 'FSA®', the 'Hexagon Device' logo®, 'IAS®', 'IASB®', 'IFRIC®', 'IFRS®', the 'IFRS®' logo, 'IFRS for SMEs®', 'ISSB®', 'International Accounting Standards®', 'International Financial Reporting Standards®', 'International Financial Reporting Standards Foundation®', 'IFRS Foundation®', 'NIIF®', 'SASB®', 'SIC®', 'SICS®', and 'Sustainable Industry Classification System®'. Further details of the IFRS Foundation's trade marks are available from the IFRS Foundation on request.

The Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office in the Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD.

IFRS Practice Statement 1 *Management Commentary*

Chapter		from page
1	Using this Practice Statement	4
	PART A—GENERAL REQUIREMENTS	
2	Identification, authorisation and statement of compliance	13
3	Objective of management commentary	15
4	Material information and key matters	20
5	Completeness, neutrality, freedom from error and other attributes	28
6	Coherence	36
7	Metrics	39
	PART B—AREAS OF CONTENT	
8	Business model	45
9	Strategy	52
10	Resources and relationships	58
11	Risks	64
12	External environment	69
13	Financial performance and financial position	74
	APPENDICES	
A	Defined terms	82
B	Long-term prospects, intangible resources and relationships, and environmental, social and governance matters	85

Chapter 1—Using this Practice Statement

In this chapter
Introduction
Purpose of this Practice Statement
Status of this Practice Statement
Effective date
Overview of the content and structure of this Practice Statement
Interaction with other reporting requirements or guidelines

Introduction

- 1.1 IFRS Practice Statement 1 *Management Commentary* is set out in paragraphs 1.2–13.14 and appendices A and B. Terms defined in Appendix A are in **bold** the first time they appear in this Practice Statement.
- 1.2 Notes, illustrations and links are included to help entities apply the requirements in this Practice Statement.

Note

Notes explain a requirement in further detail or provide context for a requirement.

Illustration

Illustrations describe particular circumstances and show how an entity might apply a requirement in those circumstances. The management of an entity would judge how to apply the requirement in the entity's circumstances.

Link

Links highlight relationships between requirements in this Practice Statement.

Purpose of this Practice Statement

- 1.3 This Practice Statement applies to **management commentary**. It sets out requirements for management commentary and explains how those requirements can be met.
- 1.4 Management commentary accompanies **general purpose financial statements (financial statements)** prepared in accordance with IFRS Accounting Standards or on another basis. Management commentary might accompany the related financial statements as a distinguishable part of a larger report or as a stand-alone report. Management commentary might also

MANAGEMENT COMMENTARY

accompany or include **sustainability-related financial disclosures** prepared in accordance with IFRS Sustainability Disclosure Standards or on another basis. Management commentary might be known under another name.

- 1.5 This Practice Statement does not specify which entities are required to prepare management commentary, how frequently entities should do so, who should authorise management commentary for issue or the level of external assurance to which management commentary should be subjected.

Note

Throughout this Practice Statement, the term 'management' refers to the body(s) or individual(s) who are responsible for authorising management commentary for issue. Depending on an entity's circumstances (such as local law or regulation), that could include the entity's governing body.

- 1.6 Some entities might be required by local law or regulation to publish management commentary that complies with this Practice Statement and other entities might choose to do so.

Link

An entity might be required by local law or regulation or choose to provide particular information that is additional to the information required by this Practice Statement. If that additional information:

- (a) is provided outside management commentary but in the same larger report, paragraph 2.1 requires the entity to identify management commentary clearly and distinguish it from other information provided in the same larger report.
- (b) is included in management commentary, paragraph 5.17 requires any immaterial information included in management commentary to be provided in a way that avoids obscuring **material information**.

Status of this Practice Statement

- 1.7 This Practice Statement is not an IFRS Accounting Standard or an IFRS Sustainability Disclosure Standard. Financial statements can comply with IFRS Accounting Standards even if they are not accompanied by management commentary or if they are accompanied by management commentary that does not comply with this Practice Statement.

Note

Management commentary can comply with this Practice Statement even if:

- (a) it accompanies financial statements prepared on a basis other than IFRS Accounting Standards; or
- (b) it does not accompany or include sustainability-related financial disclosures prepared in accordance with IFRS Sustainability Disclosure Standards or on another basis.

Effective date

- 1.8 This Practice Statement supersedes IFRS Practice Statement 1 *Management Commentary* (issued in December 2010) for annual **reporting periods** beginning on or after 23 June 2025. Earlier application is permitted. If an entity applies this Practice Statement for an earlier period, it shall disclose that fact.

Overview of the content and structure of this Practice Statement

- 1.9 In this Practice Statement:
- (a) Part A (Chapters 2–7) sets out general requirements and guidance that apply to management commentary as a whole and the information included in it, as explained in paragraphs 1.10–1.15;
 - (b) Part B (Chapters 8–13) sets out requirements and guidance for six specified areas of content to be included in management commentary, as explained in paragraphs 1.16–1.22;
 - (c) Appendix A sets out defined terms; and
 - (d) Appendix B provides an overview of requirements and guidance in this Practice Statement that management is likely to need to consider in deciding what information to provide in its management commentary about matters that could affect the entity’s long-term prospects, its intangible resources and relationships, and environmental, social and governance matters, as explained in paragraphs 1.23–1.25.

Part A—General requirements

- 1.10 Chapter 2 sets out requirements relating to identifying management commentary, providing information about its authorisation for issue, and stating compliance with this Practice Statement.
- 1.11 Chapter 3 sets out the objective of management commentary, together with supporting explanations. For example, it explains that an entity’s management commentary:

MANAGEMENT COMMENTARY

- (a) is prepared for the entity's existing and potential investors, lenders and other creditors, who are the **primary users of general purpose financial reports (users)**; and
 - (b) provides management's perspective of the factors that have affected the entity's financial performance or financial position, or that could affect the entity's ability to **create value** and generate cash flows in the future.
- 1.12 Chapter 4 sets out requirements for providing material information in management commentary, together with supporting guidance. For example, Chapter 4:
 - (a) explains that it is likely that much of the material information needed to meet the objective of management commentary and the disclosure objectives for the areas of content in Part B will relate to **key matters**, that is, matters that are fundamental to an entity's ability to create value and generate cash flows, including in the long term. Chapter 4 also provides guidance on identifying key matters.
 - (b) provides guidance on identifying information that might be material and assessing whether information is material.
- 1.13 Chapter 5 sets out requirements for management commentary to be complete, neutral and free from error. It also explains that information is more useful to users if it is also understandable, comparable and provided in a way that enhances verifiability.
- 1.14 Chapter 6 sets out requirements for information in management commentary to be presented as a well-integrated, coherent whole.
- 1.15 Chapter 7 explains that material information is likely to include **metrics** that management uses to monitor key matters and to measure progress in managing those matters. It also sets out requirements that apply to metrics.

Link

Part B includes, for each area of content, requirements to focus on key matters, examples of key matters, examples of metrics and examples of information that might be material.

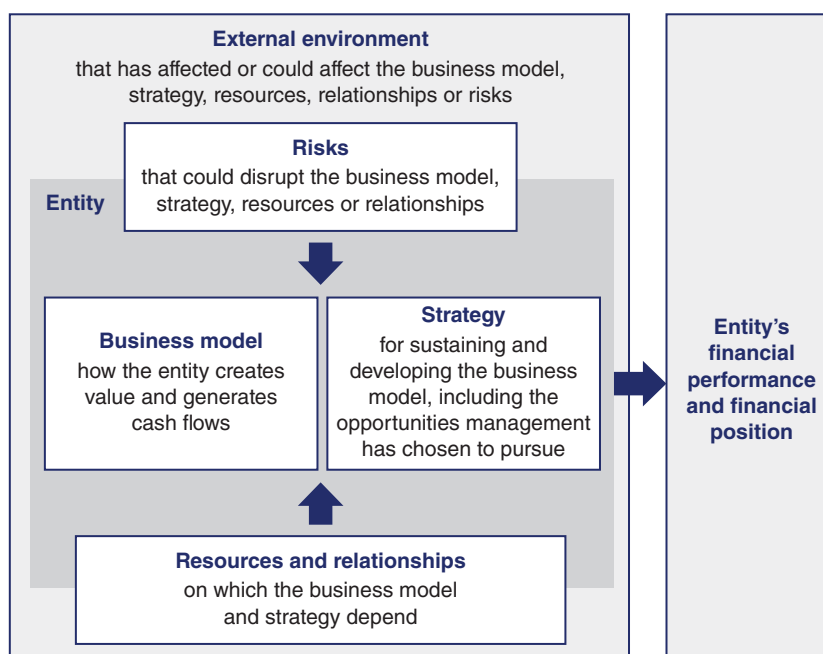
Part B—Areas of content

- 1.16 Chapters 8–13 specify six areas of content to be included in management commentary:
 - (a) the entity's business model—how the entity creates value and generates cash flows;
 - (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 resources not **recognised** as assets in the entity's financial statements;

- (d) risks that could disrupt the business model, strategy, resources or relationships;
- (e) factors and trends in the external environment that have affected or 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.

1.17 Figure 1 illustrates the relationships between the six areas of content.

Figure 1—Relationships between the six areas of content in management commentary



Note

Management commentary provides material information about factors, including sustainability-related factors, that have affected an entity's financial performance or financial position or that could affect the entity's ability to create value and generate cash flows in the future, including in the long term.

Such factors could include matters relating to the entity's intangible resources and relationships, and environmental, social and governance matters (see paragraphs 1.23–1.25 and Appendix B).

1.18 Chapters 8–13 require management commentary to provide information that meets disclosure objectives specified for each area of content. The disclosure objectives in each chapter comprise:

- (a) a headline objective – describing the overall information needs of users for the area of content; and
- (b) specific objectives – describing the detailed information needs of users for the area of content.

Note

- (a) The areas of content are interrelated. Information provided to help meet the disclosure objectives for one area might also help meet the disclosure objectives for other areas. For example, an analysis of an entity's dependence on a resource—such as a commodity—could help users understand the entity's exposure to risks relating to that resource, for example, commodity price volatility. Similarly, information about a sustainability-related factor could help users understand aspects of management's strategy (for example, plans for developing a new product or entering a new market) or factors and trends in the entity's external environment (for example, its regulatory environment). Information can help meet more than one disclosure objective without being duplicated in several sections of the management commentary.
- (b) Management applies the requirements and guidance in Part A in deciding how to select, organise and present the information required to meet the disclosure objectives. Management may apply the structure and headings used in Part B of this Practice Statement but is not required to do so.

1.19 To help management understand the information needs of users, Chapters 8–13 also describe the assessments that users make using the information provided for each area of content.

Note

When making their assessments using the information provided for an area of content, users might also use information provided for other areas of content. For example, to assess the scalability, adaptability, durability and resilience of the entity's business model, as described in paragraph 8.7, users might also use information about the entity's resources and relationships, the risks that the entity is exposed to and the entity's external environment.

- 1.20 To identify the information needed to meet the disclosure objectives for an area of content, management:
- (a) considers the descriptions of users' assessments for the area of content.
 - (b) identifies the information needed to meet the specific objectives for the area of content.
 - (c) evaluates whether the information needed to meet the specific objectives is sufficient to meet the headline objective for the area of content. If the information is insufficient, management identifies additional information needed to meet the headline objective for the area of content.
- 1.21 Management evaluates whether the information needed to meet the disclosure objectives for the areas of content is sufficient to meet the objective of management commentary set out in paragraph 3.1. If the information is insufficient, management identifies additional information needed to meet that objective.
- 1.22 To help management to identify material information to meet the disclosure objectives, Chapters 8–13 also set out, for each area of content:
- (a) a requirement to focus on key matters and examples of key matters;
 - (b) examples of metrics; and
 - (c) examples of information that might be material.

Long-term prospects, intangible resources and relationships, and environmental, social and governance matters

- 1.23 Users need information about factors, including sustainability-related factors, that have already affected an entity's financial performance or financial position as well as information about factors that could affect the entity's ability to create value and generate cash flows in the future, including in the long term. Such factors could include matters relating to the entity's intangible resources and relationships—including resources not recognised as assets in the entity's financial statements—and environmental, social and governance matters.
- 1.24 Management commentary provides material information about such matters as necessary to meet its objective set out in Chapter 3 and the disclosure objectives set out in Chapters 8–13. For example, management commentary provides material information about governance matters as necessary to meet those objectives.
- 1.25 Appendix B provides an overview of requirements and guidance in this Practice Statement that management is likely to need to consider in deciding what information to provide about factors that could affect the entity's ability to create value and generate cash flows in the long term (long-term prospects), matters relating to the entity's intangible resources and relationships, and environmental, social and governance matters.

Interaction with other reporting requirements or guidelines

- 1.26 Entities can apply this Practice Statement alongside local law or regulation. If local law or regulation specifies only general requirements, an entity can apply the Practice Statement requirements and guidance to help it comply with that law or regulation. Conversely, if local law or regulation is detailed and prescribes disclosure of specific information, an entity is permitted to include all of that information in its management commentary even if some of the information is not required by the Practice Statement, as long it does not obscure material information (see paragraph 5.17).
- 1.27 Entities can also apply this Practice Statement together with narrative reporting requirements or guidelines published by another standard-setting body or other organisations, including requirements or guidelines for use by entities in specific industries or on specific topics, such as sustainability reporting. Such requirements or guidelines could help management identify information it might need to provide to meet the requirements of this Practice Statement. That is more likely to be the case if the requirements or guidelines have a reporting objective that focuses on the information needs of the primary users of general purpose financial reports, such as IFRS Sustainability Disclosure Standards (see paragraph 4.14).

Link

Sustainability-related factors could include, for example:

- (a) a feature of an entity's business model, such as the environmental and social impacts of the entity's activities if those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term (see paragraph 8.6(c));
- (b) a driver of management's strategy for sustaining and developing the entity's business model, such as the opportunities management has chosen to pursue (see paragraph 9.5(a));
- (c) dependency of the entity's business model or management's strategy on a resource or relationship (see paragraph 10.7(a));
- (d) a risk of events or circumstances that could disrupt the entity's business model, management's strategy or the entity's resources or relationships (see paragraph 11.3); and
- (e) a factor or trend in the entity's natural environment or social landscape that has affected or could affect the entity (see paragraphs 12.1–12.5).

PART A—GENERAL REQUIREMENTS

Chapter 2—Identification, authorisation and statement of compliance

In this chapter

Identifying management commentary and other related general purpose financial reports

Authorisation of management commentary

Statement of compliance

Identifying management commentary and other related general purpose financial reports

- 2.1 An entity may provide management commentary as a stand-alone report or with other information as part of a larger report. An entity shall identify the management commentary clearly and distinguish it from other information provided in the same larger report or in other reports published by the entity.
- 2.2 Management commentary shall identify the financial statements to which it relates. If the management commentary is not part of the same larger report as the related financial statements, it shall explain how to access those financial statements. If the related financial statements are not prepared in accordance with IFRS Accounting Standards, the management commentary shall disclose the basis on which the financial statements are prepared.
- 2.3 Management commentary shall identify the reporting period that it and the related financial statements cover.

Note

Management commentary covers the same period as the financial statements to which it relates.

- 2.4 If an entity prepares sustainability-related financial disclosures, the management commentary shall disclose the basis on which those disclosures are prepared. If those disclosures are not part of the same larger report as management commentary, the management commentary shall identify those disclosures and explain how to access them.

Link

Paragraph 6.7(a) requires that an entity's management commentary provides information in a way that enables users to relate that information to related information in an entity's financial statements or another general purpose financial report.

Authorisation of management commentary

- 2.5 An entity shall state the date on which the management commentary was authorised for issue and identify the body(s) or individual(s) who gave that authorisation.

Link

As stated in paragraph 1.4, this Practice Statement does not specify the body(s) or individual(s) who should authorise management commentary for issue.

Statement of compliance

- 2.6 Management commentary that complies with all of the requirements of this Practice Statement shall include an explicit and unqualified statement of compliance.
- 2.7 Management commentary that complies with some, but not all, of the requirements of this Practice Statement may include a statement of compliance. However, that statement shall be qualified, identifying the departures from the requirements of this Practice Statement and giving the reasons for those departures.

Chapter 3—Objective of management commentary

In this chapter
The objective of management commentary
Supporting explanations
Focus on the information needs of the primary users of general purpose financial reports
Management's perspective
Complementary information in management commentary
Future cash flows and value creation
Long-term time horizon

The objective of management commentary

- 3.1 An entity's management commentary shall provide information that:
- (a) enhances users' understanding of the entity's financial performance and financial position reported in its financial statements; and
 - (b) provides management's insight into factors, including sustainability-related factors, that could affect the entity's ability to create value and generate cash flows across all time horizons, including in the long term.

Link

Management commentary can meet its objective only if the related financial statements are available whenever the management commentary is available, and on the same terms. Paragraph 2.2 requires management commentary to explain how to access the financial statements if they are not part of the same larger report as the management commentary.

If an entity prepares sustainability-related financial disclosures and those disclosures are not part of the same larger report as management commentary, paragraph 2.4 requires management commentary to identify those disclosures and explain how to access them.

- 3.2 To meet its objective, management commentary shall provide information needed to meet the disclosure objectives for the areas of content set out in Part B. That information shall possess the attributes required by Chapter 5 and be coherent as required by Chapter 6.

- 3.3 Management evaluates whether the information needed to meet the disclosure objectives for the areas of content is sufficient to meet the objective of management commentary. If the information is insufficient, management identifies additional information needed to meet that objective.

Link

Paragraph 4.1 states that information required by the objective of management commentary set out in paragraph 3.1 and the disclosure objectives for the areas of content set out in Part B of this Practice Statement shall be provided if the information is material.

Supporting explanations

Focus on the information needs of the primary users of general purpose financial reports

- 3.4 An entity's management commentary is prepared for its existing and potential investors, lenders and other creditors, who are the primary users of its general purpose financial reports. Such users can be assumed to have a reasonable knowledge of business and economic activities. However, they might not have knowledge of the entity's specific business and activities.
- 3.5 The objective of management commentary focuses on the information needs of the users described in paragraph 3.4. Other parties—for example, the entity's employees, government agencies or members of the public—might also find management commentary useful. However, those other parties might have additional information needs and meeting such needs is not an objective of management commentary.
- 3.6 The objective is to provide information that meets the common information needs of the primary users of general purpose financial reports, not the specialised information needs unique to particular users.

Note

The primary users of general purpose financial reports have varied information needs and general purpose financial reports cannot meet all those needs.

Management's perspective

- 3.7 An entity's management commentary provides management's perspective of the factors—including sustainability-related factors—that have affected the entity's financial performance or financial position, or that could affect the entity's ability to create value and generate cash flows in the future:
- (a) the information in management commentary derives from information used by management—for example, metrics management uses to monitor aspects of the entity's performance and position;

MANAGEMENT COMMENTARY

- (b) management commentary focuses on key matters identified by management, and management applies its judgement to identify information about these matters that is material to users; and
 - (c) the insights provided about the causes or implications of a matter reflect management's views of these causes or implications.
- 3.8 By providing management's perspective, information in management commentary helps users assess both the entity's prospects for future cash flows and management's stewardship of the entity's resources.

Complementary information in management commentary

- 3.9 An entity's management commentary provides information that complements information in the entity's financial statements, thus enhancing users' understanding of the entity's financial performance and financial position reported in those financial statements. Management commentary also provides information that complements other information in general purpose financial reports, including information in sustainability-related financial disclosures, if the entity provides that information outside management commentary.
- 3.10 Management commentary provides a single, concise and coherent narrative setting out management's perspective of the factors—including sustainability-related factors—that have affected the entity's financial performance or financial position or that could affect the entity's ability to create value and generate cash flows in the future.

Note

Management commentary includes more discussion, analysis and **forward-looking information** than is included in the financial statements, as well as information about a wider range of matters, including matters that have not led to recognition or disclosure in the financial statements.

Future cash flows and value creation

Prospects for future cash flows

- 3.11 An entity's management commentary provides information that helps users assess the entity's prospects for future cash flows. In making their assessment, users estimate the present value of the entity's future cash flows. This estimate involves assessing whether the net cash inflows are likely to provide the entity with a return that compensates it sufficiently for both the time that elapses before those cash flows occur (the time value of money) and the uncertainty in the amount and timing of the cash flows (risk). To support that assessment, management commentary provides information that helps users understand:
- (a) factors that could affect the amount or timing of the entity's future cash flows; and

- (b) factors affecting the uncertainty in the amount or timing of those cash flows.

Note

In assessing the entity's prospects for future cash flows, users consider all cash flows, regardless of whether the cash will be paid out to the entity's investors and creditors—for example, as dividends or interest—or retained in the entity's business.

Ability to create value

- 3.12 In this Practice Statement, 'ability to create value' refers to an entity's ability to create or preserve value for itself and hence for its investors and creditors.
- 3.13 An entity's activities create value for the entity if they enhance or preserve the net present value of the entity's future cash flows. Conversely, an entity's activities erode value for the entity if they reduce the net present value of the entity's future cash flows.

Note

- (a) Creating value is a precursor to generating cash flows. Activities that can create value include investment in know-how, expanding a customer base or increasing production capacity. These activities might require a net cash outflow in the short term but can enhance the entity's prospects for future cash flows in the long term.
- (b) Conversely, some activities might increase cash inflows in the short term but can erode value in the long term. For example, producing goods in a way that damages the entity's reputation might increase sales in the short term but can damage the entity's sales prospects in the long term.

- 3.14 In this Practice Statement, 'value' refers to the value an entity creates for itself and hence for its investors and creditors. The term does not refer to the value an entity's activities might create, preserve or erode for other parties (for example, customers, suppliers, employees or society at large), the economy or the natural environment. However, an entity's ability to create value for itself—and hence to generate cash flows across all time horizons, including in the long term—is closely related to the value the entity's activities create, preserve or erode for those other parties, the economy or the natural environment. Therefore, management commentary includes material information about the impacts of an entity's activities on other parties, the economy and the natural environment if those impacts could affect the entity's ability to create value for itself.

Illustration

If an entity's business model depends on a natural resource—such as water—degradation or depletion of that resource, including resulting from the entity's own activities, could adversely affect the entity's ability to create value and generate cash flows. In contrast, regeneration and preservation of that resource, including resulting from the entity's own activities, could positively affect the entity's ability to create value and generate cash flows.

Link

Paragraph 8.6(c) requires management commentary to provide information that enables users to understand the environmental and social impacts of the entity's activities if those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term.

Long-term time horizon

- 3.15 In assessing an entity's prospects for future cash flows, users consider both the present value of the cash flows they estimate the entity will generate over a selected forecast period, and the present value of the cash flows they estimate the entity will generate after that period (the terminal value). Accordingly, users need information that provides insights into factors that could affect their assessment of the entity's ability to create value and generate cash flows across all time horizons, including in the long term.

Note

Information provided in management commentary might relate to events that span more than one time horizon. This Practice Statement does not require such information to be split by time horizon. Neither does it prescribe timescales for periods management might choose to label as, for example, short-term, medium-term or long-term.

Chapter 4—Material information and key matters

In this chapter
Material information
Key matters
Making materiality judgements

Material information

- 4.1 Information required by the objective of management commentary set out in paragraph 3.1 and the disclosure objectives for the areas of content set out in Part B of this Practice Statement shall be provided if it is material. In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which include the management commentary and the related financial statements and which provide financial information about a specific reporting entity.

Note

Information judged to be material for management commentary will typically differ from information judged to be material for financial statements because management commentary and financial statements have different objectives and provide different types of information about a reporting entity.

Note

An entity's management commentary need not provide particular information—such as information required to meet a specific disclosure objective for an area of content—if that information is not material. Conversely, if management determines that the information needed to meet the disclosure objectives for the areas of content is insufficient to meet the objective of management commentary, management identifies additional information needed to meet that objective (see paragraph 3.3).

- 4.2 Information in management commentary influences users' decisions by influencing their assessments of:
- (a) the entity's prospects for future cash flows; or
 - (b) management's stewardship of the entity's resources—how efficiently and effectively management has used and protected the entity's resources.

Note

The decisions that users make on the basis of general purpose financial reports include decisions about buying, selling or holding equity or debt instruments in the entity, providing resources to the entity or exercising rights to vote on the actions of the entity's management.

- 4.3 It is likely that much of the material information needed to meet the objective of management commentary and the disclosure objectives for the areas of content will relate to key matters—that is, matters that are fundamental to the entity's ability to create value and generate cash flows, including in the long term. If a matter is fundamental to the entity's ability to create value and generate cash flows, users are likely to need more information about that matter than about matters that are not fundamental to that ability. Accordingly, Part B of this Practice Statement includes requirements for management commentary to focus on key matters.
- 4.4 However, material information does not necessarily relate to a key matter. Material information is included in management commentary even if it does not relate to a key matter.

Link

For each area of content, Part B provides examples of key matters. Part B also provides examples of information that might be material, including examples of information that might not relate to a key matter but nonetheless might be material, such as an overview of the entity and its range of operations.

Key matters

- 4.5 Part B requires management commentary to focus on key matters—matters that are fundamental to an entity's ability to create value and generate cash flows, including in the long term:
- (a) key features of the entity's business model—those that fundamentally underpin that ability;
 - (b) key aspects of management's strategy—those that are fundamental to sustaining and developing that ability;
 - (c) key resources and relationships—those on which that ability fundamentally depends;
 - (d) key risks—those that could fundamentally disrupt that ability;
 - (e) key factors and trends in the external environment—those that have fundamentally affected or could fundamentally affect that ability; and
 - (f) key aspects of the entity's financial performance and financial position—those that are fundamental to understanding that ability.

- 4.6 Key matters are likely to be interrelated. Therefore, the effects of related key matters on the entity's ability to create value and generate cash flows are likely to be pervasive and to relate to more than one area of content.

Link

If a matter discussed for one area of content has implications for matters discussed for other areas of content, paragraph 6.5 requires management commentary to include the information necessary for users to assess those implications.

Illustration

If a competitive advantage is a key feature of an entity's business model, management's plan for sustaining that competitive advantage is likely to be a key aspect of its strategy for sustaining and developing the entity's business model. Risks of events or circumstances that could fundamentally erode the competitive advantage are likely to be key risks.

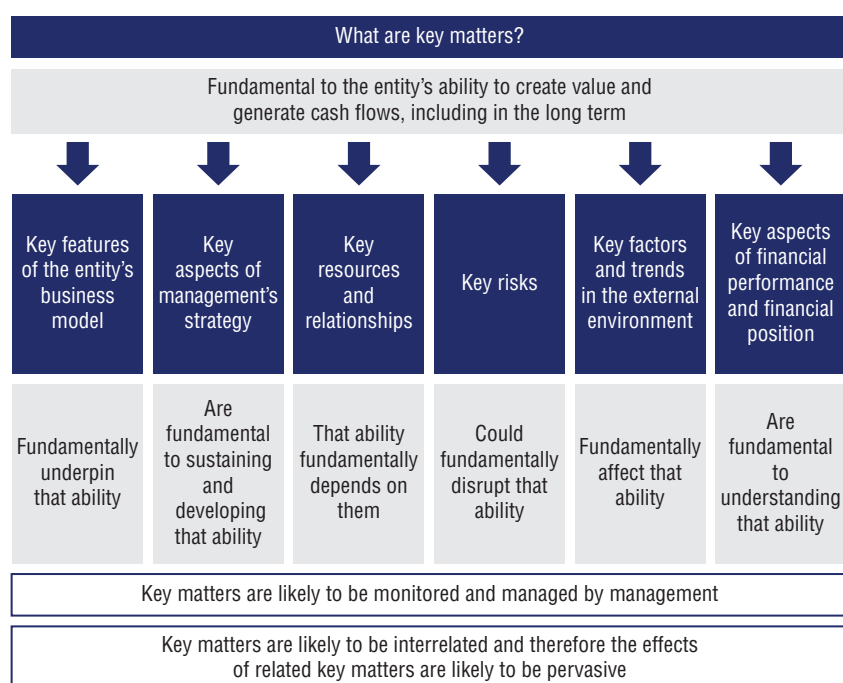
- 4.7 Identifying key matters requires management to apply judgement. Because key matters are fundamental to the entity's ability to create value and generate cash flows, they are likely to be matters that management monitors and manages.
- 4.8 Other indications that a matter might be key include that the matter has been:
- (a) discussed with the entity's board or other governing body;
 - (b) discussed in the entity's capital markets communications—for example, in presentations to investors and creditors; or
 - (c) raised by the entity's customers, suppliers, employees or other stakeholders.
- 4.9 Key matters are specific to the entity. Some matters might not be key for the entity even though users would generally expect them to be key for entities operating in the industry or jurisdiction in which the entity operates. In such cases, management considers whether any information about the matter is material. Material information could include an explanation of why the matter is not key for the entity.

Illustration

An entity manufactures goods. Management knows that users generally expect the key risks for manufacturers of goods of this type to include exposure to fluctuations in the price of a scarce commodity. Management has concluded that such fluctuations are not a key risk for the entity. Management judges that information about that conclusion is material. The management commentary explains that conclusion and provides data to support the explanation.

- 4.10 Figure 2 provides an overview of the descriptions and characteristics of key matters.

Figure 2—Descriptions and characteristics of key matters



Making materiality judgements

Identifying information that might be material

- 4.11 Identifying material information needed to meet the objective of management commentary and the disclosure objectives for the areas of content requires management to apply judgement. In judging whether a piece of information is material, management considers the entity's specific circumstances, as well as whether users need that information and why they need it.

Link

To help management understand users' information needs for an area of content, Chapters 8–13 describe the assessments that users make using the information provided for each area of content. Management considers those descriptions of users' assessments when identifying material information to meet the disclosure objectives for each area of content.

Chapters 8–13 also include examples of information that might be material for each area of content. The information described in the examples is not always required, nor is information that might be needed to meet the disclosure objectives limited to those examples. Management applies judgement, taking into account the descriptions of users' assessments, in deciding whether the information described in the examples is material in the entity's circumstances. Similarly, management applies judgement to identify material information not covered by the examples.

- 4.12 Indications that information might be material include that it:
- (a) relates to a key matter;
 - (b) is derived from information that management uses for managing the business—for example, information discussed with the entity's board or considered by management in setting strategy, allocating resources or assessing the entity's performance; or
 - (c) has been included in the entity's capital markets communications—for example, in presentations to investors and creditors.
- 4.13 If management has a type of information it knows entities with similar activities commonly provide to users, it considers whether that information would be material in the context of the entity's management commentary. However, because materiality judgements depend on an entity's circumstances, information is not material solely because other entities provide that type of information, and information may be material even if other entities do not provide that type of information.
- 4.14 Narrative reporting requirements or guidelines published by another standard-setting body or other organisations, including requirements or guidelines for use by entities in specific industries or on specific topics, such as sustainability reporting, could help management identify information that might be material. That is more likely to be the case if the requirements or guidelines have a reporting objective that focuses on the information needs of the primary users of general purpose financial reports, such as IFRS Sustainability Disclosure Standards. If the requirements or guidelines have a different reporting objective, they might not specify all information about a matter that is material to these users or, conversely, might specify some information that is not material to these users.

Link

Paragraph 5.17 requires that any immaterial information included in management commentary is provided in a way that avoids obscuring material information. For example, local law or regulation might require detailed sustainability-related information that management might judge to be immaterial for primary users of general purpose financial reports in the context of management commentary applying this Practice Statement.

Assessing whether information is material

- 4.15 Information about a matter may be material because of the nature or magnitude of that matter, or a combination of both, judged in relation to the entity's circumstances. Accordingly, making materiality judgements involves considering both quantitative and qualitative factors.

Illustration

Although revenue generated during the reporting period by an entity's operations in a particular location might be small compared with total revenue, information about a factor affecting those operations might be material if, for example, management's strategy involves expanding operations in that location.

Note

Qualitative factors management considers in making materiality judgements are characteristics of a matter that, if present, make information about that matter more likely to influence the decisions of users. They include characteristics specific to the entity—for example, the involvement of a related party of the entity—or to the context in which the entity operates, for example, its location or industry.

- 4.16 Some matters discussed in management commentary relate to possible future events that have not affected the entity's financial performance or financial position, are not reported in the entity's financial statements and have uncertain outcomes. In judging whether information about such possible future events is material, management considers:
- (a) the potential effects of the events on the amount and timing of the entity's future cash flows, including in the long term (the possible outcome); and
 - (b) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

Note

- (a) Information about an uncertain future event is more likely to be judged material if both the potential effects are significant and the event is likely to occur. However, information about an unlikely event might be material if the potential effects are so significant that the information could reasonably be expected to influence users' decisions.
- (b) Users' assessments of future cash flows take account of the time value of money. Accordingly, if a possible future event is expected to affect an entity's cash flows in the short term, information about that event is usually more likely to be judged material than information about a possible future event with similar effects that is expected to occur at a later time.

- 4.17 Materiality judgements need to be reassessed each reporting period. Because of changes in the entity's individual circumstances, or in the wider environment, some types of information included in previous periods' management commentary might no longer be material, and some types of information not previously included might have become material.

Aggregation

- 4.18 Information in management commentary generally aggregates more detailed information available to management. If that information is aggregated too much, material information might be omitted. If it is not aggregated enough, material information might be obscured by immaterial information.

- 4.19 Factors to consider in judging how much to aggregate information include:

- (a) the possibility that items of information that are not material individually might be material when aggregated with similar items; and

Illustration

An entity might be exposed to several sources of risks, each of which could cause the same type of disruption—for example, disruption of the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—in this example, the risk of supply chain disruption from any source—might be material.

MANAGEMENT COMMENTARY

- (b) the possible need to disaggregate information reported in the financial statements—for example, if that disaggregation is necessary for management commentary to provide an understandable explanation of a particular factor affecting an amount reported in the financial statements.

Link

Paragraph 6.7(a) requires information in management commentary to be provided in a way that enables users to relate that information to related information in the entity's financial statements.

Chapter 5—Completeness, neutrality, freedom from error and other attributes

In this chapter
Introduction
Completeness
Neutrality
Freedom from error
Understandability
Comparability
Verifiability

Introduction

- 5.1 For management commentary to meet its objective, the information it provides needs to be complete, neutral and free from error.
- 5.2 That information is more useful to users if it is also:
- (a) understandable;
 - (b) comparable with information provided by the entity in previous periods, and with information provided by other entities; and
 - (c) provided in a way that enhances its verifiability.

Note

The completeness, understandability and comparability of information in management commentary all rely on that information being provided as a well-integrated, coherent whole. Chapter 6 sets out the requirements for coherence of information in management commentary.

Completeness

- 5.3 Management commentary shall provide a complete depiction of the matters it addresses. Providing a complete depiction of a matter means providing all material information about the matter—not necessarily all information about the matter that is available to management. A complete depiction of a matter includes all material information necessary for users to understand the matter, including all material descriptions and explanations.

Illustration

- (a) A complete depiction of the potential effects of a possible future event includes information to help users assess not only the probability of the event and the possible magnitude of the associated cash flows, but also the timing of those cash flows and the uncertainty in their amount and timing.
- (b) If a future event has a range of possible outcomes, a complete depiction of that event includes information to help users assess both the upper and the lower boundaries of the range, and understand the likelihood of the various outcomes within the range.
- (c) If the potential effects of a possible future event are sensitive to small changes in a variable—for example, the future price of a commodity—a complete depiction of that event includes information to help users assess the potential effects of that event for the range of outcomes that management regards as reasonably possible.
- (d) If management commentary includes a statistic from an external source—for example, a statistic about the size of a market—material information about that statistic might include its source, the period it covers and the population for which it was measured.
- (e) If management commentary reports an amount based on an estimate, a complete depiction of that amount might include an explanation of the estimation process and its limitations.

- 5.4 If information is material, it shall be included in management commentary even if it was provided in a previous period's management commentary or is available in another report published by the entity.

Link

Information provided in a previous period's management commentary or in another report published by the entity may be included in the current period's management commentary by cross-reference if including the information this way (rather than directly) satisfies the criteria set out in paragraphs 5.18–5.20.

- 5.5 Information in management commentary shall reflect events that occur between the end of the reporting period and the date on which the management commentary is authorised for issue.

Illustration

Management commentary about an entity's sales reflects significant changes to the entity's order book, or the loss of key customer or distributor relationships, since the end of the reporting period.

Note

If management commentary is authorised for issue after the related financial statements are authorised for issue, the management commentary includes material information about events that have occurred in the intervening period. Those events will not have been considered in preparing the financial statements. To ensure the information about them is clear, that information may need to be distinguished from information about events that were considered in preparing the financial statements.

Neutrality

- 5.6 Information in management commentary shall be neutral. Information is neutral when it is balanced, so is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that users will receive that information favourably or unfavourably.
- 5.7 Achieving overall balance requires balance in the selection of matters to discuss in management commentary.

Illustration

Management commentary is not balanced if, for example, it:

- (a) omits discussion of an unfavourable matter—for example, a competitive threat; or
- (b) gives more prominence to information about favourable matters than to information about unfavourable matters, or vice versa.

- 5.8 Achieving overall balance also requires balance in the selection of information to provide about the matters discussed, and in the presentation of that information.

Illustration

Information about a matter discussed in management commentary is not balanced if, for example, it:

- (a) includes only estimates or forecasts based on optimistic or pessimistic assumptions about the range and probability of possible outcomes, instead of neutral assumptions;
- (b) obscures favourable or unfavourable information—for example, by aggregating information that shows a negative trend with information that shows a positive trend;
- (c) exaggerates favourable or unfavourable information—for example, by curtailing the number of comparative periods for which information is provided, so that a trend is not shown;
- (d) omits information required for balance—for example, by attributing an improvement in an aspect of the entity's financial performance to management's actions without also identifying external contributing factors, by quantifying only one end of a range of outcomes for a matter, or by quantifying both ends of the range without disclosing that the outcomes at one end are more likely than those at the other end; or
- (e) uses unduly positive or negative language, leading to a biased tone.

- 5.9 Some matters discussed in management commentary—for example, some management targets or plans—are aspirational. A balanced discussion of such matters covers both management's aspirations and factors that could prevent management from achieving those aspirations.

Freedom from error

- 5.10 Information in management commentary shall be free from error.
- 5.11 Information can be free from error without being perfectly precise or perfectly accurate in all respects. The degree of precision needed and attainable, and factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, freedom from error requires that:
- (a) factual information is free from material error;
 - (b) descriptions are precise;
 - (c) estimates, approximations and forecasts are clearly identified as such;

- (d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;
- (e) assertions are reasonable and based on information of sufficient quality and quantity; and
- (f) information about management's judgements about the future faithfully reflects both those judgements and the information on which they are based.

Understandability

5.12 Information in management commentary shall be understandable. Information is understandable when it is clear and concise.

5.13 For management commentary to be clear, it needs to use plain language, and avoid jargon and unnecessary technical terminology.

Note

Some information might be communicated to users most clearly using industry-specific or other specialist terms if these terms are defined clearly and used consistently.

5.14 The clearest form of presentation depends on the nature of the information, and might sometimes include tables, graphs or diagrams in addition to narrative text. If graphs or diagrams are used, additional text or tables might be necessary to avoid obscuring material detail.

Illustration

Narrative discussion of changes in the entity's financial performance might be clearest if a tabular format is used to present the current-period and comparative amounts.

5.15 Clarity might be further enhanced by distinguishing information about developments in the reporting period from 'standing' information that remains unchanged, or changes little, from one period to the next—for example, by separately highlighting features of the entity's business model that have changed since the previous reporting period.

5.16 For management commentary to be concise, it needs to:

- (a) avoid generic information, sometimes called 'boilerplate', that is not specific to the entity;
- (b) avoid unnecessary duplication of information within management commentary, or unnecessary duplication of information provided in the related financial statements or another general purpose financial report; and
- (c) use simple, clear language and short, clearly structured sentences and paragraphs.

Note

An entity's management commentary is designed to complement the entity's financial statements. Most information in an entity's financial statements is not duplicated in its management commentary. Information is duplicated there only if necessary to meet the objective of management commentary and the disclosure objectives for the areas of content set out in this Practice Statement or to provide coherence between the management commentary and the related financial statements.

- 5.17 Perfectly concise management commentary would include only material information. Any immaterial information included in management commentary shall be provided in a way that avoids obscuring material information.

Illustration

To comply with local law or regulation, management commentary might include information that management would judge to be immaterial applying the definition of material and the guidance in this Practice Statement. If such information is included, it is provided in a way that avoids obscuring material information.

Material information included by cross-reference

- 5.18 Information required by this Practice Statement might be available in another report published by the entity. That information may be included in management commentary by cross-reference to the other report if including the information in this way rather than directly within the management commentary does not make the management commentary less clear.

Note

Including information in management commentary by cross-reference to another report can reduce duplication and hence make management commentary more concise. Including information by cross-reference might also make management commentary clearer, for example, by separating information about developments in the reporting period from standing information that remains unchanged, or changes little, from one period to the next—an entity could publish standing information in a separate report, with management commentary including that information by cross-reference to that report.

However, including information by cross-reference to another report fragments management commentary, so including extensive information by cross-reference can make management commentary less clear.

- 5.19 If material information in another report is included in management commentary by cross-reference to that other report, that information becomes part of the management commentary. This means that, for example:
- (a) information included by cross-reference needs to comply with the requirements of this Practice Statement. For example, it needs to be complete, neutral and free from error.
 - (b) the report in which the information is located needs to be available whenever the management commentary is available, and on the same terms.
 - (c) the body(s) or individual(s) who authorise the management commentary for issue take the same degree of responsibility for information included by cross-reference as they do for information included directly within the management commentary.
- 5.20 If management commentary includes information by cross-reference to another report:
- (a) management commentary shall identify the report clearly and explain how to access it;
 - (b) the cross-reference shall be to a precisely specified part of that report; and
 - (c) the information included by cross-reference shall be as up to date as if it had been included in the management commentary directly or, if the information is in a report for a period ending before the end of the reporting period covered by the management commentary, the management commentary shall:
 - (i) state the cut-off date for that information; and
 - (ii) if necessary to meet the requirements of this Practice Statement, provide further information up to the end of the period covered by the management commentary.

Comparability

- 5.21 This Practice Statement requires management commentary to provide material information that is complete, neutral and free from error. That information is more useful to users if it is also comparable, that is if it can be compared with:
- (a) information provided by the entity in previous periods; and
 - (b) information provided by other entities, in particular those with similar activities or operating within the same industry.
- 5.22 Accordingly, information in management commentary shall be provided in a way that enhances comparability without omitting material information.

Link

Paragraphs 7.7–7.10 set out requirements for providing information with metrics to enhance the comparability of those metrics.

Verifiability

- 5.23 Information is verifiable if it is possible to corroborate either the information itself or the inputs used to derive it. Verifiable information is more useful to users than information that is not verifiable. Verifiability helps give users confidence that the information is complete, neutral and free from error.
- 5.24 Information in management commentary shall be provided in a way that enhances its verifiability. Verifiability can be enhanced by, for example:
- (a) including information that can be corroborated by comparing it with other information available to users about the business, about other businesses or about the external environment; and
 - (b) providing information about inputs and methods of calculation used to produce estimates or approximations.
- 5.25 Some material information—for example, some explanations and forward-looking information—might not be verifiable. Material information is included in management commentary even if it is not verifiable. To help users decide whether to use such information, management commentary shall describe the underlying assumptions and methods of producing the information as well as other factors that help support it.

Chapter 6—Coherence

In this chapter
Introduction
Relationships between related matters
Relationships between related pieces of information

Introduction

- 6.1 As noted in paragraph 3.10, management commentary provides a single, concise and coherent narrative setting out management's perspective of the factors—including sustainability-related factors—that have affected the entity's financial performance or financial position or that could affect the entity's ability to create value and generate cash flows in the future.
- 6.2 The completeness, understandability and comparability of information in management commentary all rely on that information being presented as a well-integrated, coherent whole.
- 6.3 Coherence requires information in management commentary to be provided in a way that makes clear:
- (a) the relationships between related matters; and
 - (b) the relationships between related pieces of information.

Relationships between related matters

- 6.4 For management commentary to be coherent, it needs to effectively depict the relationships between related matters, for example, the relationship between features of an entity's business model and aspects of its financial performance and financial position.
- 6.5 If a matter discussed for one area of content in management commentary has implications for matters discussed for other areas of content, management commentary shall include the information necessary for users to assess those implications.

Illustration

A trend in the external environment could have implications for an entity's business model, for management's strategy for sustaining and developing that model, for the entity's resources and relationships, for risks to which the entity is exposed, or for the entity's financial performance or financial position. Management commentary includes the information necessary for users to assess those implications.

Link

Chapters 8–13 require management commentary to focus on key matters—matters that are fundamental to the entity’s ability to create value and generate cash flows, including in the long term. Paragraph 4.6 explains that key matters are likely to be interrelated. Therefore, the effects of related key matters on the entity’s ability to create value and generate cash flows are likely to be pervasive and to relate to more than one area of content.

Relationships between related pieces of information

- 6.6 Some information in management commentary might be understood best in the context of information in another part of the management commentary, or in the context of information in the entity’s financial statements or another general purpose financial report. For management commentary to be coherent, such information shall be presented in a way that explains that context and the relationships between the related pieces of information.

Illustration

An entity’s management commentary might include information about management’s strategy to expand a section of the entity’s customer base and, in a separate discussion of the entity’s relationships, a description of that section of the customer base. The information about the strategy includes a reference to that description.

Note

Coherence does not require information provided outside management commentary to be duplicated in management commentary. Paragraphs 5.18–5.20 specify requirements for including material information in management commentary by cross-reference.

- 6.7 Coherence also requires that:
- (a) an entity’s management commentary provides information in a way that enables users to relate that information to information in the entity’s financial statements or another general purpose financial report; and

Illustration

Management commentary analyses information about an entity’s operations in a way that enables users to relate that information to, for example, segment information disclosed in the entity’s financial statements.

Link

If a metric discussed in one context is similar to another measure discussed in another context, paragraph 7.11 requires management commentary to explain how that metric relates to the other measure.

- (b) management commentary explains areas of apparent inconsistency between information provided in the management commentary and information provided in the related financial statements, in another general purpose financial report or in the entity's public communications—for example, in presentations to investors and creditors or in press releases.

Link

Paragraph 4.12(c) explains that the inclusion of information in an entity's capital market communications, such as in presentations to investors and creditors, is an indication that the information might be material. Similarly, if management commentary includes information that appears inconsistent with information in those capital market communications, an explanation of that apparent inconsistency might be material information.

Chapter 7—Metrics

In this chapter
Introduction
Requirements that apply to all metrics
Additional requirements that apply to forecasts and targets

Introduction

- 7.1 Metrics are measures used to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position.
- 7.2 Examples of metrics are:
- (a) measures of the entity's income, expenses, cash flows, assets, liabilities or equity;
 - (b) measures of the scale of the entity's operations—for example, regional production capacity;
 - (c) measures of the entity's environmental impacts—for example, greenhouse gas emissions;
 - (d) indicators of progress in developing intangible resources—for example, regulatory approvals received; and
 - (e) indicators of the strength of the entity's relationships—for example, customer retention statistics or brand reputation scores.
- 7.3 Material information is likely to include metrics. Those metrics could be derived from metrics that management uses to monitor key matters and to measure progress in managing those matters. They typically depend on the entity's activities and the industry in which it operates. They could be derived from information generated by the entity or obtained from external sources, for example, providers of market share statistics or customer surveys.

Requirements that apply to all metrics

Clarity and accuracy

- 7.4 This Practice Statement requires information in management commentary to be understandable and free from error, including being clear and accurate. For information about a metric to be clear and accurate, the metric needs to be described clearly and precisely.
- 7.5 Consequently, if a metric included in management commentary is not presented or disclosed in the entity's financial statements, management commentary shall:
- (a) label and define the metric and its scope using a meaningful, clear and precise name and description;

Illustration

A metric that relates to a single category of customers is labelled and described in a way that clearly identifies its scope—that is, the population of customers to which it relates.

- (b) explain how the metric contributes to understanding the matter being discussed, unless its contribution is clear without explanation; and
- (c) explain the method used to calculate the metric and the inputs to the calculation, including assumptions made and limitations of the method.

7.6 If a metric of financial performance or financial position included in management commentary is derived by adjusting measures presented or disclosed in the entity's financial statements, management commentary shall:

- (a) label the metric using a name that is not misleading and that clearly differentiates the metric from the measure presented or disclosed in the financial statements;
- (b) reconcile the amount reported for the metric to the most directly comparable amount presented or disclosed in the financial statements, identifying and explaining each reconciling item; and
- (c) present the metric no more prominently than the measure to which it is reconciled.

Link

Some metrics might be included in management commentary because local law or regulation requires them, not because they provide material information. Paragraph 5.17 requires those metrics to be provided in management commentary in a way that avoids obscuring material information.

Comparability

7.7 An amount reported for a metric is more useful if users can compare that amount with amounts for previous periods, and with amounts reported by other entities, in particular those with similar activities or operating in the same industry.

7.8 To help users compare an amount reported for the current reporting period with amounts for previous reporting periods, management commentary shall:

- (a) provide comparative amounts, if obtainable without undue cost or effort:
 - (i) for the previous reporting period; and

MANAGEMENT COMMENTARY

- (ii) for earlier reporting periods if necessary to show the emergence of trends or if the financial statements include information for those earlier periods;
 - (b) describe differences between the method or assumptions used to calculate a metric or in the name used to label a metric and those used to calculate or label the comparative metric—and explain the reasons for those differences; and
 - (c) describe changes from the previous reporting period in the metrics provided—that is, new metrics included and previous metrics omitted—and explain the reasons for those changes.
- 7.9 If a comparative amount is not provided because obtaining it would require undue cost or effort, management commentary shall state that fact.

Note

Obtaining a comparative amount would require undue cost or effort if, for example, the entity did not collect the necessary data in the comparative period and cannot recreate that data without undue cost or effort.

- 7.10 To help users compare an amount for a metric included in management commentary with amounts reported by other entities:
- (a) if management is aware of differences between the method the entity uses to calculate the metric or the name management uses to label the metric and a method or name commonly used by other entities with similar activities or operating in the same industry, management commentary shall describe those differences; and
 - (b) if management has drawn the metric from narrative reporting requirements or guidelines published by another standard-setting body or other organisations, including requirements or guidelines for use by entities in specific industries or on specific topics, such as sustainability reporting, management commentary shall:
 - (i) name those requirements or guidelines and the body or organisation that published them; and
 - (ii) if there are differences between the metric included in the management commentary and the metric defined in the requirements or guidelines, identify and explain those differences.

Coherence

- 7.11 A metric discussed in one context in management commentary might be similar to another measure discussed in another context within the management commentary, in the related financial statements, in another general purpose financial report or in the entity's public communications—for example, in presentations to investors and creditors. For management

commentary to be coherent, it shall explain how that metric relates to the other measure.

Metrics and management compensation

- 7.12 If a metric plays a role in determining management compensation, information about that metric is likely to be material.
- 7.13 If management commentary includes a metric similar to, but not the same as, a measure that plays a role in determining management compensation, it shall explain how the metric and that other measure relate to each other.

Note

An explanation of the relationship between a metric and a measure that plays a role in determining management compensation provides insight into how well incentives for management are aligned with metrics that management uses to monitor key aspects of the entity's performance and position.

Additional requirements that apply to forecasts and targets

Forecasts and targets in management commentary

Note

This Practice Statement does not require management commentary to include forecasts or targets. However, sometimes management might determine that a forecast or target needs to be provided in management commentary, for example, if management judges that including the forecast or target is necessary to enable users to understand the aims of management's strategy for sustaining and developing the entity's business model.

- 7.14 If management commentary includes a forecast or target amount for a metric of the entity's future financial or non-financial performance or position, it shall:
- (a) identify the metric of current-period performance or position to which the forecast or target relates; and
 - (b) explain the method used to calculate the forecast or target amount and the inputs to the calculation, including assumptions made and limitations of the method.

Previously published forecasts or targets for the reporting period

- 7.15 Management commentary shall provide information on how the current-period amount for a metric of the entity's financial or non-financial performance or position compares with a forecast or target amount previously published by the entity if:

MANAGEMENT COMMENTARY

- (a) the actual current-period amount is included in the current-period management commentary and a forecast or target amount was included in any publicly available communication; or
- (b) a forecast or target amount for the current period was included in a previous period's management commentary.

7.16 In both cases described in paragraph 7.15, management commentary shall:

- (a) disclose the actual current-period amount and the forecast or target amount; and
- (b) analyse and explain variances and the implications of those variances.

Previously published forecasts and targets for periods extending beyond the reporting period

7.17 An entity might have previously published management's forecast or target for a metric of the entity's financial or non-financial performance or position for a period that extends beyond the reporting period. If the actual current-period amount for that metric is included in the current period's management commentary, the management commentary shall explain how to access the forecast and whether it has been updated since its publication date.

PART B—AREAS OF CONTENT

Chapter 8—Business model

In this chapter
Introduction
Disclosure objectives
Key features of the entity's business model
Metrics
Examples of information that might be material

Introduction

- 8.1 An entity's business model is the integrated set of processes by which the entity seeks to create value and generate cash flows, including in the long term. Information about an entity's business model provides a context for understanding other information in management commentary, and information in other general purpose financial reports, including the related financial statements.
- 8.2 An entity's business model is a matter of fact. It is observable through the entity's actions.
- 8.3 An entity could have more than one business model, or various operations within a single business model.

Illustration

- (a) Management might view a vertically integrated entity as having a single business model. If so, management commentary would describe operations within that model and explain dependencies between those operations and synergies gained from integrating them.
- (b) Management might view a conglomerate as having several business models: the business model of its corporate office—acquiring, maintaining, developing and disposing of business units—and the business models of key business units within the conglomerate. Management commentary for that entity would provide information about each business model.

- 8.4 An entity's business model can evolve as management responds to internal and external factors and trends. Management commentary provides information about the entity's business model that operated during the reporting period and explains whether, how and why that model has changed since the previous reporting period.

Link

Chapter 9 sets out requirements that apply to information about management's aims and plans for sustaining and developing the entity's business model in the future, including information about the opportunities that management has chosen to pursue.

Disclosure objectives

- 8.5 Management commentary shall provide information that enables users to understand how the entity's business model creates value and generates cash flows.

Note

If the entity has more than one business model, management commentary provides information about each business model. If the entity has various operations within a single business model, management commentary provides information about each of those operations and explains their interactions. Management commentary provides information about the entity's business model in a way that enables users to relate that information to information about operating segments in the entity's financial statements.

- 8.6 The information about the entity's business model shall enable users to understand:

- (a) the range, nature and scale of the entity's operations;
- (b) the entity's cycle of creating value and generating cash flows;

Note

An entity's cycle of creating value and generating cash flows involves integrated processes by which the entity obtains inputs to its operations, transforms those inputs into outputs, sells those outputs, delivers them to customers and collects cash.

- (c) the environmental and social impacts of the entity's activities if those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term; and

Note

The environmental and social impacts of an entity's activities could include their impact on the natural environment, on the economies of the regions in which the entity operates, on groups of people or on society at large. Some such environmental or social impacts could affect the entity's ability to create value and generate cash flows. For example, future regulatory action or societal pressure could curtail the entity's activities that have adverse impacts on the natural environment or could impose additional costs on the entity.

Link

Chapter 12 sets out requirements that apply to information about the effects or potential effects on the entity of factors and trends in the external environment. Such effects could include the effects or potential effects on the entity of factors and trends in the natural environment (for example, the effects of climate change or climate-related regulation) or in the social landscape (for example, an increased focus on the entity's human resources practices).

- (d) progress in managing the entity's business model.

8.7 The information provided to meet the headline objective in paragraph 8.5 and the specific objectives in paragraph 8.6 is intended to help users assess:

- (a) how effective the entity's business model is at creating value and generating cash flows;
- (b) how scalable and adaptable it is; and
- (c) how resilient and durable it is.

Note

The scalability of the entity's business model refers to its ability to accommodate growth, and adaptability refers to its ability to change in response to new circumstances. Resilience refers to the business model's ability to withstand or recover from shocks or difficult conditions, and durability refers to its ability to remain effective in the long term.

Key features of the entity's business model

8.8 In providing material information to meet the disclosure objectives in paragraphs 8.5–8.6, management commentary shall focus on key features of the entity's business model. Key features are features that fundamentally underpin the entity's ability to create value and generate cash flows.

8.9 Features of an entity's business model that management identifies as key could include:

- (a) features that underpin the entity's value proposition to its customers—for example, product development (which might be a key feature of a business model that relies on frequent renewal of the entity's product base) or after-sales service quality (which might be a key feature of a business model that relies on customer retention);
- (b) features that differentiate the entity's products or services to provide the entity with a competitive advantage—for example, technology adapted to meet individual customers' needs;
- (c) features that changed during the reporting period or will need to change for the entity to sustain its ability to create value and generate cash flows in the future—for example, a process that has been or will need to be modified to comply with forthcoming environmental regulations; or
- (d) features that may create uncertainty about the entity's ability to create value and generate cash flows in the future, including in the long term—for example, dependence on a single supplier or on a single customer.

Metrics

8.10 Material information about the entity's business model is likely to include metrics that management uses to monitor key features of the model and to measure progress in managing those features. Such metrics could include measures relating to:

- (a) the scale of the entity's operations—for example, its production capacity or its production volumes;
- (b) the inputs involved in those operations—for example, the volumes of raw materials used;
- (c) environmental or social impacts of the entity's activities—for example, greenhouse gas emissions; and
- (d) the effects of the environmental or social impacts of the entity's activities on the entity's ability to create value and generate cash flows—for example, brand reputation scores.

Examples of information that might be material

8.11 Paragraphs 8.12–8.15 provide examples of information about the entity's business model that might be material, depending on the entity and its circumstances, for each of the specific disclosure objectives in paragraph 8.6. The information described in the examples might not relate to a key matter but nonetheless might be material.

The range, nature and scale of the entity's operations

- 8.12 Material information about the range, nature and scale of the entity's operations (see paragraph 8.6(a)) could include:
- (a) an overview of the entity and of the range of its operations;
 - (b) a description of the entity's operations and quantitative information about their scale;
 - (c) a description of operations conducted through associates and joint ventures, and quantitative information about their scale;
 - (d) an explanation of dependencies and synergies between the entity's operations;
 - (e) a list of locations of the entity's operations and quantitative information about the scale of operations in each location;
 - (f) an explanation of how the entity's operating structure relates to its legal structure, if necessary to understand a matter—for example, a regulatory or tax matter;
 - (g) an explanation of how the entity's business model relates to the entity's stated purpose, if any; and
 - (h) an analysis of changes in the range, nature or scale of the entity's operations during the reporting period, including changes resulting from acquisitions, disposals, strategic partnerships or joint ventures.

The entity's cycle of creating value and generating cash flows

- 8.13 Material information about the entity's cycle of creating value and generating cash flows (see paragraph 8.6(b)) could include:
- (a) a description of the inputs to the entity's business model, such as the entity's resources and relationships (see Chapter 10);
 - (b) a description of the outputs of the entity's business model, such as categories of the entity's products or services, and an explanation of how the entity differentiates those products or services from those of its competitors;
 - (c) a discussion of the processes involved in operating the entity's business model, including:
 - (i) processes involved in obtaining, maintaining or enhancing resources and relationships—for example, purchasing, research and development, staff training, and customer loyalty programmes;
 - (ii) processes involved in creating products and services—for example, product design, production and quality control; and

- (iii) processes involved in delivering products and services—for example, marketing, distribution and after-sales service;
- (d) an overview of the entity's markets, selling and distribution channels, and categories of customers; and
- (e) an analysis of changes in the entity's inputs, processes and outputs during the reporting period—for example, changes that affect the entity's production capacity or efficiency.

The environmental and social impacts of the entity's activities

8.14 Material information about the environmental and social impacts of the entity's activities that have affected or could affect the entity's ability to create value and generate cash flows, including in the long term (see paragraph 8.6(c)) could include:

- (a) a description of the impacts (both positive and negative) and their causes;
- (b) an explanation of how those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term; and
- (c) an analysis of changes in the impacts, and in the potential effects of those impacts, during the reporting period.

Progress in managing the entity's business model

8.15 Material information about progress in managing the entity's business model (see paragraph 8.6(d)) could include information about:

- (a) actions management has taken to change or focus the range, nature or scale of the entity's operations—for example, through acquisitions or disposals of businesses—including:
 - (i) a description of those actions and their purpose; and
 - (ii) an explanation of their effects, supported by metrics management uses to monitor and measure the effectiveness of its actions;
- (b) actions management has taken to manage the entity's inputs, processes or outputs, including:
 - (i) a description of those actions and their purpose; and
 - (ii) an explanation of their effects, supported by metrics management uses to monitor the inputs, processes or outputs, and to measure the effectiveness of its actions to manage them; and

MANAGEMENT COMMENTARY

- (c) actions management has taken to manage the entity's environmental and social impacts, including:
 - (i) a description of actions management has taken to maintain or enhance positive impacts and reduce or mitigate negative impacts; and
 - (ii) an explanation of the effects of those actions, supported by metrics management uses to monitor the impacts and to measure the effectiveness of its actions to enhance, reduce or mitigate them.

Chapter 9—Strategy

In this chapter
Introduction
Disclosure objectives
Key aspects of management's strategy
Metrics
Examples of information that might be material

Introduction

- 9.1 Users need information not only about an entity's business model, but also about management's strategy for sustaining and developing that model in the short, medium and long term. Such a strategy can include:
- (a) aims, which provide a direction for the entity, including in the long term—for example, an aim to create a distinct competitive position, establish a reputation for quality or develop expertise in a new field;
 - (b) milestones on the path towards those aims; and
 - (c) plans for reaching the milestones and achieving the aims.
- 9.2 A strategy might relate to other key matters discussed in management commentary. For example, it might relate to an emerging risk, developments in the entity's regulatory environment or an opportunity to exploit a new resource.
- 9.3 A strategy is by its nature forward-looking. Nevertheless, information about past progress in implementing the strategy, or information about how the strategy has changed and why, is useful in assessing how likely management is to achieve its aims in the future.

Disclosure objectives

- 9.4 Management commentary shall provide information that enables users to understand management's strategy for sustaining and developing the entity's business model.

Note

Management commentary provides information about strategy across all time horizons, including in the long term. For example, management commentary might discuss management's long-term aims, medium-term milestones on the path towards those aims and short-term plans for achieving those milestones.

9.5 The information about management's strategy for sustaining and developing the entity's business model shall enable users to understand:

- (a) the drivers of the strategy, including the opportunities management has chosen to pursue;

Note

The drivers of management's strategy for sustaining and developing the entity's business model could include, for example:

- (a) the entity's stated purpose;
- (b) opportunities that management has chosen to pursue in the short, medium or long term (for example, short-term opportunities to exploit a competitive advantage or save costs or long-term opportunities arising from changing customer needs or other changes in the external environment);
- (c) risks (for example, an emerging competitive threat to the entity's market position or factors that could restrict the availability of a resource or the entity's access to a resource); or
- (d) successes and failures in implementing the strategy set in previous periods.

- (b) the aims of the strategy;
- (c) milestones on the path towards those aims;
- (d) plans for reaching the milestones and achieving the aims;
- (e) the financial resources required to implement the strategy, and management's approach to allocating financial resources; and
- (f) progress in implementing the strategy.

Link

Some information about financial resource requirements and allocation needed to meet the disclosure objectives might be available in another report published by the entity, for example, the related financial statements. That information may be included in management commentary by cross-reference to the other report. See paragraphs 5.18–5.20.

9.6 The information provided to meet the headline objective in paragraph 9.4 and the specific objectives in paragraph 9.5 is intended to help users assess:

- (a) how effective the strategy is likely to be in maintaining and developing the entity's ability to create value and generate cash flows; and

- (b) management's ability to implement the strategy.

Key aspects of management's strategy

- 9.7 In providing material information to meet the disclosure objectives in paragraphs 9.4–9.5, management commentary shall focus on key aspects of management's strategy. Key aspects are aspects that are fundamental to sustaining and developing the entity's ability to create value and generate cash flows in the future, including in the long term.
- 9.8 Aspects of the strategy that management identifies as key could include those that relate to:
 - (a) fulfilling the entity's stated purpose;
 - (b) enhancing features of the entity's business model;
 - (c) preserving or enhancing the entity's access to resources or relationships, or preserving or enhancing the quality of those resources or relationships;
 - (d) reducing the entity's exposure to risks;
 - (e) pursuing an opportunity; or
 - (f) responding to a factor or trend in the entity's external environment.

Metrics

- 9.9 Material information about management's strategy for sustaining and developing the entity's business model is likely to include metrics that management uses to monitor key aspects of that strategy and to measure progress in implementing the strategy. Such metrics could include measures relating to:
 - (a) progress towards long-term aims—for example, market share statistics or brand reputation scores;
 - (b) progress towards milestones—for example, measures of product quality or customer retention statistics; and
 - (c) allocation of financial resources—for example, amounts invested in research and development.

Examples of information that might be material

- 9.10 Paragraphs 9.11–9.16 provide examples of information about management's strategy that might be material, depending on the entity and its circumstances, for each of the specific disclosure objectives in paragraph 9.5. The information described in the examples might not relate to a key matter but nonetheless might be material.

The drivers of the strategy, including the opportunities management has chosen to pursue

- 9.11 Material information about the drivers of the strategy, including the opportunities management has chosen to pursue (see paragraph 9.5(a)) could include:
- (a) descriptions of what is driving the strategy and why;
 - (b) assumptions about the external environment driving the strategy (for example, assumptions about trends in customer demand)—what the assumptions are, their bases and the time horizons they cover; and
 - (c) if the drivers of the strategy differ from those discussed in management commentary for the previous reporting period, an explanation of how they have changed and why.

The aims of the strategy

- 9.12 Material information about the aims of the strategy (see paragraph 9.5(b)) could include:
- (a) descriptions of the aims established in response to the drivers, including the long-term aims;
 - (b) an indication of the horizons over which management is seeking to achieve each aim;
 - (c) explanations of how achieving each aim is expected to sustain or develop the entity's ability to create value and generate cash flows; and
 - (d) if the aims differ from those discussed in management commentary for the previous reporting period, an explanation of how they have changed and why.

Milestones on the path towards the aims

- 9.13 Material information about milestones towards the aims (see paragraph 9.5(c)) could include:
- (a) descriptions of milestones the entity needs to reach, and how those milestones relate to the aims;
 - (b) an indication of the horizons over which management is seeking to reach the milestones; and
 - (c) if the milestones differ from those discussed in management commentary for the previous reporting period, an explanation of how they have changed and why.

Plans for reaching the milestones and achieving the aims

- 9.14 Material information about the plans for reaching the milestones and achieving the aims (see paragraph 9.5(d)) could include:
- (a) descriptions of the actions management intends to take to reach the milestones and to achieve the aims;
 - (b) an overview of the expected positive and negative effects of the intended actions on the entity—for example, information about a strategy for outsourcing after-sales support might need to cover both the expected cost savings and the potential effects on customer service; and
 - (c) if the intended actions differ from those discussed in management commentary for the previous reporting period, an explanation of how they have changed and why.

The financial resources required to implement the strategy, and management's approach to allocating financial resources

- 9.15 Material information about the financial resources required to implement the strategy and about management's approach to allocating financial resources (see paragraph 9.5(e)) could include:
- (a) an estimate of the financial resources required to implement the strategy, including those required to reach the milestones and those required to achieve the aims;
 - (b) an explanation of how management plans to obtain those financial resources, covering, for example:
 - (i) financial resources already available to the entity;
 - (ii) financial resources that management expects the entity's operations to generate;
 - (iii) financial facilities, both drawn and undrawn, available to the entity at the end of the reporting period;
 - (iv) the period for which such facilities are expected to be available, and terms and covenants that could cause them to be withdrawn;
 - (v) the extent to which management intends to use short-term financing facilities and schemes—for example, supplier finance arrangements or debt factoring; and
 - (vi) management targets or policies relating to the entity's financial position—for example, the entity's target capital structure or target credit rating;

- (c) an explanation of management's approach to allocating financial resources, covering an explanation of:
 - (i) how management prioritises competing uses of the entity's financial resources and plans to allocate financial resources in the future—for example, to reinvestment in operations, to mergers and acquisitions, to repurchase of shares or early repayment of debt or to dividend payments;
 - (ii) how management's approach to allocating financial resources aligns with management's strategy for sustaining and developing the entity's business model; and
 - (iii) what criteria management uses to evaluate investment opportunities; and
- (d) an explanation of changes since the previous reporting period in the financial resources required to implement the strategy, or in management's approach to allocating financial resources.

Progress in implementing the strategy

- 9.16 Material information about progress in implementing the strategy (see paragraph 9.5(f)) could include:
- (a) an analysis of progress made towards reaching the milestones and achieving the aims, supported by metrics and covering, for example:
 - (i) the aims and the milestones that have been achieved and progress towards those that have not yet been achieved;
 - (ii) progress made in the reporting period and cumulative progress since the beginning of the earliest period covered by the aim or since the last milestone was reached; and
 - (iii) variances—how progress has met, exceeded or fallen short of management's previous expectations;
 - (b) an explanation of the factors affecting that progress;
 - (c) an explanation of how management has adapted the strategy in response to variances; and
 - (d) an explanation of how incentive schemes for management or other employees are linked to progress in implementing the strategy, covering, for example:
 - (i) whether and how the metrics used to measure progress in implementing the strategy relate to those used to determine incentive payments; and
 - (ii) how and why incentive schemes have changed during the reporting period.

Chapter 10—Resources and relationships

In this chapter
Introduction
Disclosure objectives
Key resources and relationships
Metrics
Examples of information that might be material

Introduction

- 10.1 The operation of an entity's business model and the implementation of management's strategy for sustaining and developing that model depend on the entity's resources and relationships.
- 10.2 Examples of an entity's resources are:
- (a) operating sites and other infrastructure;
 - (b) rights over unextracted or unharvested natural resources;
 - (c) raw or manufactured materials or commodities;
 - (d) intangible resources, such as know-how or other intellectual capital, customer information, brands or reputation;
 - (e) human resources; and
 - (f) cash and other financial resources.
- 10.3 Resources include, but are not restricted to, those recognised as assets in the entity's financial statements.

Illustration

Resources include internally generated intangible resources that do not meet the criteria in IFRS Accounting Standards for recognition as assets in an entity's financial statements.

- 10.4 Examples of an entity's relationships are:
- (a) relationships with parties directly involved in the entity's cycle of creating value and generating cash flows—for example, with suppliers, employees, contractors, distributors, customers and capital providers; and
 - (b) wider relationships—for example, with governments, regulators, non-governmental organisations or local communities.

Disclosure objectives

- 10.5 Management commentary shall provide information that enables users to understand the resources and relationships on which the entity's business model and management's strategy for sustaining and developing that model depend.
- 10.6 The information about the entity's resources and relationships shall enable users to understand:
- (a) the nature of the entity's resources and relationships and how the entity deploys them;
 - (b) how the entity obtains and maintains its resources and relationships;
 - (c) factors that could affect the availability or the quality of the resources and relationships in the future, including in the long term; and
 - (d) progress in managing the resources and relationships.

Note

Managing the entity's resources and relationships includes obtaining and maintaining those resources and relationships as well as developing, enhancing and replacing them as the entity's needs evolve.

- 10.7 The information provided to meet the headline objective in paragraph 10.5 and the specific objectives in paragraph 10.6 is intended to help users assess:
- (a) the extent to which the business model and management's strategy depend on particular resources and relationships; and
 - (b) the entity's ability to obtain and maintain the resources and relationships on which its business model and management's strategy depend.

Key resources and relationships

- 10.8 In providing material information to meet the disclosure objectives in paragraphs 10.5–10.6, management commentary shall focus on the entity's key resources and relationships. Key resources and relationships are those on which the entity's ability to create value and generate cash flows fundamentally depends.
- 10.9 Resources or relationships that management identifies as key could include:
- (a) resources that provide the entity with a competitive advantage—for example, a group of specialist employees, unique know-how or an exclusive right;
 - (b) relationships—for example, with related parties or an exclusive supplier—that provide the entity with access to resources that cannot readily be substituted; or

- (c) resources or relationships that create concentration risk for the entity –for example, a raw material that can be sourced only from one region, a manufacturing component for which there is no viable alternative or for which the entity relies on a small number of suppliers, or a resource whose availability is constrained by environmental changes.

10.10 A key resource or relationship is not necessarily a single item or a relationship with one other party. It may be a type of resource or relationship, such as a workforce, or a category within a type, such as a group of employees with specialist skills within a workforce. If only a category of a resource or relationship is key, management commentary focuses on that category, not on the whole type.

Metrics

10.11 Material information about the entity's resources and relationships is likely to include metrics that management uses to monitor key resources and relationships and to measure progress in managing them. Such metrics could include measures relating to:

- (a) the quantity of a resource used during the reporting period, or the scale of its use—for example, the rate of consumption of a natural resource;
- (b) the quantity of a resource remaining at the end of the reporting period—for example, oil or mineral reserves;
- (c) the effectiveness with which the entity has deployed a resource or relationship, which could include:
 - (i) measures of utilisation—for example, hotel room occupancy; or
 - (ii) measures of productivity—for example, store revenue per unit of floor area;
- (d) the strength of a relationship—for example, customer retention statistics or employee engagement survey scores; and
- (e) progress in enhancing a resource or developing a relationship—for example, regulatory approval of a new drug or new technology, or growth in customer numbers or in customer satisfaction scores.

Examples of information that might be material

10.12 Paragraphs 10.13–10.16 provide examples of information about the entity's resources and relationships that might be material, depending on the entity and its circumstances, for each of the specific disclosure objectives in paragraph 10.6. The information described in the examples might not relate to a key matter but nonetheless might be material.

The nature of the entity's resources and relationships and how the entity deploys them

- 10.13 Material information about the nature of the entity's resources and relationships and how the entity deploys them (see paragraph 10.6(a)) could include:
- (a) an overview of the entity's resources and relationships and how they have changed in the reporting period, including:
 - (i) a description of resources and relationships—for example, a unique technology, raw materials, categories of workforce or customer base; and
 - (ii) quantitative information about the scale of the resources and relationships;
 - (b) an analysis of components of a key resource or relationship whose characteristics or risks differ from each other—for example, retail customers and wholesale customers;
 - (c) an explanation of the role resources or relationships play in the business model; and
 - (d) an explanation of changes to the way the entity deploys its resources or relationships.

How the entity obtains and maintains its resources and relationships

- 10.14 Material information about how the entity obtains and maintains its resources and relationships (see paragraph 10.6(b)) could include:
- (a) information about how the entity accesses a resource—for example:
 - (i) whether the entity controls a resource directly or relies on another party for access;
 - (ii) the identity or common characteristics of the parties on which the entity's access to a resource depends, such as a supplier that controls unique equipment used in producing the entity's products, intermediaries or government agencies; and
 - (iii) features of supply chains, such as their resilience or fragility and susceptibility to disruption.
 - (b) an explanation of changes to the way the entity obtains and maintains its resources and relationships.
 - (c) information about how the entity expects to obtain and maintain its resources and relationships in the future, including:

- (i) an analysis of the resources and relationships that will be required for the entity's operations; and
- (ii) an explanation of the entity's plans for obtaining and maintaining the required resources and relationships, and of factors that could affect the implementation of those plans. (Paragraph 9.5(e) covers plans for obtaining the financial resources required to implement management's strategy for sustaining and developing the entity's business model.)

Factors that could affect the availability or the quality of the resources and relationships in the future, including in the long term

- 10.15 Material information about factors that could affect the availability or the quality of resources and relationships in the future, including in the long term (see paragraph 10.6(c)) could include information about:
- (a) factors creating uncertainty over the entity's continued access to a resource or over the quality of a resource—for example:
 - (i) contractual terms or commercial features that could allow another party to terminate the entity's access at short notice;
 - (ii) uncertainties resulting from the location of the resource, or relating to its remaining useful life, physical availability or affordability;
 - (iii) possible or expected changes to law or regulation;
 - (iv) environmental or social impacts of the entity's activities that could affect its ability to operate in a market—for example, because of stakeholder pressure; and
 - (v) systemic factors that could affect access to the resource in the long term, such as climate-related regulation or changes in the natural environment; and
 - (b) factors that affect the availability or the quality of a relationship—for example:
 - (i) the main contractual and commercial factors that could affect the durability of a relationship, such as terms that could make it easier or more difficult for a customer or supplier to terminate a relationship;
 - (ii) the environmental or social impacts of the entity's activities that could affect its relationships with customers; and
 - (iii) aspects of the entity's culture that management considers to be important to the strength of the relationship, for example, because of the entity's reputation for ethical behaviour.

Progress in managing the resources and relationships

- 10.16 Material information about progress in managing resources and relationships (see paragraph 10.6(d)) could include:
- (a) a description of the actions management has taken to manage the entity's resources and relationships, for example:
 - (i) to manage the effectiveness with which the entity deploys a resource or relationship—for example, by increasing utilisation or productivity;
 - (ii) to maintain the quantity of a resource—for example, by managing the quantity used during the reporting period or the remaining availability; and
 - (iii) to develop a resource or relationship—for example, through investment in research and development, staff training, or advertising, promotion or other actions to acquire customers; and
 - (b) an explanation of the effects of those actions, supported by metrics that management uses to monitor the resources and relationships and to monitor the effectiveness of its actions.

Chapter 11—Risks

In this chapter
Introduction
Disclosure objectives
Key risks
Metrics
Examples of information that might be material

Introduction

- 11.1 To gain insight into factors that could affect an entity's ability to create value and generate cash flows, users need to understand the risks of events or circumstances that could in the short, medium or long term disrupt the entity's business model, management's strategy for sustaining and developing that model, or the entity's resources and relationships.

Link

Paragraph 9.5 requires management commentary to provide information that enables users to understand the opportunities that have driven management's strategy for sustaining and developing the entity's business model.

- 11.2 The sources of such risks could be external—for example, political instability—or internal—for example, the failure of a business process or an unintended consequence of a change in strategy. The source of a risk could be a one-off event, gradually changing circumstances or a group of events or circumstances that would cause disruption if they were all to occur.

Disclosure objectives

- 11.3 Management commentary shall provide information that enables users to understand the risks of events or circumstances that could disrupt:
- (a) the entity's business model;
 - (b) management's strategy for sustaining or developing that model; or
 - (c) the entity's resources or relationships.
- 11.4 The information about risks shall enable users to understand:
- (a) the nature of the risks to which the entity is exposed;
 - (b) the entity's exposure to those risks;
 - (c) how management monitors and manages the risks;

- (d) how management will mitigate disruption if it occurs; and
- (e) progress in managing risks.

Link

Some information about risks needed to meet the disclosure objectives might be available in another report published by the entity, such as the related financial statements or a corporate governance report. That information may be included in management commentary by cross-reference to the other report if including the information in this way, rather than directly within the management commentary, does not make the management commentary less clear. See paragraphs 5.18–5.20.

- 11.5 The information provided to meet the headline objective in paragraph 11.3 and the specific objectives in paragraph 11.4 is intended to help users assess:

- (a) the extent of the entity's exposure to risks; and
- (b) how effectively management monitors and manages the entity's exposure to risks.

Note

The extent of the entity's exposure to risks refers to the likelihood of future disruption and the potential effect of that disruption on the entity's ability to create value and generate cash flows.

Key risks

- 11.6 In providing material information to meet the disclosure objectives in paragraphs 11.3–11.4, management commentary shall focus on the key risks to which the entity is exposed. Key risks are risks of events or circumstances that could fundamentally disrupt the entity's ability to create value and generate cash flows, including in the long term.
- 11.7 Risks that management identifies as key could include risks of events or circumstances that in the short, medium or long term might:
- (a) fundamentally disrupt the entity's business model—for example, cause the entity to lose a competitive advantage;
 - (b) fundamentally disrupt management's strategy for sustaining and developing the business model—for example, prevent the entity from fulfilling its purpose;
 - (c) fundamentally disrupt a resource or relationship—for example, disrupt the entity's supply chains for essential components or damage the entity's reputation; or
 - (d) threaten the entity's existence—for example, cause a permanent collapse in demand for the entity's product range.

- 11.8 If a risk has the potential to cause fundamental disruption, that risk could be a key risk even if disruption is unlikely, or even if disruption could occur only in the long term.

Link

Paragraph 4.16 discusses factors that management needs to consider in assessing whether information about a possible future event with an uncertain outcome is material.

- 11.9 Local law or regulation might require management commentary to include information about particular risks regardless of whether those risks are key risks for the entity and regardless of whether information about them is material. Paragraph 5.17 requires any immaterial information included in management commentary to be provided in a way that avoids obscuring material information. To meet this requirement, material information about key risks needs to be made prominent and distinguishable from immaterial information about other risks provided to satisfy local laws or regulations.

Metrics

- 11.10 Material information about risks is likely to include metrics that management uses to monitor key risks and to measure progress in managing them. Such metrics could include measures relating to:
- (a) the entity's exposure to a risk—for example, the extent to which the entity relies on a raw material;
 - (b) the effectiveness of management's actions to reduce the entity's exposure to a risk—for example, the number of safety incidents; and
 - (c) management's plans to mitigate the effects of potential disruption—for example, quantities of buffer inventories held.

Examples of information that might be material

- 11.11 Paragraphs 11.12–11.16 provide examples of information about risks that might be material, depending on the entity and its circumstances, for each of the specific disclosure objectives in paragraph 11.4. The information described in the examples might not relate to a key matter but nonetheless might be material.

The nature of the risks to which the entity is exposed

- 11.12 Material information about the nature of the risks to which the entity is exposed (see paragraph 11.4(a)) could include descriptions of:
- (a) the source of a risk—the factors, events or circumstances that could cause disruption, such as shortage of a resource;
 - (b) the potential effects of the risk—the nature of the potential disruption, for example, an inability to fulfil customer orders; and

- (c) changes in the risks during the reporting period.

The entity's exposure to risks

- 11.13 Material information about the entity's exposure to risks (see paragraph 11.4(b)) could include information about:
- (a) the potential scale of a disruption to the entity's ability to create value and generate cash flows – for example:
 - (i) a description and analysis of the operations, resources or relationships exposed to the risk; or
 - (ii) the results of the scenario analysis prepared by management, if any;
 - (b) the likelihood and potential timing of a disruption – for example:
 - (i) statistical information about the past frequency, or trends in the frequency, of events that could cause the disruption; or
 - (ii) a description of mitigating or exacerbating factors that make disruption less or more likely to occur; and
 - (c) how the potential scale, likelihood or timing of a disruption have changed since the previous reporting period.

How management monitors and manages risks

- 11.14 Material information about how management monitors and manages risks (see paragraph 11.4(c)) could include:
- (a) a description of the entity's processes and controls for monitoring risks. This description could identify the bodies or individuals responsible for oversight of the risks.
 - (b) a description of the actions management has taken, or plans to take, to reduce the scale or the likelihood of the disruption.

How management will mitigate disruption if it occurs

- 11.15 Material information about how management will mitigate disruption if it occurs (see paragraph 11.4(d)) could include:
- (a) a description of actions management has taken to mitigate disruption in the past and an analysis of the effectiveness of those actions; and
 - (b) a description of the actions management plans to take to mitigate disruption if it occurs in the future and of the expected effects of those actions.

Progress in managing risks

- 11.16 Material information about progress in managing risks (see paragraph 11.4(e)) could include:
- (a) metrics that management uses to monitor:
 - (i) the extent of the entity's exposure to risks; and
 - (ii) the effectiveness of management's risk management;
 - (b) an explanation of factors affecting those metrics; and
 - (c) an analysis of the effectiveness of past risk management—for example, how well previous actions reduced the entity's exposure to risks.

Chapter 12—External environment

In this chapter
Introduction
Disclosure objectives
Key factors and trends in the entity's external environment
Metrics
Examples of information that might be material

Introduction

- 12.1 An entity's external environment encompasses:
- (a) its direct environment—the industries and markets in which the entity interacts with its customers, suppliers, and competitors; and
 - (b) the wider environment including the legal, regulatory and economic environment; the political, technological, social and cultural landscape; and the natural environment.
- 12.2 An entity can be affected by factors in its external environment (for example, the existence of a competitive threat) and by trends in these factors (for example, emerging changes in consumer preferences).

Link

Chapter 8 sets out requirements that apply to information about the environmental and social impacts of the entity's activities if those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term.

- 12.3 Information about factors and trends in an entity's external environment provides insights into their effects on the entity's business model, on management's strategy for sustaining and developing that model, on the entity's resources and relationships, and on the risks to which the entity is exposed.
- 12.4 Factors and trends that might affect an entity include those relating to:
- (a) market forces or market disruption—for example, competition, supply and demand and the bargaining power of suppliers and customers;
 - (b) economic and political conditions—for example, commodity prices and economic and political stability;
 - (c) laws and regulations—for example, industry regulations, tax law and health and safety regulations;
 - (d) society—for example, demographic, lifestyle or cultural changes;

- (e) the natural environment and related regulation—for example, resource availability, pollution or climate-related regulation; or
- (f) technology—for example, the emergence of alternative environmentally friendly technologies or solutions to customer needs.

Disclosure objectives

- 12.5 Management commentary shall provide information that enables users to understand how the entity's external environment has affected or could affect:
- (a) the entity's business model;
 - (b) management's strategy for sustaining and developing that model;
 - (c) the entity's resources or relationships; or
 - (d) risks to which the entity is exposed.
- 12.6 The information provided about factors and trends in the entity's external environment shall enable users to understand:
- (a) the nature of those factors and trends;
 - (b) how the factors and trends have affected or could affect the entity;
 - (c) how management monitors and plans to respond to those factors and trends; and
 - (d) progress in responding to those factors and trends.
- 12.7 The information provided to meet the headline objective in paragraph 12.5 and the specific objectives in paragraph 12.6 is intended to help users assess:
- (a) how factors and trends in the entity's external environment have affected or could affect the entity; and
 - (b) how effectively management monitors and responds, or can respond, to those factors and trends.

Key factors and trends in the entity's external environment

- 12.8 In providing material information to meet the disclosure objectives in paragraphs 12.5–12.6, management commentary shall focus on key factors and trends in the entity's external environment. Key factors and trends are factors and trends that have had, or could have, a fundamental effect on the entity's ability to create value and generate cash flows, including in the long term.
- 12.9 Factors or trends management identifies as key could include those that relate to:
- (a) the entity's business model—for example, social or political factors that have restricted or could restrict the entity's ability to operate in a market;

- (b) management's strategy for sustaining or developing the entity's business model—for example, trends that have created or could create a market opportunity;
- (c) the entity's resources or relationships—for example, changes in customer preferences that have affected or could affect customer loyalty; or
- (d) the risks to which the entity is exposed—for example, a local or regional trend towards more protectionist trade policies that create risks to the entity's supply chains.

Link

Paragraph 4.16 discusses factors that management needs to consider in assessing whether information about a possible future event with an uncertain outcome is material.

- 12.10 In some cases, the effects of one factor or trend might be indistinguishable from the effects of another factor or trend. Information about interrelated factors or trends may be clearer and more concise if those factors or trends and their effects are discussed collectively, rather than in isolation.

Metrics

- 12.11 Material information about factors and trends in the entity's external environment is likely to include metrics that management uses to monitor key factors and trends and to measure progress in responding to them. Such metrics could include measures of:
- (a) the factors and trends—for example, external market share statistics, industry benchmarks, or results of customer surveys; and
 - (b) the effectiveness of management's response to those factors and trends—for example, the change in the proportion of the entity's revenue exposed to demographic reductions in demand.

Examples of information that might be material

- 12.12 Paragraphs 12.13–12.16 provide examples of information about factors and trends in the entity's external environment that might be material, depending on the entity and its circumstances, for each of the specific disclosure objectives in paragraph 12.6. The information described in the examples might not relate to a key matter but nonetheless might be material.

The nature of factors and trends in the entity's external environment

- 12.13 Material information about the nature of factors and trends in the entity's external environment (see paragraph 12.6(a)) could include:
- (a) an overview of the entity's external environment, covering both the entity's direct environment and the wider environment; and

- (b) an explanation of factors and trends in the entity's external environment that have affected or could affect the entity, covering:
 - (i) developments in the factors and trends in the reporting period;
 - (ii) metrics used to monitor the factors and trends, including their sources; and
 - (iii) assumptions about future developments in the factors and trends on which management has based decisions.

How factors and trends in the entity's external environment have affected or could affect the entity

- 12.14 Material information about how factors and trends in the entity's external environment have affected or could affect the entity (see paragraph 12.6(b)) could include:
- (a) information about how factors and trends in the external environment have affected or could affect in the short, medium or long term:
 - (i) the entity's business model—for example, if a regulatory change is expected to impose costs that make the entity's products or services less competitive;
 - (ii) management's strategy for sustaining and developing the business model—for example, if the emergence of new ways of meeting customer needs has provided an opportunity to reposition the entity's products;
 - (iii) resources or relationships—for example, if increasing demand for skilled workers has made it more difficult for the entity to retain such workers; or
 - (iv) risks the entity faces—for example, if political instability increases the risk of future shortages of a resource; and
 - (b) if the effect of a trend or factor on the entity is uncertain, an explanation of the uncertainty, and information about:
 - (i) how the trend or factor is expected to develop over the short, medium and long term; and
 - (ii) the range of possible outcomes for the entity.

How management monitors and plans to respond to factors and trends in the entity's external environment

- 12.15 Material information about how management monitors and plans to respond to factors and trends in the entity's external environment (see paragraph 12.6(c)) could include:

MANAGEMENT COMMENTARY

- (a) a description of how management monitors factors and trends in the external environment, and the metrics that management uses to monitor those factors and trends.
- (b) a description of how management plans to respond to those factors and trends. This explanation could cover, for example, the steps management plans to take:
 - (i) to adapt the entity's business model, or management's strategy for sustaining and developing that model, to take advantage of new opportunities;
 - (ii) to secure the availability of resources or maintain relationships;
or
 - (iii) to mitigate an increasing risk.

Progress in responding to factors and trends in the entity's external environment

- 12.16 Material information about progress in responding to factors and trends in the entity's external environment (see paragraph 12.6(d)) could include:
- (a) a description of how management has responded to those factors and trends; and
 - (b) an explanation of the effects of that response, supported by metrics that management uses to monitor those effects.

Chapter 13—Financial performance and financial position

In this chapter
Introduction
Disclosure objectives
Key aspects of the entity's financial performance and financial position
Metrics
Examples of information that might be material

Introduction

- 13.1 An entity's financial performance is reported in its financial statements by:
- (a) the income and expenses recognised in its statement of comprehensive income;
 - (b) the cash flows recognised in its statement of cash flows; and
 - (c) information disclosed in the notes, such as information related to changes in recognised or unrecognised assets and liabilities.
- 13.2 An entity's financial position is reported by the assets, liabilities and equity recognised in its statement of financial position and information disclosed in the notes, such as information related to recognised or unrecognised assets and liabilities.
- 13.3 Information in management commentary about an entity's financial performance and financial position complements information provided in the related financial statements. To explain the entity's financial performance and financial position reported in those financial statements, management commentary provides more discussion, analysis and forward-looking information than is included in the entity's financial statements, as well as information about a wider range of matters, including matters that have not led to recognition or disclosure in the financial statements.

Disclosure objectives

- 13.4 Management commentary shall provide information that enables users to better understand the entity's financial performance and financial position reported in the entity's financial statements.

Link

Management commentary focuses on explaining key aspects of the entity's financial performance and financial position. Paragraphs 6.6–6.7 discuss the need for coherence between the information in management commentary and information in the entity's financial statements or another general purpose financial report. Paragraph 5.16(b) discusses the need for management commentary to avoid unnecessary duplication of information provided in the related financial statements.

13.5 The information about the entity's financial performance and financial position provided in management commentary shall enable users to understand:

- (a) what factors have affected the entity's financial performance or financial position in the reporting period or could affect them in the future, including in the long term;

Note

Factors that have affected the entity's financial performance or financial position in the reporting period or could affect them in the future are likely to relate to key matters discussed in other areas of content in management commentary. In particular, progress in managing those key matters is likely to have affected the financial performance and financial position reported in the entity's financial statements, or is likely to affect them in the future. Metrics used by management to monitor those key matters and to measure progress in managing them reflect the entity's non-financial performance and non-financial position. These metrics also help users understand the entity's financial performance and financial position reported in the entity's financial statements.

- (b) how management has allocated financial resources in the reporting period; and
- (c) how the entity's financial performance and financial position compare with forecasts or targets previously published by the entity, if any.

Link

Paragraphs 7.14–7.17 set out additional requirements that apply to forecasts and targets.

13.6 The information provided to meet the headline objective in paragraph 13.4 and the specific objectives in paragraph 13.5 is intended to help users assess:

- (a) drivers of the entity's financial performance and financial position;

- (b) how the entity's financial performance and financial position compare with users' previous expectations;
- (c) the extent to which the financial performance and financial position reported in the entity's financial statements are indicative of the entity's ability to create value and generate cash flows in the future, including in the long term; and
- (d) the entity's financial resilience.

Note

An entity's financial resilience is its ability to withstand one type of threat—threats to its liquidity or solvency—including in the long term.

Link

Paragraph 8.7(c) explains that information in management commentary helps users to assess the resilience of an entity's business model to shocks or difficult conditions. Paragraph 9.5(e) requires an entity to provide information that enables users to understand the financial resources required to implement management's strategy for sustaining and developing the entity's business model and to understand management's approach to allocating financial resources.

Key aspects of the entity's financial performance and financial position

- 13.7 In providing material information to meet the disclosure objectives in paragraphs 13.4–13.5, management commentary shall focus on key aspects of the entity's financial performance and financial position. Key aspects are aspects that are fundamental to understanding the entity's ability to create value and generate cash flows.
- 13.8 Aspects of an entity's financial performance and financial position that management identifies as key could include:
 - (a) categories of income, expenses, profit or loss, or cash flows, or specific income, expenses or cash flows within those categories—for example, revenue for segments of the business or for categories of customers, gross profit, investment income, financing expenses, tax expenses, or cash flows from operating activities; or
 - (b) categories of assets, liabilities or net assets, or specific assets and liabilities within those categories—for example, infrastructure plant and equipment, working capital, net debt or environmental rehabilitation obligations.

Note

The key aspects of an entity's financial performance and financial position will depend on the industry in which the entity operates. For example, research and development expenses could be a key aspect of the financial performance of a pharmaceutical entity.

Metrics

13.9 Material information about an entity's financial performance and financial position is likely to include metrics management uses to monitor and measure key aspects of that financial performance and financial position. Such metrics could include:

- (a) amounts presented in the entity's financial statements, such as line items, totals and subtotals;
- (b) amounts disclosed in the notes to its financial statements; and
- (c) measures taken or derived from amounts presented or disclosed in the financial statements.

Link

Paragraph 7.6 sets out requirements that apply to metrics derived by adjusting amounts presented or disclosed in the entity's financial statements.

13.10 To explain an entity's financial performance or financial position, management commentary might provide analyses that involve adjusting amounts reported in the entity's financial statements to exclude the effects of some events or circumstances. For example, a constant currency analysis could present performance comparisons that exclude the effects of currency variations, a pro forma analysis could present 'like for like' performance comparisons that exclude the effects of new stores or acquired businesses, or a bridge analysis could identify the components of performance variances between the current and previous reporting periods. Any such analyses provided in management commentary form part of the management commentary and therefore need to possess the attributes required by Chapter 5, be coherent and comply with requirements for metrics specified in Chapter 7. For example, the analyses need to provide a balanced picture of the entity's financial performance or financial position, precise descriptions of the adjustments made to the amounts reported in the financial statements and all the information necessary for users to understand those adjustments.

Examples of information that might be material

13.11 Paragraphs 13.12–13.14 provide examples of information about the entity's financial performance and financial position that might be material, depending on the entity and its circumstances, for each of the specific disclosure objectives in paragraph 13.5. The information described in the examples might not relate to a key matter but nonetheless might be material.

What factors have affected the entity's financial performance or financial position in the reporting period or could affect them in the future, including in the long term

- 13.12 Material information about factors that have affected the entity's financial performance or financial position in the reporting period or could affect them in the future, including in the long term (see paragraph 13.5(a)), could include:
- (a) an overview of the entity's financial performance and financial position in the reporting period.
 - (b) a description of the key aspects of the entity's financial performance and financial position in the reporting period.
 - (c) metrics of the entity's financial performance and financial position in the reporting period.
 - (d) an explanation of changes in the amounts of those metrics from previous periods, quantifying the effects of each contributing factor. The explanation could cover:
 - (i) the drivers of revenue—for example, identifying regions or product categories affected by various drivers or explaining how revenue is affected by price, volume and product mix;
 - (ii) the drivers of costs—for example, costs incurred to enhance features of the entity's business model, or the split of operating costs between fixed and variable costs;
 - (iii) the drivers of cash flows—for example, how changes in customer payment terms or use of supply chain financing affected the entity's cash flows in the reporting period; and
 - (iv) an analysis of changes in non-controlling interests held by other parties in the entity's subsidiaries.
 - (e) an explanation of how matters discussed in other areas of content in management commentary have affected the entity's financial performance or financial position in the reporting period—for example, how progress in implementing management's strategy has affected the entity's revenue, operating expenses and cash flows from operating activities.
 - (f) information about the entity's ability to meet its obligations, including in the long term. The information could include:
 - (i) an analysis of the entity's liquidity and solvency metrics, explaining variances from previous periods;
 - (ii) an analysis of the effects of actions that management has taken to manage the entity's liquidity or solvency;
 - (iii) an analysis of the entity's capital structure and financing arrangements;

- (iv) information about the entity's compliance or non-compliance with financing covenants; and
- (v) an analysis of how the entity's working capital requirements during the reporting period differed from those at the end of the reporting period, or how they are expected to differ in the future.
- (g) an explanation of other known or reasonably expected future changes that could affect the entity's financial performance or financial position in the future, including in the long term, even if the effect has been insignificant in the reporting period—for example, known or expected changes in tax rates or laws that could affect the relationship between the entity's tax expense and profit or loss.
- (h) information to help users assess the extent to which the entity's financial performance and financial position in the reporting period are indicative of the entity's ability to create value and generate cash flows in the future, including in the long term. The information could include information about:
 - (i) unusual income and expenses, and how they could affect the entity's future cash flows;
 - (ii) changes in drivers of financial performance—or in the implications of drivers of financial performance—that could affect the entity's financial performance in the future, including in the long term; and
 - (iii) changes in the entity's operations, structure or scale that have affected financial performance in the reporting period or could affect it in the future—for example, changes resulting from the acquisition or disposal of businesses.
- (i) an explanation of developments since the end of the reporting period that could affect the entity's financial performance or financial position in the future, for example:
 - (i) an unexpected event; or
 - (ii) a change in a leading indicator—such as an order book—used by management as an indicator of future performance.

How management has allocated financial resources in the reporting period

- 13.13 Material information about how management has allocated financial resources in the reporting period (see paragraph 13.5(b)) could include:
- (a) information about financial resource allocation decisions during the reporting period, including information about the target returns on which investment decisions were based;

- (b) information about the actual returns generated by past financial resource allocation decisions;
- (c) an analysis of expenditure during the reporting period on activities aimed at:
 - (i) maintaining ongoing operations;
 - (ii) enhancing the entity's ability to create value and generate cash flows—for example, by adding customers, investing in research and development or acquiring businesses; and
 - (iii) other purposes—for example, repurchasing shares, repaying debt or paying dividends; and
- (d) an analysis of authorised future expenditure and contracted future expenditure.

How the entity's financial performance and financial position compare with forecasts or targets previously published by the entity, if any

- 13.14 Material information about how the entity's financial performance and financial position compare with forecasts or targets previously published by the entity, if any (see paragraph 13.5(c)) could include:
- (a) an analysis of variances, if any, between actual amounts and the forecast or target amounts, and an explanation of their implications; and
 - (b) an explanation of why those variances arose.

APPENDICES

Appendix A—Defined terms

This appendix is an integral part of the Practice Statement.

	First use in paragraph	
create value	1.11	<p>Create or preserve value for the entity and hence for its investors and creditors.</p> <p>An entity's activities create value if they enhance or preserve the present value of the entity's future cash flows.</p>
forward-looking information	3.10	<p>Information relating to possible future transactions, other events or conditions. Forward-looking information includes:</p> <ul style="list-style-type: none"> (a) management forecasts or targets; and (b) other information that helps users assess the entity's prospects—for example, information about management's strategy for sustaining and developing the entity's business model.
general purpose financial reports	1.11	<p>Reports that provide financial information about a reporting entity that is useful to primary users in making decisions relating to providing resources to the entity. Those decisions involve decisions about:</p> <ul style="list-style-type: none"> (a) buying, selling or holding equity and debt instruments; (b) providing or settling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, the entity's management's actions that affect the use of the entity's economic resources. <p>General purpose financial reports include—but are not restricted to—an entity's management commentary, general purpose financial statements and sustainability-related financial disclosures.</p>
general purpose financial statements (financial statements)	1.4	<p>A particular form of general purpose financial reports that provide information about the entity's assets, liabilities, equity, income and expenses.</p>
key matters	1.12	<p>Matters that are fundamental to an entity's ability to create value and generate cash flows, including in the long term.</p>

continued...

MANAGEMENT COMMENTARY

...continued

	First use in paragraph	
management commentary	1.3	<p>A particular form of general purpose financial reports that provide information that:</p> <ul style="list-style-type: none"> (a) enhances users' understanding of the entity's financial performance and financial position reported in its financial statements; and (b) provides management's insight into factors, including sustainability-related factors, that could affect the entity's ability to create value and generate cash flows across all time horizons, including in the long term.
material information	1.6	In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which include the management commentary and the related financial statements and which provide financial information about a specific reporting entity.
metric	1.15	A measure used to monitor a quantitative or qualitative aspect of an entity's financial or non-financial performance or position.
primary users of general purpose financial reports (users)	1.11	Existing and potential investors, lenders and other creditors.
recognised (when describing assets or liabilities)	1.16	<p>Included in the assets and liabilities recorded in an entity's statement of financial position.</p> <p>Some types of resources and obligations are not recognised as assets or liabilities applying recognition criteria in IFRS Accounting Standards—for example, some internally generated intangible assets.</p>
reporting period	1.8	The period covered by financial statements and related management commentary.

continued...

...continued

First use
in paragraph

sustainability-related
financial disclosures

1.4

A particular form of general purpose financial reports that provide information about the reporting entity's sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets.

Appendix B—Long-term prospects, intangible resources and relationships, and environmental, social and governance matters

This appendix is an integral part of the Practice Statement.

Introduction

- B1 Primary users of general purpose financial reports (users) need information about factors, including sustainability-related factors, that have already affected an entity's financial performance or financial position as well as information about factors that could affect the entity's ability to create value and generate cash flows in the future, including in the long term. Such factors could include matters relating to the entity's intangible resources and relationships—including resources not recognised as assets in the entity's financial statements—and environmental, social and governance matters.
- B2 To comply with this Practice Statement, management commentary provides information about such factors if that information is material. In the context of management commentary, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include management commentary and the related financial statements and which provide financial information about a specific reporting entity (see paragraph 4.1).
- B3 Information might be material if it relates to a key matter. Key matters are those that are fundamental to an entity's ability to create value and generate cash flows, including in the long term. Management commentary focuses on key matters (see paragraph 4.5). However, information might not relate to a key matter but nonetheless might be material.

Long-term prospects, intangible resources and relationships, and environmental and social matters

- B4 This appendix provides an overview of requirements and guidance in this Practice Statement that management is likely to need to consider in deciding what information it needs to provide about:
- (a) factors that could affect an entity's ability to create value and generate cash flows in the long term (long-term prospects)—Table B.1;
 - (b) intangible resources and relationships—Table B.2; and
 - (c) environmental and social matters—Table B.3.
- B5 Tables B.1–B.3 include summarised descriptions of applicable requirements and guidance with cross-references to further detail. The tables do not introduce new requirements. Accompanying each description is:
- (a) an example (in italics) presenting a fact pattern; and
 - (b) a discussion (in plain type) of how, in that fact pattern, management might consider those requirements and guidance in identifying matters that might be key and information that might be material.

- B6 The examples do not provide illustrative disclosures and management may need to provide other information to meet disclosure objectives in the Practice Statement.
- B7 Material information in management commentary is likely to include metrics that management uses to monitor key matters and to measure progress in managing those matters. Some examples in the tables refer to a metric that a particular entity's management has used and that it reports in management commentary if it judges this information to be material in that fact pattern. The fact that a table mentions a metric does not indicate that the metric always applies or needs to be provided in all cases.
- B8 Tables B.1–B.3 are designed to help management identify matters that might be key and information that might be material. Management determines which information is material in the entity's circumstances. For example, if one of an entity's sites has scarce water resources and is threatened with closure, users might need information about the entity's exposure to water stress. Information about water consumption at that site might be material to users, but information about the entity's water consumption at other sites might not be material.
- B9 Tables B.1–B.3 discuss reporting on factors that could affect an entity's long-term prospects, on intangible resources and relationships and on environmental and social matters separately.
- B10 Sometimes, more than one table describes requirements or guidance that might lead management to identify the same key matter or the same material information. For example, a relationship with the entity's specialist employees could be viewed as a factor affecting the entity's long-term prospects, an intangible relationship or a social matter. Any of these perspectives could lead management to identify this relationship as one of the entity's key resources and relationships.
- B11 Conversely, some requirements and guidance appear in more than one table. For example, requirements and guidance in Chapter 10 would apply equally to identifying material information about an intangible relationship and material information about a social matter. Material information identified by applying those requirements or guidance does not need to be provided more than once in a management commentary.
- B12 Tables B.1–B.3 do not prescribe the order or structure for reporting information.

Governance matters

- B13 As stated in paragraph 1.24, management commentary provides material information about governance matters as necessary to meet its objective set out in Chapter 3 and the disclosure objectives set out in Chapters 8–13. For example, some insight into governance matters may be drawn from management's description of its strategy, from information on progress in managing key matters or from information about differences between metrics used for incentive plans and metrics used for monitoring progress in

implementing management's strategy. Users might need such information to assess management's stewardship of the entity's resources. However, this Practice Statement does not require comprehensive or detailed reporting on an entity's governance. Governance is typically regulated by local laws, which may also require entities to provide specified information about governance.

Other reporting requirements or guidelines

- B14 Narrative reporting requirements or guidelines published by another standard-setting body or other organisations, including requirements or guidelines for use by entities in specific industries or on specific topics, such as sustainability reporting, could help management identify environmental and social matters and information about those matters that might be material. That is more likely to be the case if the requirements or guidelines have a reporting objective that focuses on the information needs of the primary users of general purpose financial reports, such as IFRS Sustainability Disclosure Standards (see paragraph 4.14).
- B15 Management may also provide in its management commentary additional information that is not material but that an entity needs to disclose to comply with reporting requirements or guidelines other than this Practice Statement. However, if some of that information is not material to users in the context of management commentary, management shall present it in a way that does not obscure material information (see paragraph 5.17). Also, if management provides additional information outside management commentary, but in the same larger report, management shall identify management commentary clearly and distinguish it from other information provided in the same larger report (see paragraph 2.1).

Table B.1—Reporting on factors that could affect an entity's long-term prospects

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 3—Objective of management commentary	
<p>B.1.1</p> <p>An entity's ability to create value and generate cash flows across all time horizons</p>	<p>Paragraph 3.1(b) requires management commentary to provide management's insight into factors, including sustainability-related factors, that could affect an entity's ability to create value and generate cash flows across all time horizons, including in the long term.</p> <p>Paragraphs 3.12–3.15 provide guidance on determining whether information would affect users' assessments of that ability.</p> <p><i>A company has adopted a least-cost approach to manufacturing that may damage its reputation for product quality and reduce demand for its products in the long term.</i></p> <p>The company's management commentary reports on progress in implementing the approach, including metrics used to monitor the short-term effects of the approach (for example, cost savings) and its long-term effects (for example, product failure rates).</p>
Chapter 4—Material information and key matters	
<p>B.1.2</p> <p>Management's stewardship of an entity's resources</p>	<p>Paragraph 4.2(b) states that information in management commentary influences users' decisions by influencing their assessment of management's stewardship of an entity's resources—how efficiently and effectively management has used and protected those resources.</p> <p><i>Management of an airline has surrendered a collection of landing rights because of a temporary fall in demand.</i></p> <p>To help users to assess management's stewardship of the airline's resources, its management commentary provides information about the rights surrendered and explains whether and how the airline could reacquire those rights in the future, and how this affects management's long-term plan for recovering from the fall in demand.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.1.3 Key matters</p>	<p>Paragraph 4.5 states that management commentary is required to focus on key matters—matters that are fundamental to an entity's ability to create value and generate cash flows, including in the long term.</p> <p><i>A manufacturer's long-term prospects depend on entering a new market.</i></p> <p>The manufacturer's management identifies management's strategy for entering that market as a key aspect of its strategy and provides information about it. Such information might include metrics used by management to monitor progress in implementing that strategy (for example, the manufacturer's market share).</p>
<p>B.1.4 Making materiality judgements</p>	<p>Paragraphs 4.15–4.17 and the related notes provide guidance on assessing whether information is material. Making materiality judgements about possible future events with uncertain outcomes involves consideration of the potential effects of those events on the amount and timing of an entity's future cash flows, including in the long term.</p> <p><i>Management of an oil and gas company knows expected trends in environmental legislation could cause the company to curtail its operations significantly.</i></p> <p>The company's management commentary provides information about those expected trends in legislation and about management's response to those trends, even if the curtailment would occur only after, for example, 10 years.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 6—Coherence	
<p>B.1.5</p> <p>Relationships between related matters</p>	<p>If a matter discussed for one area of content in management commentary has implications for matters discussed for other areas of content, paragraph 6.5 requires management commentary to include the information necessary for users to assess those implications.</p> <p><i>A vehicle manufacturer derives a competitive advantage from its reputation for product quality and after-sales service. The manufacturer's management has decided to focus on maintaining and developing the manufacturing activities and to sell its servicing business.</i></p> <p>In discussing the strategic decision to sell the servicing business, the manufacturer's management commentary provides information necessary for users to assess the implications of the sale of the servicing business, such as the implications for the manufacturer's business model, risk profile and customer relationships.</p>
Chapter 8—Business model	
<p>B.1.6</p> <p>Description of an entity's business model</p>	<p>Paragraph 8.1 states that an entity's business model is the integrated set of processes by which the entity seeks to create value and generate cash flows, including in the long term.</p> <p><i>An engineering company's competitive advantage depends on a high level of staff expertise to support its quality of service.</i></p> <p>The company's description of its business model in management commentary includes information about processes designed to maintain staff expertise and quality of service, including in the long term. Information about these processes might include metrics used to monitor them.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.1.7</p> <p>Environmental and social impacts of an entity's activities</p> <p>If the environmental or social impacts of an entity's activities have affected or could affect the entity's ability to create value and generate cash flows, including in the long term, paragraph 8.6(c) requires information in management commentary to enable users to understand those impacts.</p> <p>Paragraphs 8.14–8.15 provide examples, for such impacts and for progress in managing those impacts, of information that might be material.</p>	<p><i>The environmental impacts of an extractives company could affect its ability to maintain its extraction licences and secure new licences.</i></p> <p>The company's management commentary provides information about those impacts, including metrics used by management to monitor the impacts (for example, the volume of waste products produced).</p>
<p>B.1.8</p> <p>Adaptability, resilience and durability of an entity's business model</p> <p>Paragraphs 8.7(b)–8.7(c) explain that information in management commentary is intended to help users assess the adaptability, resilience and durability of an entity's business model. Those features of the business model could underpin the entity's ability to create value and generate cash flows in the long term.</p>	<p><i>A packaging company depends on a single patent for a biodegradable material. The patent is due to expire in 10 years' time.</i></p> <p>The company's management commentary explains the extent of the company's dependence on the patent, including related metrics used by management (for example, revenue from products produced using that material). The management commentary also indicates levels of investment in developing new materials that could help the company diversify its product range.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.1.9</p> <p>Key features of an entity's business model and information about those features</p>	<p>Paragraph 8.8 requires management commentary to focus on key features of an entity's business model—features that fundamentally underpin the entity's ability to create value and generate cash flows. Paragraph 8.9 provides examples of features of the entity's business model that could be identified as key. These include features that may create uncertainty about the entity's ability to create value and generate cash flows in the future, including in the long term.</p> <p>Paragraphs 8.5–8.6 require, for an entity's business model, information that meets specified disclosure objectives.</p> <p><i>A meal kit delivery company could readily lose its customer relationships to increasing competition in the market.</i></p> <p>The company's management commentary identifies the company's reliance on these relationships as a key feature of its business model and provides information about that feature, including information about the company's progress in retaining the relationships (for example, customer reorder rate) and in developing new relationships.</p>
<p>B.1.10</p> <p>Alignment of an entity's business model with its stated purpose</p>	<p>Paragraph 8.12(g) provides an example, for the entity's business model, of information that might be material—an explanation of how the entity's business model relates to the entity's stated purpose (which typically indicates what the entity is ultimately seeking to achieve in the long term), if an entity has published a statement of purpose.</p> <p><i>A pharmaceutical company has a purpose centred on fighting a specified medical condition.</i></p> <p>The company's management commentary explains how the company seeks to achieve its purpose by producing treatments for the condition and by developing more effective treatments in the long term. In describing the company's business model, its management commentary describes both production and development activities.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 9—Strategy	
<p>B.1.11</p> <p>Drivers of management's strategy</p>	<p>Paragraph 9.5(a) requires information in management commentary to enable users to understand the drivers of management's strategy. Those drivers could include an entity's stated purpose (what the entity is ultimately seeking to achieve in the long term).</p> <p><i>A pharmaceutical company has a stated purpose centred on fighting a specified medical condition (see also the example in B.1.10). Driven by this purpose, management's strategy includes establishing a new research capability.</i></p> <p>The company's management commentary explains management's strategy for establishing a new research capability, states that this part of the strategy is driven by the company's stated purpose and sets out that stated purpose.</p>
<p>B.1.12</p> <p>The aims of management's strategy and related milestones and plans</p>	<p>Paragraphs 9.5(b)–9.5(d) require information in management commentary to enable users to understand the aims of management's strategy (which provide a direction for the entity, including in the long term) and the milestones towards and plans for achieving those aims.</p> <p>Paragraphs 9.12–9.14 provide examples, for aims, milestones and plans, of information that might be material.</p> <p><i>A manufacturer has a long-term aim of establishing a leading reputation for product quality.</i></p> <p>The manufacturer's management commentary explains this aim and indicates the time frame over which the aim is expected to be achieved. The management commentary also describes management's milestones on the path towards this aim, including, for example, milestones for executing plans to insource component manufacture to give the manufacturer greater control over product quality.</p>

continued...

...continued

Overview of requirements and guidance		Example of a matter that might be key or information that might be material
<p>B.1.13</p> <p>Progress in implementing management's strategy</p>	<p>Paragraph 9.5(f) requires management commentary to provide information to users to understand progress in implementing management's strategy, including progress towards achieving the long-term aims.</p> <p>Paragraph 9.16 provides examples, for progress in implementing management's strategy, of information that might be material.</p>	<p><i>Continued from the example in B.1.12.</i></p> <p>The manufacturer's management commentary reports on progress towards achieving this long-term aim, including metrics used by management to monitor progress (for example, the number of defective products, and the proportion of components manufactured in-house).</p>
<p>B.1.14</p> <p>Key aspects of management's strategy and information about those aspects</p>	<p>Paragraph 9.7 requires management commentary to focus on key aspects of management's strategy—aspects that are fundamental to sustaining and developing an entity's ability to create value and generate cash flows, including in the long term.</p> <p>Paragraphs 9.4–9.5 require, for management's strategy, information that meets specified disclosure objectives.</p>	<p><i>A manufacturer is facing competition from companies with emerging technologies. Its management has developed a strategy for managing this competition, including in the long term. The strategy is based on product innovation.</i></p> <p>The manufacturer's management identifies this strategy as key and management commentary provides information about the strategy, including related metrics used by management to monitor progress in product innovation (for example, the proportion of revenue generated by new products introduced to the market in the past two years).</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.1.15</p> <p>Financial resources required to implement management's strategy</p>	<p>Paragraphs 9.15(a)–9.15(b) provide examples, for the financial resources required to implement management's strategy (including its long-term aims), of information that might be material.</p> <p><i>A company's long-term aim is to refocus its operations on a new market. Management expects a period of reduced profitability before the company reaches its intended market share. This reduced profitability will create a need for additional external financing.</i></p> <p>The company's management commentary indicates what level of financial resources is expected to be needed to reach the long-term aim, for example, to fund loss-making operations while the entity reaches its intended market share. The management commentary also explains how management intends to finance its strategy for reaching its long-term aim, including its plans for obtaining any additional resources necessary for implementing the strategy.</p> <p>Management commentary also explains the terms of covenants in the entity's existing finance arrangements and the contingency plans for obtaining alternative financing should those covenants be breached.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.1.16</p> <p>Incentive plans linked to progress in implementing management's strategy</p>	<p>Paragraph 9.16(d) provides an example, for management's strategy, of information that might be material—an explanation of how incentive schemes for management or other employees are linked to progress in implementing the strategy (including in the long term).</p> <p><i>A retailer is entering a new market and management aims to achieve a 20% share in that market in five years. The retailer's management incentive scheme is linked to progress in achieving this aim.</i></p> <p>The retailer's management commentary reports the metrics used to monitor the market share and explains whether the same metrics are also used to determine management's incentive payments.</p>
Chapter 10—Resources and relationships	
<p>B.1.17</p> <p>Factors that could affect the availability or quality of resources</p>	<p>Paragraph 10.15(a) provides examples, for factors that could affect the availability or quality of an entity's resources, of information that might be material. Such information might include information about systemic factors in the entity's wider environment that could affect access to the resource in the long term.</p> <p><i>Public concerns over the impact of a mining company's activities in an ecologically sensitive area have created uncertainty over the renewal of regulatory permits to operate the affected mines.</i></p> <p>The company's management commentary provides information about the conditions for renewing the permits and factors that create the uncertainty over their renewal, including metrics used by management to monitor progress in managing those factors.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.1.18</p> <p>Factors that could affect the availability or quality of relationships</p>	<p>Paragraph 10.15(b) provides examples, for factors that could affect the availability or the quality of an entity's relationships in the future, including in the long term, of information that might be material. Such information might include information about aspects of the entity's culture that management considers to be important to the strength of the relationship.</p> <p><i>A consultancy firm depends on the reputation it has earned for the integrity of the advice it provides.</i></p> <p>The consultancy firm's management commentary provides information on aspects of the firm's culture that are important to supporting the integrity of its advice across all time horizons and reports the metrics used by management to monitor those aspects.</p>
Chapter 11—Risks	
<p>B.1.19</p> <p>Key risks and information about those risks</p>	<p>Paragraph 11.6 requires management commentary to focus on key risks—risks that could fundamentally disrupt an entity's ability to create value and generate cash flows, including in the long term. Such risks include risks that might fundamentally disrupt the entity's business model or management's strategy for sustaining and developing the entity's business model, including risks that might cause disruption only in the long term (paragraphs 11.7–11.8).</p> <p>Paragraphs 11.3–11.4 require, for risks, information that meets specified disclosure objectives.</p> <p><i>A software development company's business model is threatened by the emergence of alternative solutions that could fundamentally reduce the demand for its products in the long term.</i></p> <p>Management identifies the emergence of alternative solutions as a key risk. The company's management commentary provides information about this risk, including information about the company's exposure to the risk (for example, information about the proportion of the company's revenue and profit attributable to activities at risk from the alternative solutions) and management's plans for reducing the risk (for example, by developing new software products).</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 12—External environment	
<p>B.1.20</p> <p>Key factors and trends in the external environment and information about those factors and trends</p>	<p>Paragraph 12.8 requires management commentary to focus on key factors and trends in an entity's external environment—factors and trends that have fundamentally affected or could fundamentally affect an entity's ability to create value and generate cash flows, including in the long term.</p> <p>Paragraphs 12.5–12.6 require, for factors and trends in the external environment, information that meets specified disclosure objectives.</p> <p><i>Changing population demographics could create demand for different types of product offered by a life insurance company.</i></p> <p>Management identifies these changes in demand as a key trend in the external environment. The company's management commentary describes the company's positive and negative exposure to those changes and explains how management is changing the company's product range and its marketing and distribution methods in response to those changes.</p>
Chapter 13—Financial performance and financial position	
<p>B.1.21</p> <p>Factors that could affect financial performance or financial position</p>	<p>Paragraph 13.5(a) requires information in management commentary to enable users to understand what factors have affected an entity's financial performance or financial position in the reporting period or could affect them in the future, including in the long term.</p> <p>Paragraph 13.12 provides examples, for factors that could affect the entity's financial performance or financial position, of information that might be material.</p> <p><i>A company's management intends to withdraw from a polluting activity in the long term to maintain its reputation for responsible behaviour.</i></p> <p>The company's management commentary discloses management's intention to withdraw from that activity and provides information on the revenue and expenses that result from the activity and are included in the current-period financial statements.</p>

Table B.2—Reporting on intangible resources and relationships

Overview of requirements and guidance		Example of a matter that might be key or information that might be material
Chapter 6—Coherence		
B.2.1 Relationships between related pieces of information	Paragraph 6.7(b) requires an explanation of areas of apparent inconsistency between information provided in management commentary and information provided in the related financial statements, in another general purpose financial report or in the entity's public communications—for example, in presentations to investors and creditors or in press releases.	<p><i>In the reporting period, a technology company launched an innovative new product. In a capital markets update, the company provided information on orders for the new product since its launch and initial customer feedback. Due to the production of the new product not reaching its full capacity in the initial stages of the production process, sales of the new product for the reporting period were not commensurate with the volume of orders received.</i></p> <p>In discussing the potential of the company's innovation, the company's management commentary provides information about sales of the new product for the reporting period and explains the apparent inconsistency with the information about the volume of orders.</p>
Chapter 8—Business model		
B.2.2 Information about an entity's processes	Paragraph 8.13(c) provides examples, for an entity's cycle of creating value and generating cash flows, of information that might be material. Such information might include information about processes involved in obtaining, maintaining or enhancing the entity's resources and relationships, including intangible resources and relationships.	<p><i>The success of a professional services firm depends on the technical expertise of its employees.</i></p> <p>The firm's management commentary provides information about the firm's staff training programmes, including related metrics used by management (for example, levels of investment in those programmes).</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 9—Strategy	
<p>B.2.3</p> <p>Key aspects of management's strategy and information about those aspects</p>	<p>Paragraph 9.7 requires management commentary to focus on key aspects of management's strategy—aspects that are fundamental to sustaining and developing an entity's ability to create value and generate cash flows in the future, including in the long term.</p> <p>Paragraph 9.8 provides examples of aspects of an entity's strategy that could be identified as key. Such aspects could include management's strategy for preserving or enhancing the entity's access to resources or relationships (which may include intangible resources or relationships) and for preserving or enhancing the quality of those resources or relationships.</p> <p>Paragraphs 9.4–9.5 require, for management's strategy, information that meets specified disclosure objectives.</p> <p><i>A consumer products company aims to maintain its reputation with customers for ethical behaviour.</i></p> <p>The company's management identifies this aspect of its strategy as key and provides information about it in management commentary, including information about progress in maintaining and developing the company's reputation, supported by related metrics used by management (for example, the results of brand integrity surveys).</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 10—Resources and relationships	
<p>B.2.4</p> <p>Key resources and relationships</p>	<p>Paragraph 10.8 requires management commentary to focus on an entity's key resources and relationships—resources and relationships on which the entity's ability to create value and generate cash flows fundamentally depends.</p> <p>Paragraph 10.9 provides examples of resources or relationships that might be identified as key, including examples of intangible resources and relationships such as an exclusive right or unique know-how.</p> <p>Paragraph 10.3 states that resources are not restricted to those recognised as assets in the entity's financial statements.</p> <p><i>A manufacturer can access an important market only because it maintains relationships with particular distributors.</i></p> <p>The manufacturer's management identifies the relationships with those distributors as key and provides information about them in management commentary.</p>
<p>B.2.5</p> <p>Information about an entity's key resources and relationships</p>	<p>Paragraphs 10.5–10.7 require, for resources and relationships (including intangible resources and relationships), information that meets specified disclosure objectives.</p> <p>Paragraphs 10.13–10.16 provide examples, for the entity's resources and relationships (including intangible resources and relationships), of information that might be material.</p> <p><i>Continued from the example in B.2.4.</i></p> <p>The manufacturer's management commentary describes important features of the distributor relationships and provides information about the extent of the manufacturer's dependence on those relationships (for example, information about revenue depending on them).</p> <p>The management commentary also provides information about management's actions to maintain and develop those relationships and reports on progress in managing them, including metrics used by management to monitor progress.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 11—Risks	
<p>B.2.6</p> <p>Key risks and information about those risks</p>	<p>Paragraph 11.6 requires management commentary to focus on the key risks to which an entity is exposed—risks of events or circumstances that could fundamentally disrupt the entity's ability to create value and generate cash flows, including in the long term.</p> <p>Paragraph 11.7 provides examples of risks that could be identified as key. Such risks could include risks of events or circumstances that might fundamentally disrupt an intangible or other resource, or fundamentally disrupt a relationship, for example, by damaging the entity's reputation.</p> <p>Paragraphs 11.3–11.4 require, for risks, information that meets specified disclosure objectives.</p> <p><i>A media company's ability to generate revenues fundamentally depends on its subscriber base.</i></p> <p>Management identifies risks that could fundamentally disrupt its relationship with subscribers as key risks. The company's management commentary provides information about these risks, which might include information about possible new entrants to the market and about actions management is taking to manage the risk of subscribers moving to competitors.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 12—External environment	
<p>B.2.7</p> <p>Key factors and trends in the external environment and information about those factors and trends</p>	<p>Paragraph 12.8 requires management commentary to focus on key factors and trends in the entity's external environment—factors and trends that have fundamentally affected or could fundamentally affect an entity's ability to create value and generate cash flows, including in the long term.</p> <p>Paragraph 12.9 provides examples of factors and trends in the entity's external environment that could be identified as key. Such factors and trends could include factors and trends that relate to the entity's intangible or other resources and relationships.</p> <p>Paragraphs 12.5–12.6 require, for factors and trends in the external environment, information that meets specified disclosure objectives.</p> <p><i>The loyalty of a financial services company's customers is being affected by changing customer preferences.</i></p> <p>Management identifies these changes in customer preferences as a key factor in the entity's external environment and provides in management commentary information about those changes, including information about how management is responding to them.</p>
Chapter 13—Financial performance and position	
<p>B.2.8</p> <p>Factors that have affected or could affect financial performance or position</p>	<p>Paragraph 13.5(a) requires information in management commentary to enable users to understand what factors have affected the entity's financial performance or financial position in the reporting period or could affect them in the future, including in the long term.</p> <p>Such factors are likely to include matters discussed for other areas of content, including matters related to intangible resources and relationships.</p> <p><i>Management of a subscription-based streaming company is developing a plan to grow a section of its subscriber base.</i></p> <p>The company's management commentary explains how the implementation of this plan could affect the company's financial performance, for example, by describing the section of the subscriber base that management plans to grow, providing metrics about that section and explaining the expected costs of implementing the plan.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p data-bbox="311 499 470 667">B.2.9 Expenditure on enhancing resources and relationships</p> <p data-bbox="496 499 825 651">Paragraph 13.13 provides examples, for the allocation of an entity's financial resources in the reporting period, of information that might be material.</p> <p data-bbox="496 674 825 889">Such information might include information about the entity's expenditure on enhancing the entity's ability to create value and generate cash flows, for example by investing in research and development.</p>	<p data-bbox="863 499 1198 651"><i>The long-term prospects of a company providing cybersecurity solutions depend fundamentally on continuing to develop new products.</i></p> <p data-bbox="863 674 1208 889">The company's management commentary provides information about the company's development of new products, including an analysis of the company's research and development expenditure.</p>

Table B.3—Reporting on environmental and social matters

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 4—Material information and key matters	
<p>B.3.1</p> <p>Identifying key matters</p>	<p>Paragraphs 4.7–4.8 provide guidance on identifying key matters. Paragraph 4.8 explains that matters raised by an entity's customers, suppliers, employees or other stakeholders might be key if they are fundamental to the entity's ability to create value and generate cash flows.</p> <p><i>The ethical integrity of a skincare producer's supply chain is the subject of severe public concern. That concern could lead to a loss of so many customers that it could fundamentally affect the producer's ability to create value and generate cash flows.</i></p> <p>The producer's management identifies supply chain ethical integrity as a key matter and provides information about it in management commentary, including information about progress in managing this matter.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 6—Coherence	
<p>B.3.2</p> <p>Relationships between related pieces of information</p>	<p>Paragraph 6.6 states that some information in management commentary might be understood best in the context of information in another part of the management commentary, or in the context of information in the entity's financial statements or another general purpose financial report.</p> <p>Paragraph 6.6 requires such information in management commentary to be presented in a way that explains that context and the relationships between the related pieces of information.</p> <p><i>A manufacturing company has a strategy to expand into a new market.</i></p> <p><i>The environmental regulations in that market are evolving. The company has identified a sustainability-related risk that the company may be unable to comply with the forthcoming changes to the environmental regulations. The company provides information about that risk in accordance with the applicable sustainability-related financial reporting requirements.</i></p> <p>The company's management commentary explains how its ability to expand into the new market could be affected by the evolving environmental regulations in that market and refers to related information about the sustainability-related risk provided in accordance with the applicable sustainability-related financial reporting requirements.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 8—Business model	
<p>B.3.3</p> <p>Key features of an entity's business model</p>	<p>Paragraph 8.8 requires management commentary to focus on key features of the business model—features that fundamentally underpin an entity's ability to create value and generate cash flows.</p> <p>Key features might include the environmental and social impacts of the entity's activities if such impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term.</p> <p><i>A drink producer's activities are water-intensive. The entity operates a water-stressed site and is required to meet regulatory conditions to continue operating there.</i></p> <p>The producer's management identifies as a key feature of its business model the fact that it operates a water-stressed site and must meet regulatory conditions to continue operating. The producer's management commentary provides information about that key feature.</p>
<p>B.3.4</p> <p>Information about the environmental and social impacts of an entity's activities</p>	<p>Paragraph 8.6(c) requires information in management commentary to enable users to understand the environmental and social impacts of an entity's activities if those impacts have affected or could affect the entity's ability to create value and generate cash flows, including in the long term. Paragraph 8.14 provides examples of information that might be material.</p> <p><i>Continued from the example in B.3.3.</i></p> <p>The producer's management commentary provides information about the revenue generated from the water-stressed site and explains the regulatory conditions the producer is required to meet for the site to continue to operate.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.3.5</p> <p>Progress in managing environmental and social impacts</p>	<p>Paragraph 8.15(c) provides examples, for progress in managing the entity's environmental and social impacts, of information that might be material.</p> <p><i>Continued from the example in B.3.3.</i></p> <p>The producer's management commentary describes management actions intended to reduce water consumption at the water-stressed site and reports on management's progress in managing the matter, including related metrics used by management (for example, water consumption at the water-stressed site).</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 9—Strategy	
<p>B.3.6</p> <p>Key aspects of management's strategy and information about those aspects</p>	<p>Paragraph 9.7 requires management commentary to focus on key aspects of management's strategy—aspects that are fundamental to sustaining and developing an entity's ability to create value and generate cash flows in the future, including in the long term.</p> <p>Paragraph 9.8 provides examples of aspects of strategy that could be identified as key. These aspects could include those that relate to:</p> <ul style="list-style-type: none"> • preserving or enhancing the entity's access to natural or other resources or relationships, or the quality of those resources or relationships; and • responding to environmental, social or other factors or trends in the entity's external environment. <p>Paragraphs 9.4–9.5 require, for management's strategy, information that meets specified disclosure objectives.</p> <p><i>Management of a manufacturing company is implementing a strategy for moving to less environmentally damaging methods of production in response to changing customer or regulatory requirements.</i></p> <p>The company's management identifies this strategy as key and its management commentary provides information about this strategy, including metrics used by management to monitor progress in implementing the strategy.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 10—Resources and relationships	
<p>B.3.7</p> <p>Key resources and relationships</p>	<p>Paragraph 10.8 requires management commentary to focus on key resources and relationships—resources and relationships on which an entity's ability to create value and generate cash flows fundamentally depends. Paragraph 10.9 provides examples of resources and relationships that could be identified as key.</p> <p>Paragraph 10.2(b) states that an entity's resources might include rights over unextracted or unharvested natural resources.</p> <p>Paragraph 10.4(b) states that an entity's relationships might include relationships with governments, regulators, non-governmental organisations or local communities.</p> <p><i>The production process of a battery manufacturer depends on a scarce natural resource for which there is no viable alternative.</i></p> <p>The manufacturer's management identifies this scarce natural resource as key and provides information about it in management commentary, including information needed to assess the manufacturer's ability to obtain sufficient quantities of the resource.</p>
<p>B.3.8</p> <p>Information about key resources and relationships</p>	<p>Paragraphs 10.5–10.6 require, for resources and relationships, information that meets specified disclosure objectives.</p> <p>As noted in B.3.7, the resources might include, for example, rights over natural resources and the relationships might include relationships with governments, regulators, non-governmental organisations or local communities.</p> <p><i>To maintain its licence to operate, a regulated company is required to meet specified social objectives.</i></p> <p>The company's management commentary explains what those social objectives are and why they are fundamental to maintaining its operations. The management commentary also explains how management monitors the company's success in meeting those objectives and reports metrics used by management to monitor that success.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 11—Risks	
<p>B.3.9</p> <p>Key risks and information about those risks</p>	<p>Paragraph 11.6 requires management commentary to focus on the key risks to which an entity is exposed—risks of events or circumstances that could fundamentally disrupt an entity's ability to create value and generate cash flows, including in the long term.</p> <p>Paragraph 11.7 provides examples of risks that could be identified as key.</p> <p>These risks could include those that might:</p> <ul style="list-style-type: none"> • fundamentally disrupt an entity's business model, for example, risks arising from an entity's environmental or social impacts; or • fundamentally disrupt a natural or other resource or relationship. <p>Paragraphs 11.3–11.4 require, for risks, information that meets specified disclosure objectives.</p> <p><i>An engineering consultancy specialises in advising on a product that may be affected by environmental regulation.</i></p> <p>The consultancy's management identifies the effect of environmental regulation on customer demand as a key risk and provides information about this risk in management commentary, including information about the consultancy's exposure to the risk (for example, the proportion of services that would be affected).</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 12—External environment	
<p>B.3.10</p> <p>Key factors and trends in the external environment</p>	<p>Paragraph 12.8 requires management commentary to focus on key factors and trends in an entity's external environment—those that have had, or could have, a fundamental effect on an entity's ability to create value and generate cash flows, including in the long term. Paragraphs 12.9–12.10 provide guidance on identifying key factors and trends.</p> <p>Those factors and trends might include ones relating to the natural environment, society or related regulations (see paragraphs 12.4(c)–12.4(e)).</p> <p><i>A car manufacturer expects that possible changes in climate-related regulations would affect it adversely if they are enacted. In response, management has adopted a zero-carbon strategy to reduce the manufacturer's exposure to those changes, including shifting production to hybrid or fully electric models.</i></p> <p>The manufacturer's management identifies possible changes in climate-related regulations as a key factor in the external environment and provides in management commentary information about those changes (for example, about the expected timing and nature of the changes).</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.3.11</p> <p>Information about key factors and trends in the external environment</p>	<p><i>Continued from example in B.3.10.</i></p> <p>The manufacturer's management commentary explains possible changes in climate-related regulations and assumptions management made in developing its response.</p> <p>Management commentary provides information to help users assess potential effects of the possible changes on the company's prospects (for example, by indicating which of the manufacturer's products might become uneconomic over the range of potential regulatory outcomes and the proportion of revenue generated by those products).</p> <p>The management commentary describes management's zero-carbon strategy and its plans to diversify from the products affected. The management commentary also reports progress in implementing that strategy, including related metrics used by management to monitor progress (for example, carbon emissions of the manufacturer's products and metrics used to monitor the success of newly introduced electric models).</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
Chapter 13—Financial performance and financial position	
<p>B.3.12</p> <p>Key aspects of financial performance and financial position and information about those aspects</p>	<p>Paragraph 13.7 requires management commentary to focus on key aspects of an entity's financial performance and financial position—aspects that are fundamental to understanding an entity's ability to create value and generate cash flows, including in the long term.</p> <p>Paragraph 13.8 provides examples of aspects of financial performance and financial position that could be identified as key. Key aspects could include aspects of financial performance and financial position related to environmental or social matters if understanding those aspects is fundamental to understanding an entity's ability to create value or generate cash flows.</p> <p>Paragraphs 13.4–13.5 require, for an entity's financial performance and financial position, information that meets specified disclosure objectives.</p> <p><i>A company has been fined for failing to comply with environmental regulations. The fine has affected the company's financial performance for the reporting period. The financial statements disclose the amount of the fine and the reasons for it. The company will have to change its business model to comply with the regulations in the future.</i></p> <p>The company's management identifies the fine as a key aspect of the company's financial performance for the reporting period and the management commentary discusses both the fine and how management expects the necessary changes to the business model will affect the entity's future revenue and expenses.</p>

continued...

...continued

Overview of requirements and guidance	Example of a matter that might be key or information that might be material
<p>B.3.13</p> <p>Factors that have affected or could affect financial performance or financial position</p> <p>Paragraph 13.4(a) requires management commentary to provide information to enable users to understand what factors have affected or could affect an entity's financial performance or financial position. It explains that such factors are likely to relate to key matters discussed in other areas of content in management commentary. As illustrated in B.3.3–B.3.11, such matters include environmental and social matters.</p> <p>Paragraph 13.12 provides examples, for factors that have affected or could affect an entity's financial performance or financial position, of information that might be material.</p>	<p><i>A company operates a site that might have to be closed because it is environmentally damaging.</i></p> <p>The company's management commentary describes the revenue and profit generated by the site that would be at risk if the site were to close as well as the expected costs of closing the site.</p>



IFRS[®]

Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**

Email **customerservices@ifrs.org**

ifrs.org

The IFRS Foundation has trade marks registered around the world, including 'FSA[®]', 'IASB[®]', 'IFRS[®]', 'International Financial Reporting Standards[®]', 'ISSB[®]', and 'SASB[®]'. For a full list of our registered trade marks, visit www.ifrs.org.