IFRS Accounting

Staff paper

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Topic	**Targeted refinements—Terminology and supporting explanations**
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Purpose

1. This paper discusses targeted refinements to aspects of the terminology and supporting explanations proposed in the Exposure Draft *Management Commentary* (Exposure Draft) and asks the International Accounting Standards Board (IASB) to make decisions. It covers:

   (a) the terminology used for the attributes of useful information;

   (b) the term 'investors and creditors'; and

   (c) the supporting explanation of the term 'ability to create value'.

2. This paper does not discuss targeted refinements to the attribute of coherence. That topic is covered in Agenda Paper 15C *Targeted refinements—Coherence* for this month's meeting.

3. This paper does not ask the IASB for a decision on whether to replace the term 'key matters' with the term 'key factors', as discussed in paragraphs 34–39 of November 2024 IASB Agenda Paper 15C *Targeted refinements—Key matters*. After considering IASB members' comments and conducting further analysis, the staff noted that the

implications of such a change in terminology can only be fully assessed after the clarifications of the role of the requirement to focus on key matters, which were also discussed at the November 2024 IASB meeting, are reflected in drafting the revised Practice Statement. The staff will therefore continue to review the use of the term 'key matters' in drafting the revised Practice Statement and will consider the need for a future IASB discussion of this topic as a sweep issue.

Structure of the paper

4. The paper is structured as follows:

   (a) the terminology used for attributes of useful information (paragraphs6–29);

   (b) the term 'investors and creditors' (paragraphs 30–33); and

   (c) the supporting explanation of the term 'ability to create value' (paragraphs 34–52).

5. This paper also contains the two appendices:

   (a) Appendix A—illustrates the staff's recommended targeted refinements to the terminology used for the attributes of useful information, using the attribute of neutrality as an example; and

   (b) Appendix B—illustrates the staff's recommended targeted refinements to the supporting explanation of the term 'ability to create value'.

Attributes of useful information

Recap of the proposals

6. Chapter 13 of the Exposure Draft proposed that information in management commentary should be:

   (a) complete, balanced, accurate, clear, concise and coherent; and

   (b) provided in a way that:

(i) enhances comparability—making it easier to compare the information with information provided by the entity in previous periods and with information provided by other entities; and

(ii) enhances verifiability—making it possible to corroborate either the information itself or the inputs used to derive it.

7. Chapter 13 also proposed guidance to help management identify and present information with the required attributes.

8. The Basis for Conclusions explained that the aim of the proposed requirements and guidance was to help address a shortcoming identified in current practice—that information in management commentary is sometimes not useful to investors because it lacks the attributes described in paragraph 6. For example, it sometimes:

(a) is incomplete or unbalanced—for example, lacking information investors need to fully understand the implications of matters discussed, or placing undue emphasis on positive aspects of the entity's performance;

(b) lacks coherence—is fragmented or difficult to reconcile to information in the entity's financial statements or to information in other reports the entity has published; or

(c) lacks comparability—is difficult to compare with information the entity provided in previous periods or with information provided by other entities with similar activities.

9. The IASB derived the proposed requirements and guidance from the descriptions of the qualitative characteristics of useful financial information in the IASB's *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). However, recognising that management commentary is often prepared by individuals who might not be familiar with IFRS Accounting Standards and the *Conceptual Framework*, the IASB proposed plainer terminology for some of the attributes.

10. The table below compares the qualitative characteristics described in the *Conceptual Framework* with the attributes proposed in the Exposure Draft (excluding coherence). Differences are highlighted in *italic* font:

<table>
<tr><th colspan="3">Conceptual Framework qualitative characteristics</th><th>Exposure Draft attributes</th></tr>
<tr><td rowspan="4">Fundamental qualitative characteristics</td><td colspan="2">Relevance (and its entity-specific aspect, materiality)</td><td>Materiality
(see paragraph 11)</td></tr>
<tr><td rowspan="3">Faithful representation</td><td>Completeness</td><td>Completeness</td></tr>
<tr><td>Neutrality</td><td>Balance</td></tr>
<tr><td>Freedom from error</td><td>Accuracy</td></tr>
<tr><td rowspan="4">Enhancing qualitative characteristics</td><td>Understandability</td><td>Clarity and conciseness</td><td>Clarity and conciseness</td></tr>
<tr><td>Comparability</td><td></td><td>Comparability</td></tr>
<tr><td>Verifiability</td><td></td><td>Verifiability</td></tr>
<tr><td>Timeliness</td><td></td><td>Not identified as a required attribute
(see paragraph 12)</td></tr>
</table>

11. The Exposure Draft did not propose to specify ‘relevance’ (capability of making a difference to investors’ decisions) as a ‘required attribute’. For simplicity, it proposed to refer only to materiality, which is an entity-specific aspect of relevance, and provided guidance on identifying material information.

12. The Exposure Draft did not propose ‘timeliness’ as a required attribute. The Basis for Conclusions explained that the timing of publication of management commentary is a local jurisdictional and regulatory matter, and management commentary can be useful even if it is published after the related financial statements.

Feedback received

13. Paragraphs 14–18 of this paper summarise the feedback received on the attributes of useful information that is relevant to this paper, which is focused on the terminology used for those attributes. See April 2022 IASB Agenda Paper AP15D: *Feedback summary—Completeness, balance, accuracy and other attributes* for more information on the feedback received on the attributes of useful information.

14. Many respondents commented on the proposed requirements and guidance on the attributes of information in management commentary. Most of those respondents broadly supported the proposals, either expressing unqualified agreement or suggesting only limited refinements.

15. As reported in Agenda Paper 15B *Feedback summary—Investor feedback* for the IASB's March 2022 meeting, all investors commenting:

    (a) agreed with the IASB's analysis of common shortcomings of management commentary;

    (b) supported the proposed requirements for information in management commentary to be complete, balanced and accurate;

    (c) agreed that information is more useful to investors if it is also clear and concise, comparable and provided in a way that enhances its verifiability; and

    (d) supported the proposed guidance to help management ensure that information in management commentary possesses these attributes.

16. Some respondents, including some investors commenting, asked the IASB to clarify the relationship between the proposed attributes and the qualitative characteristics of useful financial information described in the *Conceptual Framework* or suggested aligning the proposed attributes more closely with those qualitative characteristics. In particular, most of those respondents suggested aligning the terminology, on the grounds that:

(a) introducing new terms for the same concepts adds complexity and increases the risk of confusion. The relationship between the attributes proposed in the Exposure Draft and the qualitative characteristics described in the *Conceptual Framework* becomes unclear.

(b) the terminology in the *Conceptual Framework* is better—more precise and no less understandable. For example, 'freedom from (material) error' is more understandable and appropriate than 'accuracy' for narrative information, and a better reflection of the level of precision achieved in financial reporting.

(c) those involved in preparing management commentary would generally be familiar with accounting terminology, including the terminology in the *Conceptual Framework*.

(d) replacing 'understandability' with 'clarity and conciseness' results in the loss of useful guidance. In explaining understandability, the *Conceptual Framework* observes that some phenomena are inherently complex and cannot be made easy to understand, but a financial report would not be complete without material information about those phenomena.

(e) in some jurisdictions, local laws require an entity's board of directors to confirm that the entity's annual financial report (which includes both management commentary and financial statements) taken as a whole, is fair, balanced and understandable. The Practice Statement should avoid terms that are used with a possibly different meaning in local requirements.

17. Some respondents suggested that, before finalising the Practice Statement, the IASB should consider requirements and guidance issued by the International Sustainability Standards Board (ISSB), or work with the ISSB to develop attributes that could be specified by both boards in their future requirements.

18. A few South African respondents suggested giving further consideration to the guiding principles set out in the Integrated Reporting Framework.

Subsequent developments

19. In June 2023, the ISSB issued the inaugural IFRS Sustainability Disclosure Standards. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires an entity to disclose information about all sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions related to providing resources to the entity. IFRS S1 also prescribes how an entity prepares and reports its sustainability-related financial disclosures, including general requirements for the content and presentation of those disclosures.

20. In particular, the Conceptual Foundations section of IFRS S1 states that for sustainability-related financial information to be useful, it must be relevant and faithfully represent what it purports to represent, which are fundamental qualitative characteristics. The usefulness of sustainability-related financial information is enhanced if the information is comparable, verifiable, timely and understandable. These fundamental and enhancing qualitative characteristics of useful sustainability-related financial information are detailed in Appendix D of IFRS S1, which specifies the same attributes using the same terminology as the *Conceptual Framework* (except that 'freedom from error' in the *Conceptual Framework* is referred to as 'accuracy' in IFRS S1).

21. In August 2022, the Integrated Reporting Framework became part of the materials of the IFRS Foundation following the consolidation of the IFRS Foundation with the Value Reporting Foundation. In May 2023, the IASB discussed the joint staff analysis of the similarities and differences between the Exposure Draft and the Integrated Reporting Framework (see Agenda Paper 15A *Education Session—Comparison between Management Commentary Exposure Draft and the Integrated Reporting Framework*). The analysis indicated broad alignment between the guiding principles

in the Integrated Reporting Framework and their equivalents in the Exposure Draft, as illustrated in the table below:[1]

The Integrated Reporting Framework	The Exposure Draft
Strategic focus and future orientation	Factors that could affect ability to create value and generate cash flows across all time horizons, including in the long term
Connectivity of information	Coherence
Stakeholder relationships	Resources and relationships
Materiality	Materiality
Reliability and completeness	Completeness, balance, accuracy, verifiability
Consistency and comparability	Comparability

Staff analysis

22. Based on feedback received and subsequent developments outlined in this paper, the staff think that, in general, it is not necessary for the IASB to reconsider the proposed requirements and guidance on the attributes of useful information in management commentary. More specifically, in the staff view, the IASB does not need to reconsider *which* attributes of useful information to include in the revised Practice Statement or the supporting guidance for those attributes, given that:

(a) most respondents—including the investors commenting—broadly supported the proposals.

(b) the IASB's agreed approach to its redeliberations is to focus on targeted refinements only.

(c) the proposed requirements and guidance have been derived from the descriptions of qualitative characteristics of useful financial information in the *Conceptual Framework* and are generally aligned with the qualitative characteristics used in IFRS Accounting Standards.

(d) the proposed requirements and guidance are also generally aligned with the qualitative characteristics of sustainability-related financial information in

[1] The analysis acknowledged that in practice, differences can arise in identifying material information.

IFRS S1, which were also derived from the *Conceptual Framework*. There is also broad alignment between the guiding principles in the Integrated Reporting Framework and their equivalents in the Exposure Draft.

(e) although there are some differences between the attributes proposed in the Exposure Draft and the *Conceptual Framework* (see paragraphs 10–12), neither the feedback received nor subsequent developments indicate a need to reconsider the rationale for those differences.

23. However, the staff think that the IASB should consider targeted refinements to the terminology used for the attributes of useful information in the Exposure Draft. As noted in paragraph 9, the IASB proposed plainer terminology for some of the attributes because management commentary is often prepared by individuals who might not be familiar with IFRS Accounting Standards and the *Conceptual Framework*. For example, the term 'balance' in the Exposure Draft is referred to as 'neutrality' in the *Conceptual Framework*.

24. As noted in paragraph 16, some respondents suggested aligning the terms used for the proposed attributes with the terms used in the *Conceptual Framework*. For example, they said that introducing new terms for the same concepts adds complexity and increases the risk of confusion. Other respondents pointed out that those involved in preparing management commentary would generally be familiar with accounting terminology, including the terminology in the *Conceptual Framework*.

25. In addition, the terminology used to describe the qualitative characteristics of useful sustainability-related financial information in IFRS S1 is the same as the terminology used in the *Conceptual Framework* (except that 'freedom from error' in the *Conceptual Framework* is referred to as 'accuracy' in IFRS S1).

26. Therefore, based on the feedback received and subsequent developments, the staff think that the IASB should align the terminology (that is, the labels) used for the attributes proposed in the Exposure Draft with the terminology used in the *Conceptual Framework*, that is:

(a) change ‘balance’ to ‘neutrality’;

(b) change ‘accuracy’ to ‘freedom from error’; and

(c) change ‘clarity and conciseness’ to ‘understandability’.

27. However, the staff also think that the plain language used in the Exposure Draft should be retained in the supporting explanations for those attributes. This approach would help to ensure that the attributes are understandable to preparers of management commentary, including those unfamiliar with the terminology used in the *Conceptual Framework*.

28. Appendix A illustrates the staff’s recommended approach, using the attribute of ‘neutrality’ (referred to as ‘balance’ in the Exposure Draft) as an example.

Staff recommendation

29. The staff recommend that the IASB:

(a) aligns the terminology used in the Exposure Draft with the terminology used in the *Conceptual Framework* for the same attribute; and

(b) retains the plain language used in the supporting explanations for those attributes.

Question 1 for the IASB
Do you agree with the staff recommendation in paragraph 29 to: (a) align the terminology for the same attribute with the *Conceptual Framework*; and (b) retain the plain language used in the supporting explanation for these attributes?

Investors and creditors

30. Management commentary is prepared to meet the information needs of an entity’s investors and creditors. Appendix A of the Exposure Draft defines the term ‘investors

and creditors' as the 'primary users of an entity's general purpose financial statements and management commentary—existing and potential investors, lenders and other creditors'. The Appendix to the *Conceptual Framework* defines the term 'primary users (of general purpose financial reports)' as 'existing and potential investors, lenders and other creditors'. That definition is consistent with the definition of the term 'primary users of general purpose financial reports (primary users)' in Appendix A of IFRS S1.[2]

31. Therefore, although the proposed definition of the term 'investors and creditors' in the Exposure Draft is consistent with the *Conceptual Framework* and IFRS S1, the terminology (or label) used for that term—investors and creditors—uses plain language, compared with the more technical terminology 'primary users of general purpose financial reports' used in both the *Conceptual Framework* and IFRS S1. Similarly, IFRS Accounting Standards often refer to 'users of financial statements'.

32. In the staff's view, it would be consistent with the staff recommendation in paragraph 29 to align the terminology used for the attributes of useful information with the *Conceptual Framework* to also align the term 'investors and creditors' with the terminology used in *Conceptual Framework*. This targeted refinement would also result in aligned terminology with IFRS S1 and be more consistent with the terminology used in IFRS Accounting Standards.

33. The staff therefore recommend replacing the term 'investors and creditors' with the term 'primary users of general purpose financial reports'. However, in drafting the revised Practice Statement, the staff will consider if some references to 'investors and creditors' should be retained, to aid understandability of the revised Practice Statement.

[2] The Integrated Reporting Framework also uses a similar definition to refer to the primary audience of an integrated report: equity and debt holders and others who provide financial capital, both existing and potential, including lenders and other creditors. The label used for the defined term in the Integrated Reporting Framework is 'providers of financial capital'.

Question 2 for the IASB
Do you agree with the staff recommendation in paragraph 33 to replace the term ‘investors and creditors’ with the term ‘primary users of general purpose financial reports’?

Ability to create value

Recap of the proposals

34. The Exposure Draft proposed that the objective of an entity’s management commentary is to provide information that:

(a) enhances investors and creditors’ understanding of the entity’s financial performance and financial position reported in its financial statements; and

(b) provides insight into factors that could affect the entity’s ability to create value and generate cash flows across all time horizons, including in the long term.

35. Paragraphs 3.11–3.12 of the Exposure Draft explained that:

(a) the term ‘ability to create value’ refers to an entity’s ability to create or preserve value for itself and hence for its investors and creditors (which some people refer to as ‘enterprise value’).

(b) an entity’s activities create value if they enhance or preserve the present value of the entity’s future cash flows. Conversely, an entity’s activities erode value if they reduce the net present value of the entity’s future cash flows.

(c) creating value is a precursor to generating cash flows. Activities that create value might require a net cash outflow in the short term but can enhance an entity’s prospects for future cash flows in the long term. 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.

36. Paragraph 3.13 of the Exposure Draft explained that '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 or erode for other parties—for example, customers, suppliers, employees or society in general. However, management commentary includes material information about the impacts of an entity's activities on other parties if those impacts could affect the entity's ability to create value for itself.

37. Similarly, paragraph 5.7(c) of the Exposure Draft proposed that information about the entity's business model should enable investors and creditors 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. The accompanying note explained that 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 in general.

38. Paragraph BC56 of the Basis for Conclusions to the Exposure Draft explained that because the IASB is focused on meeting investors and creditors' information needs, its notion of value creation does not include creating value for other parties, such as customers, employee or society in general, unless creating or destroying value for those other parties could affect an entity's ability to create value for itself. For example, an entity might need to describe its adverse impacts on the natural environment if those impacts could lead to future regulation or societal pressure that could curtail the entity's activities or that could impose additional costs on the entity.

39. Paragraphs BC57–BC58 of the Basis for Conclusions further explained:

(a) the IASB's view that the notions of value creation and prospects for generating cash flows are closely related; and

(b) the IASB's approach of referring to both value creation and cash flow generation to emphasise the need for management commentary to provide a long-term view and to emphasise the link between value creation and the entity's performance.

40. In developing these proposals, the IASB built on innovations in narrative reporting, including the Integrated Reporting Framework.

Feedback received

41. Most respondents commenting on the proposed objective of management commentary agreed with the notion of value creation as set out in the Exposure Draft.

42. Some respondents suggested that the discussion of the notion of value creation in the Exposure Draft would benefit from closer alignment with the concepts articulated in the Integrated Reporting Framework, in particular:

    (a) explaining how an entity's ability to create value for itself is linked to the value the entity creates for others;

    (b) referring to 'value creation, preservation or erosion' to encourage a more balanced discussion of the entity's activities; and

    (c) linking the notion of value creation, preservation or erosion to changes—increases, decreases or transformations—over time in the six forms of capital described in the Integrated Reporting Framework (namely financial, manufactured, intellectual, human, social and relationship, and natural capitals) and not simply to the present value of future cash flows.

43. Furthermore, respondents had various suggestions on improving the terminology used to refer to an entity's ability to create value for itself, including:

    (a) using a term such as 'enterprise value' throughout the document to distinguish creating value for the entity itself from the broader notion of creating value for other parties;

    (b) clearly defining the term 'enterprise value' or else avoiding this term;

(c) collaborating with the ISSB on a consistent definition of terms such as 'value creation' and 'enterprise value'; and

(d) considering whether it is redundant to refer to an entity's ability to 'create value' and 'generate cash flows' if value creation is defined in terms of the present value of future cash flows.

Subsequent developments

Comparison between the Exposure Draft and Integrated Reporting Framework

44. As mentioned in paragraph 21, in August 2022, the Integrated Reporting Framework became part of the materials of the IFRS Foundation following the consolidation of the IFRS Foundation with the Value Reporting Foundation. In May 2023, the IASB discussed the joint staff analysis of the similarities and differences between the Exposure Draft and the Integrated Reporting Framework (see Agenda Paper 15A). The analysis indicated that:

(a) the Exposure Draft and the Integrated Reporting Framework incorporate similar principles and notions of value creation. Furthermore, an entity's 'resources and relationships' or 'capitals' play a prominent role in both documents.

(b) management commentary and integrated report have similar objectives, providing investors with insights for assessing an entity's prospects. In practice, integrated reports are sometimes adapted to meet information needs of other audiences.

(c) both the Exposure Draft and the Integrated Reporting Framework focus on the entity's ability to create value for itself, and on the entity's impacts on others to the extent those impacts affect that ability. However, while the Exposure Draft emphasises the link between value for the entity and cash flows, the Integrated Reporting Framework emphasises the link between value for the entity and value created, preserved or eroded for other parties. The Integrated Reporting Framework defines value creation, preservation and erosion in terms of changes—increases, decreases or transformations—in the six capitals.

IFRS Sustainability Disclosure Standards

45. As mentioned in paragraph 19, in June 2023, the ISSB issued the inaugural IFRS Sustainability Disclosure Standards. Paragraph 2 of IFRS S1 states:

> Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. […]

46. Paragraphs B1–B4 of IFRS S1 elaborate on these concepts. In particular, those paragraphs:

    (a) provide examples that illustrate the close relationship between the value the entity creates, preserves or erodes for others and the entity's own ability to succeed and achieve its goals; and

    (b) explain that resources and relationships that an entity depends on and affects by its activities and outputs can take various forms, such as natural, manufactured, intellectual, human, social or financial.

47. These concepts and explanations are derived from the concepts of the Integrated Reporting Framework referred to in paragraph 44. It should be noted that the six forms of capital described in the Integrated Reporting Framework are described as 'resources and relationships' in IFRS S1.

48. The ISSB does not use the term 'enterprise value' in its inaugural Standards in the light of the feedback received on its Exposure Draft *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1 Exposure Draft). Paragraph BC36 of the Basis for Conclusions on IFRS S1 explains that:

(a) some respondents requested more clarity about the concept of 'enterprise value' and others questioned whether 'enterprise value' was an appropriate term for anchoring sustainability-related financial disclosures and material information.

(b) the ISSB intended the term 'enterprise value' to describe the scope of sustainability-related financial disclosures so that those disclosures capture a wider set of information than an entity's current financial position and performance but only include information about sustainability-related risks and opportunities that is useful to users of general purpose financial reports.

(c) contrary to the ISSB's intention, using this term might have constrained the intended objective of sustainability-related financial disclosures and created confusion for some respondents. For example, some stated that 'enterprise value' can be defined or understood too narrowly and many others interpreted the reference to market capitalisation in the proposed definition of 'enterprise value' as meaning that the term applied only to listed entities.

Targeted outreach with Integrated Reporting stakeholders

49. Following the IASB's decision to finalise the Management Commentary project, the staff and members of the IASB attended the June 2024 Integrated Reporting and Connectivity Council (IRCC) meeting followed by more in-depth discussions with members of the IRCC[3] and representatives of the Integrated Reporting Communities, to seek their input on possible targeted refinements to the IASB's proposals to facilitate greater alignment between the revised Practice Statement and the Integrated Reporting Framework. In relation to the notion of value creation, the staff invited views on a possible targeted refinement to clarify that there is a close relationship between an entity's ability to create value for itself—and hence to generate cash flows—and the value that the entity creates, preserves or erodes for other parties.

[3] ircc-terms-of-reference-2022.pdf (ifrs.org)

50. Integrated reporting stakeholders generally supported this possible targeted refinement. They expressed a view that the supporting explanation of the term 'ability to create value' proposed in the Exposure Draft does not sufficiently recognise that the entity's impacts on its stakeholders, the environment and society in general could ultimately affect the entity's ability to create value for itself and to generate cash flows in the short, medium and long term. Also, given that the concepts and principles of the Integrated Reporting Framework have been embedded into IFRS S1, which uses more up-to-date language based on the evolution of thinking on this topic, some of these stakeholders suggested that the IASB should align the explanation of the term 'ability to create value' more closely with the language used in IFRS S1.

Staff analysis

51. The staff think that aligning the explanation of the term 'ability to create value' more closely with IFRS S1 and the Integrated Reporting Framework would:

(a) be consistent with the IASB's intention in the Exposure Draft, which already recognises the relationship between the value the entity creates for itself and the impacts of the entity's activities on other parties;

(b) respond to feedback received on the Exposure Draft and the recent feedback in the targeted outreach with integrated reporting stakeholders;

(c) take into account the evolution in the reporting landscape after the Exposure Draft was published, including the feedback received by the ISSB on the IFRS S1 Exposure Draft;

(d) be consistent with the IASB's tentative decision to make targeted refinements to the proposals in the Exposure Draft;

(e) support greater alignment between the revised Practice Statement and the Integrated Reporting Framework; and

(f) promote connectivity between the revised Practice Statement and IFRS Sustainability Disclosure Standards and help preparers who apply the revised Practice Statement and those Standards together.

Staff recommendation

52. The staff recommend that the IASB:

(a) clarifies that an entity's ability to create value for itself—and hence to generate cash flows—is inextricably linked to the value the entity creates, preserves or erodes for other parties, the economy and the natural environment across all time horizons, including in the long term; and

(b) removes the observation that some people refer to the value an entity creates for itself as 'enterprise value'.

Question 3 for the IASB
Do you agree with the staff recommendation in paragraph 52 to: (a) clarify that an entity's ability to create value for itself—and hence to generate cash flows—is inextricably linked to the value the entity creates, preserves or erodes for other parties, the economy and the natural environment across all time horizons, including in the long term; and (b) remove the observation that some people refer to the value an entity creates for itself as 'enterprise value'?

Appendix A—Illustrative drafting: attributes of useful information

This appendix contains an example to illustrate the staff recommendation in paragraph 29 to make targeted refinements to the terminology used for the attributes of useful information. New text is underlined and deleted text is struck through.

Neutrality~~Balance~~

13.7 Information in management commentary shall be ~~balanced~~neutral. Information is neutral when it is balanced, so ~~if it~~ is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that investors and creditors will receive that information favourably or unfavourably.

13.8 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.

13.9 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 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

Illustration	
(e)	uses unduly positive or negative language, leading to a biased tone.

13.10 Some matters discussed in management commentary—for example, 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.

Appendix B—Illustrative drafting: ability to create value

This appendix illustrates the staff recommendation in paragraph 52 to make targeted refinements to the supporting explanation of the term 'ability to create value'. New text is underlined and deleted text is struck through. This appendix also includes an extract from Chapter 5 of the Exposure Draft, for reference only.

Ability to create value

3.11 In this [draft] 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. ~~Some people refer to the value an entity creates for itself as 'enterprise value.~~

3.12 An entity's activities create value if they enhance or preserve the present value of the entity's future cash flows. Conversely, an entity's activities erode value 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.

3.13 In this [draft] 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 in general. However, an entity's ability to create value for itself—and hence to generate cash flows across all time horizons, including in long term—is inextricably linked to the value the entity creates, preserves or erodes for those other parties, the economy and the natural environment. Therefore, management commentary includes material information about the impacts of an entity's activities on other parties 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.

Extract from Chapter 5 [for reference only]

5.7 The information about the entity's business model shall enable investors and creditors to understand:

[…]

(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 in general. 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.