Insights on Management Commentary in financial reports:

The views of users, preparers and auditors

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Abstract

Purpose

New Zealand (NZ) has no reporting standard or guidance for management commentary (MC) that accompanies financial reports. This is unusual, considering MC is provided by many entities and valued by users. Further, the guidance on MC provided by the International Accounting Standards Board (IASB) in their *Management Commentary Practice Statement 1* (MCPS 1), which was issued in 2010, is currently under review. Thus, the purpose of this research is to examine the views of NZ's financial reporting stakeholders particularly users, preparers, and auditors of financial reports for insights regarding the usefulness of MC.

Design/Methodology

To gain insights into the views of NZ's financial reporting stakeholders on MC, we surveyed users, preparers and auditors of financial statements. This paper includes an analysis of their views on the objectives, content and principles that should underlie MC in financial reporting, based on the IASB's MCPS 1 with consideration of recent work by the IASB on the revision of MCPS1. In addition, the analysis provides insights as to whether the reporting of MC should be made mandatory, and whether assuring MC would increase its usefulness.

Findings

We found that auditors generally view MC as less useful and more in need of assurance, than do preparers and users. Respondents' ratings indicate that the most important objective for MC is 'to enable the assessment of the quality of management's stewardship'. 'Assessing the entity's future prospects', and 'assessing future cash flows' are also highly rated objectives. The most important principle in preparing MC is identified as 'focus on the most important and relevant information', while the most important content element identified is 'the entity's financial performance and position, and cash flows.'

Originality/Value

We highlight the views of various stakeholders regarding MC reporting, particularly preparers and auditors whose views have not been noted previously in the literature. Also, this study should be of interest to both international and national financial reporting standard setters and regulators. It is particularly timely in view of the current IASB work towards revision and updating of MCPS1, as it provides current insights into what users, preparers and auditors perceive as the most important considerations for MC. The study also has implications for the XRB in NZ, where there is no prior research on stakeholders' views on MC.

Keywords*:* Management commentary, financial reports, assurance, New Zealand

1. Introduction

The International Accounting Standards Board (IASB) resolved, at its November 2017 meeting, to revise and update IFRS Practice Statement 1 *Management Commentary* (MCPS1) (IASB, 2010). At the time of writing, an exposure draft is expected in the first half of 2021 (IASB, 2020). This recent focus on updating MCPS1 is timely, owing to developments in wider corporate reporting since it was first issued in 2010. The proliferation and diversity of reporting innovations and initiatives since 2010 include Integrated Reporting, the Task force on Climate-related Financial Disclosures recommendations, the Global Reporting Initiative's Sustainability Reporting Standards and the United Nations Sustainable Development Goals. The MCPS 1 revision and update is intended to assist management in dealing with narrative reporting requirements in the face of this increasingly complex and potentially confusing non-financial reporting environment. It is also intended to address gaps in non-financial narrative reporting, such as insufficient focus on the longer-term, and fragmented (as opposed to coherent, integrated) reporting (IASB 2019b). MCPS1 was originally issued to improve the consistency of management commentary (MC) disclosures globally. This practice statement provides some broad but non-binding guidance. In short, MCPS1 identifies the users of MC and outlines some content and presentation principles.

Various jurisdictions have responded by issuing similar guidance. In 2013, the Australian Securities and Investments Commission issued Regulatory Guide (RG) 247, *Effective Disclosure in an Operating and Financial Review* (OFR). RG 247 is for listed entities only and discusses the overall principles that should underlie the preparation of an OFR and related disclosures. Similarly, the UK Financial Reporting Council, in 2014, issued *Guidance on the Strategic Report*, which replaced the 2006 Accounting Standards Board's Reporting Statement: *Operating and Financial Review*. The newer UK guidance addresses the principles and content elements in companies' strategic reports that are required by company law.

Developments in the European Union (EU) have been more prescriptive and more extensive. In 2014, the European parliament and Council issued 'Directive 2014/95/EU' for Europe's member states. This legal directive requires large public-interest companies (i.e., those with over 500 employees) to include in their management commentary a 'non-financial statement'. This statement should include information sufficient for an understanding of the undertaking's development, performance, and position, as well as its impact on/management of environmental, social and employee matters, respect for human rights, anti-corruption and bribery, and diversity on company boards (European Commission, 2014). Since 2014, the European Commission has published two sets of guidelines to accompany Directive 2014/95/EU - in 2017 on disclosure of environmental and social information and in 2019 on climate-related information. A more recent and potentially more important evolutionary development, arose in April 2021, when the European Commission adopted a proposal for a new 'Corporate Sustainability Reporting Directive'. This proposal envisages major changes, including: (a) more detailed reporting requirements in terms of mandatory EU sustainability reporting standards which are to be developed and adopted by October 2022; (b) assurance of reported information; and (c) extension of these requirements to a wider range of companies (European Commission, 2021).

No such reporting requirements or guidelines for the disclosure of MC have, as yet emerged in New Zealand (NZ). It is likely however, that MCPS1 and regulatory requirements in other countries, have influenced voluntary MC disclosures in NZ. NZ's approach was arguably more farsighted, as a report issued by their External Reporting Board (XRB)[1] suggests that they have been taking a broader view from as early as 2011, building on research related to the emergence of Integrated Reporting (XRB, 2018). This research has carried through to two surveys conducted in 2017 to cover a wider field that has come to be known as 'Extended External Reporting' (EER)[2]. Preparers and users of EER, were asked for their perspectives in these surveys, which the XRB report analysed and compared, to offer insights on the current state of EER. Key findings from that XRB report offer particularly relevant background to this study. We expand on these findings towards the end of section 3 below.

NZ can be classed, in terms of financial reporting standards, as a standards taker (Bradbury, 1999). The XRB explains that its Accounting Standards Framework lays out NZ's financial reporting strategy and that this involves a multi-standards, multi-tiered approach (XRB, 2021). This in turn involves two different suites of standards for two distinct sectors, namely for-profit entities, and public benefit entities. Entities in each sector are also categorised into 'tiers', depending on the nature and size of these entities (e.g., Tier 1 for-profit entities have the most onerous requirements, as they have public accountability or satisfy criteria for being classified as 'large'). For the purposes of this study, we focus on Tier 1 for-profit entities and their reporting. The applicable standards in NZ for this sector are based on International Financial Reporting Standards (IFRSs) and are referred to as 'New Zealand equivalents to International Financial Reporting Standards' (NZ-IFRSs).

The XRB has an "adopting international standards" approach, and accordingly, the NZASB normally issues NZ-IFRSs in respect of each pronouncement made by the IASB. IFRS standards have been in use in NZ since 1 January 2005 by early adopters. Under NZ IAS 1 *Presentation of Financial Statements* (equivalent to IAS 1 *Presentation of Financial Statements*), an entity complying with IFRSs makes an explicit and unreserved statement of such compliance in their notes. This statement can only be made by a for-profit entity applying 'Tier 1' NZ IFRSs. Although there are some differences between NZ-IFRSs and IFRSs, these tend to be additional to IFRS requirements and so do not affect such compliance claims (e.g., to accommodate the NZ legislative environment, or to mandate some additional disclosures).

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[1] The XRB is an independent 'Crown Entity' established under New Zealand law. It is responsible for, *inter alia*, financial reporting strategy and issuing New Zealand's accounting standards. It delegates responsibility for accounting standards to its appointee, the New Zealand Accounting Standards Board (NZASB).

[2] "EER" encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance matters." (International Auditing and Assurance Standards Board [IAASB], 2019). See also the XRB's position statement on EER for an expanded explanation (XRB, 2019).

NZ standard setters (XRB/NZASB) are active participants in international standard setting through representation on international standard setting boards and regular submissions and contributions to the international standard setting processes (Cordery and Simpkins, 2016). However, the overall philosophy of standard setting and adoption of financial reporting and accounting standards in NZ has been, since 2007, and in particular in the for-profit standards setting space, that of close alignment with IFRS so that the NZ for-profit entities are eligible to assert full compliance with IFRS and take advantage of that compliance when participating in international equity markets. In that sense NZ financial reporting and accounting standard setting could be described as conservative.

In relation to MC and the use of MCPS 1, MC is classed in NZ as EER. Since such management reporting of this nature is voluntary in New Zealand and given our argument that NZ standards setters are conservative standards takers, preparers and auditors of information in annual reports are more likely to rely on available international guidance, such as MCPS 1, than to seek to innovate.

Prior literature on MC centres around the release of MCPS1 in 2010 and its application soon thereafter. Since then, the context within which MC needs to be considered has changed considerably. One major example of such change is the increasing importance society and governments are attaching to climate change reporting, and the implications this has for the emergence of EER. In the light of this changing context, the need for research to update our understanding of stakeholders' views on MC is the prime motivation for this research paper.

To gain insights into the views of NZ's financial reporting stakeholders, we surveyed users, preparers and auditors of financial statements. This paper includes an analysis of their views on the objectives, content and principles that should underlie MC in financial reporting. In addition, the analysis provides insights as to whether the reporting of MC should be made mandatory, and whether assuring MC would increase its usefulness.

Our findings indicate that 'assessment of the quality of management stewardship' is the most important objective of MC. 'Assessment of short-term prospects', as well as 'assessment of long-term prospects' are also highly rated objectives. The usefulness of all MC content elements surveyed is rated lower by auditors than by preparers or users. Commentary about 'entity position, performance and cash flows' is rated as the most useful of the content elements, followed by 'management's long-term financial objectives and strategies'. However, the content element on 'the entity's objectives, strategies and performance regarding other environmental, social and governance factors' is rated the least useful. The most important principle identified relating to preparation of MC is 'focus on the most important and relevant information', followed by 'clear and straightforward' presentation. These findings are consistent with the conservative 'standards-taker' environment described earlier for financial reporting in New Zealand. In addition, our findings indicate support for the mandatory reporting of MC by all groups. However, majority support for assurance of MC is found only within our auditor respondents' group. Our findings also support the recent work by the IASB on the revision of MCPS1.

We contribute to the literature in unique ways by highlighting the views of various stakeholders regarding MC reporting, particularly preparers and auditors whose views have not been noted previously in the literature. Also, this study contributes to the standards setting process and should be of interest to both international and national financial reporting standard setters and regulators. It is particularly timely in view of the IASB's work, at the time of writing, towards revision and updating of MCPS1, as it provides current insights into what users, preparers and auditors perceive as the most important considerations for MC. The study also has implications for the XRB in NZ, where there is no prior research on stakeholders' views on MC and should indicate whether MC should be assured and/or made mandatory. Our study also contributes to the wider and growing body of literature on EER.

The paper proceeds as follows. Section 2 discusses the background and agenda of the IASB on MC, section 3 provides a literature review, section 4 discusses the theoretical framework and section 5 outlines the research methodology. In section 6, we report and discuss the survey results and in section 7 we summarise, conclude and suggest areas of future research.

2. Background and IASB Agenda on Management Commentary

2.1 Background

The IASB's MCPS1 (2010) describes MC as a narrative report that relates to financial statements prepared in accordance with IFRS. This report is intended to provide management with an opportunity to explain their perspective which, in turn, also provides users with additional context within which to interpret an entity's financial position, financial performance and cash flows.

MCPS1 (2010) describes the purpose of MC as being to: (a) provide management's view of performance, position and progress and (b) supplement and complement what is in the financial statements. This is further explained as requiring the inclusion of *forward-looking information* as well as the *qualitative characteristics* that the Conceptual Framework for Financial Reporting regards as being necessary in order to inform and to be useful. The fundamental characteristics of MC are *relevance* and *faithful representation*; enhancing characteristics being *comparability, verifiability, timeliness* and *understandability*. *Materiality* is a further 'qualitative characteristic'.

Several additional characteristics are described in MCPS1 (2010) under the heading 'Presentation'. These include that MC should be *clear and straightforward*; *consistent with the related financial statements*; *avoid duplication of disclosure in the financial statements*; and *avoid generic disclosures*.

The remainder of MCPS1 (2010) describes the 'elements' of MC, which include: the nature of the business; management's objectives and its strategies for achieving those objectives;

major resources, risks and relationships of the entity; its results and future prospects; and key performance measures and indicators used.

2.2 IASB Agenda: Management Commentary project

The IASB in March 2017, initiated a review of MCPS1, as part of a decision to play a more active role in wider reporting initiatives or EER, given the growth and increasing prominence of such initiatives (IASB, 2017a). Research considered by the Board (IASB, 2017b) notes that MCPS1 predates many important developments in EER and, as an example, provides a comparison of the Integrated Reporting Framework (IRF) and MCPS1. It further suggests that a revised MCPS1 could contribute to the work of the Task Force on Climate-Related Financial Disclosures (TCFD), as there is evidence that the original MCPS1 was an important positive influence on the work of the Climate Disclosure Standards Board (CDSB).

Since then, the IASB's project history records reveal that the revision of MCPS1 has been a regular agenda item at its Board meetings, supporting the procedural legitimacy (Suchman, 1995) of the IASB for standard-setting through transparent processes, as advanced by Bamber and McMeeking (2016). In January 2019, the IASB's Management Commentary Consultative Group (MCCG) recommended (IASB, 2019c) that the revised version of MCPS1:

- Should not be overly prescriptive;
- Should include more guidance on other types of measures (referred to as non-financial measures);
- Should require management to report the types of performance analysis they use internally (i.e. bridge analysis, scenario analysis and sensitivity analysis).
- Should require reconciliations of metrics used for management compensation to the closest measures presented in the financial statements.

Further consultation by the IASB revealed that investors and creditors wanted information about the availability of financial resources to the reporting entity, and how management manages financial resources. In particular, they are concerned with whether the entity can obtain sufficient financial resources to cover operations, as well as how such resources are allocated and monitored (IASB, 2020a). Investors and creditors are also interested in financing decisions and the execution of management strategy. Information helping investors and creditors make their own assessments of the entity's prospects plus management's stewardship of resources, is also seen as particularly important, as opposed to simply relying on management's predictions of the future (IASB,2020a).

The IASB's focus since March 2020 has been on the disclosure objectives of MC and related supporting guidance to be included in the revised MCPS1. The IASB has decided that the overall objective of MC should be to support investors and creditors in assessing future cash flow prospects and management's stewardship. They illustrate how these lead to underlying objectives concerned with understanding performance and position (i.e., the past), as well as with gaining insights into what may affect the entity in the future. The main areas of content for which entities must meet disclosure objectives were determined as being: (1) operating environment; (2) business model; (3) strategy; (4) resources and relationships; (5) risks; and (6) performance, position and progress (IASB, 2020e). The IASB considered items 2, 3 and 4 at its April 2020 meeting, items 1 and 5 at its May 2020 meeting, and the final item (6) at its July 2020 meeting (IASB, 2020d).

The latest available update at the time of writing was from July 2020, which indicates that the planned publication date for the revised MCPS exposure draft is February 2021 (IASB, 2020b).

In summary, MCPS1 remains the current IASB guidance. However, since 2017 this guidance has been under review, with an expectation that an exposure draft is to be issued in 2021. This study, therefore, summarises progress with the IASB's review of MCPS1, as well as contributing to related discourse by exploring the views of users, preparers and auditors of MC in NZ.

3. Literature review

Prior research on MC in corporate annual reports has focussed on the characteristics of voluntary reporting of narratives, including MC, the chairman's statement, and the importance of management discussion and analysis (MD&A).[3] These studies examined the characteristics and implications of the narrative disclosures, especially for investors (Li, 2008; Davis and Tama-Sweet, 2012; Lundholm *et al.*, 2014). They show that narrative reporting in annual reports is found to be valuable to various user groups. However, quantity of information is not always backed up by quality, and some guidance regarding MC is needed.

The release of MCPS1 in 2010 and its predecessor, the IASB discussion paper on MC in 2005 with similar guidance (Deloitte, 2005), triggered several studies on MC across various countries.

One such early NZ based study by Chatterjee et al. (2011) examined whether MC, as presented in the annual reports of Top 50 listed companies in NZ during the period 2002-2006, met the required qualitative characteristics specified in the IASB 2005 proposals on MC. Requirements related to 'relevance' and 'supportability' were found to have been met, but not those on 'balance' and 'comparability'. The investigated companies were also found to have over-emphasised good news and, generally, under-disclosed bad news. The authors argued for more balance in MC.

Theis et al. (2012) found that the order of information in MC (risk and opportunities in particular), has a significant influence on an individual's assessment of the economic position

[3] A second stream of studies on MC and MD&A examines textual, readability and communication features. These studies show that impression management through graphic reporting, use of colours, language differences and readability level varies based on level of firm performance (Subramanian *et al.,*1993; Beattie and Jones, 2000; 2001 and 2002; Courtis and Hassan, 2002; Courtis, 2004; Stanton, Stanton and Pires, 2004; Lundholm *et al*., 2014). This research suggests that: (a) narrative disclosures tend to be used to depict a more positive picture of entities; and (b) the readability of annual reports of profitable firms is usually better than that of unprofitable firms.

and prospects of the firm. That is, if the last piece of information presented in MC is positive or negative, it tends to influence users more than if provided earlier in the commentary.

Several studies evaluated disclosures in MC against MCPS1 (2010) guidance, covering China, Malaysia, Italy, Bahrain, and Germany. Yanyuan and Xiaodong (2009) investigated the quality of MC in reports by listed Chinese companies and concluded that MC disclosure by Chinese companies is poor. Arshad et al. (2011) examined the effect of ownership structure on the extent of MC information in Malaysia. They found that family-owned companies have less incentive to disclose comprehensive MC than government-owned companies, particularly if they wish to avoid close monitoring by outside investors. Arshad et al. (2011) propose that in countries characterised by concentrated ownership structure, mandatory reporting requirements could enhance financial reporting infrastructure and provide better investor protection.

Menicucci (2013) assessed the level of forward-looking information in management commentaries of Italian listed companies, in relation to firm characteristics. Her results suggest that companies are generally reluctant to provide forward-looking information in MC. Ginesti et al. (2013) investigated Italian firms' disclosure in MC in response to the (then) new MCPS1 (2010). They found that firms were generally unaffected by the IASB guidance, as disclosures tended to be driven by the requirements of Italian law and specific recommendations of the Italian Securities and Exchange Commission.

Joshi et al. (2013) examined the factors influencing voluntary compliance with MCPS1 (2010) by listed firms in 2010-2011 in Bahrain. They found compliance on average of 72% and that profitability, leverage and industry type have positive and significant relationships with the disclosures in MC.

Catalfo and Wulf (2016) investigated whether MC prepared under MCPS1 (2010) provides information additional to generally under-reported financial information on intangibles in Germany and Italy. They found that MC generally does not provide additional relevant information.

A few professional studies have also investigated MC (Teixeira, 2004; Deloitte, 2006 and Beattie et al, 2008). These studies generally document diverse practices in relation to MCPS1 requirements and an overall lack of consistency in different regulatory regimes.

In NZ, the XRB commissioned two research projects into the information needs of financial statement users for first, Tier 1 (2016) and then, Tier 2 (2017) for-profit entities (XRB 2016, 2017).[4] Findings from those projects highlight the importance of MC for users.

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[4] The NZ Accounting Standards Framework differentiates between Public Benefit Entities and For-Profit Entities and imposes more onerous reporting requirements on entities which are large and have public accountability. Reporting requirements for Tier 1 are more onerous than for Tier 2 (XRB, 2015).

More recently, the XRB (2018) report on EER in NZ also highlights the potential importance of MC as a form of EER. Key findings from that XRB report include that:

- both preparers and users support mandatory filing of annual reports as a simple way of improving access to EER information (annual reports can potentially include MC as well as various other forms of EER);
- there is an increased demand for EER information and independent assurance of such information;
- reporting on companies' goals, strategies and targets is welcomed (however, users want more information than preparers currently provide, and they do not think that the information provided is reported well);
- future oriented information is a key requirement for stakeholder decision-making;
- preparers are often not aware of the range of EER frameworks available;
- views differ as to whether EER should remain voluntary, become mandatory, or be requested on a 'comply or explain' basis.

Thus, research following the release of the IASB discussion paper on *Management Commentary* in 2005 and MCPS1 in 2010 has been diverse. It provides some insights into levels of compliance with MC guidance, factors and firm characteristics that influence compliance and the nature of MC disclosures and shortcomings. However, there is a significant gap in assessing the views of users, preparers and auditors on the usefulness of MC. The extant literature has focused on content analysis of reported MC in relation to MCPS1. In general, the findings indicate that MC practice lacks uniformity across firms and countries. Current data on the perspectives of the users, preparers and auditors of MC, within the context of recent developments in the wider field of EER should, therefore, complement the data on MC shortcomings identified in prior literature and contribute significantly towards efforts to improve MC disclosure. In addition, in recent years, standard setters are placing increased emphasis on assessing whether IFRS is satisfying user needs. These factors provide further motivation for this study.

4. Theoretical framework

This study aims to provide evidence on the usefulness, design, application and assurance of MC, by surveying three groups of financial reporting stakeholders: users, preparers and auditors. We use the *claimant-influencer-collaborator* Stakeholder Theory proposition (Miles, 2017) to classify stakeholders involved in the production and consumption of MC within the financial reporting supply chain of information. We note that, in Stakeholder Theory, the concept of what constitutes a stakeholder is contested (Clarkson, 1995; Kaler, 2002; Freeman et al., 2010; Miles, 2012; Miles 2017). Thus, we classify stakeholders as being engaged (Miles, 2017)[5], acknowledging that there are multiple definitions of what makes an interested party a stakeholder and little consensus on exactly who is a stakeholder.[6] Miles's (2017) multi-dimensional classification of stakeholder theory definitions, uses an essentialist approach to classification based on empirical observation of 885 stakeholder theory definitions. This resulted in fifteen definitional classifications of who a stakeholder is, based on combinations of four main classes. These classes are: 1. Influencer, 2. Collaborator, 3. Claimant and 4. Recipient.

Influencer:
An 'influencer' stakeholder is one that has the capacity to influence the operations of an organisation and has an active strategy to do so. Influencer stakeholders are associated with the highest combination of power and interest in an organisation, i.e. those with critical, probable and time sensitive claims, who hold utilitarian power and a high potential propensity to harm or co-operate (Miles, 2017). The *preparers of financial statements* in the context of this study, involving the production of MC information, are 'influencer' stakeholders.

Collaborator:
'Collaborator' stakeholders are those that co-operate with an organisation but lack active interests to influence the organisation. The 'collaborator' stakeholder does have some ability to influence the organisation and also has some utilitarian power. However, this capacity to influence differs from that of the 'influencer' group because the balance of power lies with the organisation and, as such, the 'collaborator' influencing strategy is a passive one (Frooman, 1999; Miles, 2017). Most users (e.g. equity investors and lenders), and the auditors of financial statements in this research context, are considered 'collaborator' stakeholders.

Claimant:
A 'claimant' stakeholder is an individual, or group that has a claim on an organisation and an associated active strategy to pursue the claim, but lacks the power to guarantee that the claim is attended to by management (Cornell and Shapiro, 1987; Roberts and Mahoney, 2004; Heugens and van Oosterhout, 2002; de Bakker and den Hond, 2008). Thus, claimants do have the potential to influence the organisation, but lack the coercive power to ensure that their claims are attended to (Miles, 2017). They possess a form of entitlement from the organisation, based on an informal or non-fiduciary relationship with the organisation's

[5] Miles (2017:455) notes that her classification model minimises the need to specify and analyse a range of definitions every time a contribution is made to stakeholder theory. She notes: "Contributors can, instead, focus the conceptual enquiry on the hyponym(s) of the stakeholder concept that align(s) with their ideology and focus on specific contribution to knowledge. By acknowledging that the stakeholder concept is essentially contested, with 593 different instantiations, it should be clear to future researchers that repeatedly debating a few instantiations of the concept is, at best, incomplete and, at worst, superficial and misleading".

[6] Prior studies have classified stakeholders to include citizens (Crane et al. 2004), any human agency (Gray et al., 1996), employees; suppliers; government; local, regional and national communities; banks and shareholders (Gamble and Kelly 2001), and firms' management (Reed, 2002), etc.

management, which stems from the acknowledgement of legitimacy through moral responsibility or a duty of care (Miles, 2017). Some of the users of financial statements, such as intermediary advisers and academic researchers involved in the production and consumption of MC information, are considered as 'claimant' stakeholders in this research context.

Recipient:
A 'recipient' stakeholder is an individual or group that is a passive recipient of the impact of organisational activity. Recipient stakeholders can be affected by an organisation's actions, whether to put them at risk (Clarkson, 1994), to impact their interests (Madsen and Ulhoi, 2001) or to receive the organisation's service (Patton, 1978). This stakeholder group may be a passive recipient of the impacts of corporate activity because of mere existence, rather than the consequence of action, as implied in a claim (Miles, 2017). As such, they have no significant influence on an organisation. In the context of this research, and the respondents surveyed, there are no 'recipient' stakeholders.

Thus, the *claimant-influencer-collaborator* classified Stakeholder Theory proposition provides a framework for evaluating MC information that may be useful to stakeholders. This study focuses on the stakeholders involved in the production and consumption of MC information, with emphasis on the preparer ('influencer') and auditor ('collaborator') groups, which have not been highlighted in previous theoretical positioning of stakeholder theory in accounting.[7] The theoretical expectation is that there should be significant differences in perspectives on MC, between the three different classes of stakeholders: preparers of MC information, users of MC information and auditors who evaluate whether MC information conflicts with audited information.

5. Methodology

We develop three main research questions for investigation from our review of MCPS1 and related prior research:

i. What are respondents' views on the objectives, principles and content of MC as currently specified in MCPS1 guidance?
ii. What are respondents' views on the need for mandatory reporting of MC?
iii. What are respondents' views on the need for assurance of MC?

To obtain these views, an on-line survey was developed. We pretested the survey and received feedback from a user of financial reports and staff at the XRB, Australian Accounting Standards Board (AASB) and the IASB. The survey questions are largely based on MCPS1, and

[7] Prior literature uses Stakeholder theory to explain voluntary disclosures with a focus on the claimant group of stakeholders, particularly disclosures for external groups other than management and shareholders (investors) of an organisation (Smith, Adhikari and Tondker, 2005; Boesso and Kumar, 2007; Chatterjee *et al.*, 2011).

the outcomes of the consultation with the pilot users and standard setters. Consequently, some questions, and the order in which they appeared, were modified in response to feedback. The survey questions are provided in Appendix A.

We surveyed three financial reporting stakeholder groups in NZ involved in the production and consumption of MC information, namely: users, preparers and auditors. The inclusion of preparers and auditors is important in light of the lack of studies on their views on MC. MC requires significant judgement in its preparation, as it is mostly based on voluntary disclosures, unlike the preparation of financial statements that are based on rigorous mandatory accounting standards. It is therefore important to understand the views of those who prepare MC and those who audit them. This is particularly relevant in NZ, where MC is not mandatory, and such data can contribute to a more balanced understanding of the views and expectations of MC in NZ for various stakeholders.

The survey was launched online through email invitations during the second half of 2019. These invitations were sent to 104 users[8] of financial statements who participated in a study (Ehalaiye et al., 2020) that conducted surveys of financial statement users in NZ. In addition, we surveyed 99 chief executives and chief financial officers (preparers) of NZ listed companies whose contact details are available on the internet. Finally, there are 161 auditors licensed/registered to carry out audits of FMC entities under the Auditor Regulation Act, 2011, who were contacted and invited to complete the survey.[9] A total of 61 subjects participated, generating 47 (12.9%) usable responses from: 16 (15%) users, 11 (11%) preparers and 20 (12%) auditors, of financial statements.

We report the results by including the percentages and rankings of each participant group's response to each question. We use the nonparametric Kruskal Wallis statistical test to analyse the differences in responses between participant groups. Mann-Whitney *U* statistical tests were used to validate the Kruskal Wallis statistical test results, promoting reliability of our results.

Participants were also asked to self-assess their level of knowledge/skills and experience in reading, understanding and analysing financial statements. The self-assessment ratings used a scale of 1 to 5 (where 1 = none; 5 = very high).

6. Results and discussion

[8] This group (users) is diverse and includes the primary users of financial statements as identified by the IASB conceptual framework, i.e., individual and institutional equity investors and lenders; and others such as intermediaries, advisers, corporate treasurers and commercial bankers.

[9] A list of NZ licensed auditors is available online at https://www.companiesoffice.govt.nz/all-registers/auditors/auditors-register/?status=current

Table 1 shows the self-assessment ratings of the participants' level of knowledge and skills for auditors, (preparers), [users] were: 4.85 (4.55) and [3.90] out of 5. Their self-assessment ratings for level of experience: 4.90 (4.36) and [3.85] out of 5. The only significant difference in ratings between these user groups were between auditors and users (p=0.001, untabulated). The overall ratings for participants for both knowledge/skills and experience is 4.4, suggesting relatively high levels of expertise across all respondents.[10]

Insert Table 1 about here.

The remaining results are discussed in four sub-sections below. The first of these is concerned with respondents' views on the most important objectives of MC; the second with their rankings of the most useful elements of MC; the third with their rankings of the most important principles guiding the quality of MC content. In the fourth and final section, we discuss whether disclosure of MC should be mandatory, as well as whether MC's usefulness would be increased by assurance.

6.1 The objectives of MC

In the survey, respondents were asked to indicate their views on the objectives of MC as per MCPS1. Table 2 provides a list of objectives as per MCPS1 and the selections indicated by respondents. The highest proportion of respondents (87%) identify 'assessing the quality of management's stewardship of the entity's resources' as an objective of MC, followed by 'assessing prospects' - first, 'short-term' and then 'long-term'. These findings are consistent with the IASB Management Consultative Group (MCCG) feedback (IASB, 2019c), that information about the availability of financial resources, and how those resources are managed, is of prime importance to investors and creditors.

'Assess future cash flows' was the least popular objective of MC in all three groups. Interestingly, the User group still showed relatively strong support for this objective (69%). We interpret these findings as reinforcing the notion that users have less proximity/access to detailed financial information than preparers and auditors.

One other interesting divergence between our survey groups is that the Preparer group rated 'assess long-term prospects' as their most popular choice (100%). We surmise that preparers (*influencers*) who have significant vested interests, access and power in their firms are much more focused on long-term prospects than future cash flows, because they are well acquainted with financial projections, but less familiar or certain with regard to wider long-term prospects. Compared with preparers, users (*collaborators and claimants*), may value the objective of assessing future cash flows more, because they have less influence over future

[10] The overall frequency distribution for knowledge and skills of the respondents, shows that 96.7% of the respondents selected a rating of 3 and above, confirming their very high level of knowledge and skills. Similar numbers were recorded for the respondents' experience, confirming significant experience of participants, with 94.1% selecting a rating of 3 and above for their level of experience. This suggests very low variance in their levels of knowledge, skills and experience.

cash flows. Overall, though, statistical tests showed no significant differences between group responses, so the results suggest that, in general, these three stakeholder groups within the financial reporting community have similar perceptions regarding the objectives of MC.

A small number of respondents noted other possible objectives of MC, such as explaining the achievement of firm objectives and the impact of adverse events, communicating strategy and key value drivers, and addressing key performance matters. One user noted that a large part of MC is marketing, but that MC is still useful in determining company direction.

These results are broadly consistent with, and complementary to, the findings of previous studies on MC. A possible exception is that Menicucci (2013) provides evidence that companies are reluctant to provide forward-looking information in MC, despite the demand for such information. This contrasts with the apparent endorsement from the Preparer group of the importance of 'assessing long- and short-term prospects' as objectives of MC. In addition, our results provide support for the current IASB position, that inclusion in MC of long-term prospects, based on forecasts and targets, would lead to the provision of useful information for users (IASB, 2020d; 2020e).

Insert Table 2 about here.

6.2 The usefulness of MC content elements

Our survey respondents were asked to indicate the level of usefulness of the content elements discussed in MCPS1[11], using the scale 1 to 5, where 1 indicates not useful at all and 5 indicates very useful. Table 3 presents these results and two initial observations are that: (1) all content elements are rated above 3 (i.e., all are deemed useful) and (2) auditor ratings are all lower than those of preparers and users. The two content elements with the highest ratings are 'the entity's financial performance and position, and cash flows' and 'management's long-term financial objectives and its strategies for meeting those objectives'. The auditor group's lower ratings for both these content elements are statistically significant ($p=0.05$).[12] Closer inspection highlights that while the auditor group ratings indicate that they perceive these to be amongst the least important of the content elements, the preparer and user groups perceive them to be amongst the most important.

[11] Of the ten content elements referred to in the survey, nine of them are discussed in MCPS1, however for brevity and clarity the questions in the survey relating to these contents are paraphrased. The tenth element, which referred to 'the entity's objectives, strategies and performance regarding other environmental, social and governance (ESG) factors', was included in the survey based on feedback from standard setters, to evaluate the perception of the respondents on whether ESG factors should be emphasised in MC .

[12] We conducted further analysis using the Mann-Whitney *U* pair-wise test comparisions between each of the following response groups: Auditors vs. Preparers; Auditors vs. Users; and Users vs. Preparers. Untabulated results confirm the Kruskal-Wallis test results, as only the Auditors vs. Users group (for the content element: 'the entity's financial performance and position, and cash flows'), and the Auditors vs. Preparers group (for the content element: 'management's long-term financial objectives and its strategies for meeting those objectives') showed statistically significant differences ($p=0.05$).

An explanation for this finding is the difference in knowledge, skills and experience of the three groups e.g., the user group has the lowest self-ratings for knowledge, skills and experience and so is likely to need MC the most to better understand these content elements. Similarly, an explanation for the preparers not rating MC on financial performance, position, and cash flows quite as highly as the users, is that to preparers this may appear to be 'stating the obvious', considering they are more familiar with interpreting financial information. However, interpretation of financial statements may be less intuitive to the less involved and less sophisticated users. This finding could also result from auditors' rights to demand company information, i.e., MC does not provide them with additional insights about the company's operations as it is likely to do for users, who are more remote stakeholders. Although we classify auditors as *collaborators,* they do have significant influence through their audit opinion/report and management letter. This may not be the case for many users. As such, this result provides support for the theoretical expectation that there may be significant differences in the perceptions of the different stakeholder groups regarding the usefulness of MC.

Given recent focus on the environment, especially climate change and the need for organisations to support environmental sustainability reporting initiatives, it is surprising that the lowest usefulness rating was for 'the entity's objectives, strategies and performance regarding other environmental, social and governance factors.' To put this into perspective, even though it is the lowest rated content element, the total mean of 3.79 out of a possible 5 indicates that it is still rated as very useful. An explanation for its low rating relative to other content elements, is the lack of standardisation and factual content of such information, as this deficiency detracts from reliability and comparability. This perception may change, in the light of the recently announced intentions to introduce mandatory disclosure requirements concerning financial impacts of climate change in NZ (Shaw, 2020).

These findings suggest that the incorporation of environmental, social and governance factors within MC is not a high priority for stakeholders in NZ. This is unsurprising, considering the overall historical philosophy relating to standards setting in NZ described earlier and reflects a conservative approach i.e., adoption of financial reporting standards without significant deviations from (IFRS) and related guidance rather than seeking innovation or change. This observation has implications for the IASB, as it expects the revised MCPS1 to include more guidance on non-financial measures (IASB, 2017b) and to contribute to the work of the Task Force on Climate-Related Financial Disclosures (TCFD) (IASB, 2017b). Countries such as NZ, as 'standards-takers', are therefore likely to welcome the revised MCPS1.

Insert Table 3 about here.

6.3 The importance of the principles underlying preparation of MC

Respondents were asked to rank twelve principles for the preparation of MC that were identified in sections 9, 22, 23, 39 and 40 of MCPS1, from most important (1) to least important (12). Table 4 presents these rankings: the top three being 'focus on the most important and relevant information'; 'clear and straightforward'; and 'balanced coverage, including favourable and unfavourable matters.'

'Comparability' and 'avoiding duplication of disclosures in financial statements' are rated as the two least important principles, confirming that respondents are more concerned with obtaining clear, straightforward narrative on important, relevant information than with standardising MC. The Kruskal-Wallis tests show no significant differences between the responses of the three groups. Further untabulated results (Mann-Whitney *U* pair-wise tests of the differences between responses of the User vs Auditor groups) were significant at the 0.05 level for only one principle: 'Avoids statements which cannot be substantiated'. This suggests that, on the principles for preparing MC, the views of the three stakeholder groups are broadly similar, but that auditors, due to their role, value the credibility of statements in MC more than do users. This finding resonates with the IASB MCCG view (IASB, 2019c) that MC should provide information on performance analyses that management uses internally and that reconciles to measures reported in the financial statements.

Overall, these findings are consistent with those of Chatterjee et al. (2011) who found 'relevance' and 'supportability' to be important characteristics of MC, but that 'comparability' was less so. Their finding that MC emphasised good news and, generally, under-disclosed bad news (and, hence, their argument for more balance in MC), is supported by the high rating for balanced coverage noted above in our results.

Insert Table 4 about here.

6.4 Mandatory disclosure and the usefulness of assurance for MC

We asked respondents whether MC assurance, either by audit or review, would increase its usefulness. Panel A of Table 5 indicates majority support from auditors for this view, but not from users or preparers, which casts some doubt on the validity of the slim majority overall. Explanations for this divergence of views (apart from the obvious prospect of additional revenue from the auditors' point of view) include: auditors are likely to have deeper insights regarding the over-(under-)emphasis on good (bad) news; users and preparers are more likely to be concerned about the costs of such assurance.

We also asked respondents whether the reporting of MC should be made mandatory in NZ. Their responses are summarised in Panel B of Table 4. There is support from all groups for making the disclosure of MC mandatory, particularly from users (81%).

These findings are consistent with those of Ginesti et al. (2013), who argued that rules should be more convincing and mandatory in individual jurisdictions to ensure compliance with MCPS1. Support for mandatory MC is also consistent with the IASB MCCG (IASB, 2019c) position that MCPS 1 should not be overly prescriptive, but that it needs to be consistent with, and reconcilable to, reported measures and metrics of the performance, i.e., that credibility of information provided is important.

The 31 respondents who indicated support for mandatory disclosure of MC were then asked whether it should also be mandatorily assured. The results shown in Panel C of Table 4 again indicate that only the Auditor group favours mandatory assurance.

Insert Table 5 about here.

7. Summary and Conclusion

This study aims to fill a gap in prior literature concerning a lack of evidence on stakeholders' views regarding the usefulness of MC. Three stakeholder groups, namely preparers, users and auditors, were surveyed for their perspectives on MC. The importance of obtaining up-to-date information on the views of these stakeholders is emphasised by the contextual changes for MC in the light of recent developments in EER, as well as by the recent focus of the standard setter (IASB) on updating guidance on MC that was originally issued in 2010. The results of this study provide evidence on the usefulness, design, content, preparation and assurance of MC as perceived by the three important stakeholder groups. Further, the discussion of the evolutionary path of MC provides more evidence of the IASB's procedural legitimacy through transparency, as noted by Bamber and McMeeking (2016).

Overall, our findings indicate that MC is perceived as useful by the majority of respondents, especially for assessing the quality of management's stewardship and for assessing future prospects, both short-term and long-term, of the reporting company. Content on financial performance, position and cash flows is most highly valued. This is followed closely by content on long-term financial objectives and related strategies, as well as content on critical performance measures and indicators used. The most highly ranked principles for preparation of MC indicate that MC should focus on providing balanced coverage of the most important and relevant information in a clear and straightforward manner. We suggest that proximity and access to the financial information of a firm is likely to explain differences in perceptions of stakeholder groups relating to the objectives, content and principles of MC. A classified Stakeholder Theory proposition offers a useful framework for understanding these differences.

There was majority support from all stakeholder groups for requiring mandatory disclosure of MC in NZ. Only the Auditor group, however, indicated support for assurance of MC, despite the findings in prior literature suggesting that MC is not balanced, with an over-emphasis on good news and under-reporting of bad news.

The study findings have significant implications for the IASB, other standard-setters, regulators and researchers. In general, our findings provide support for the IASB's approach and, in particular, for a focus in MC on assisting with the objective of assessing the quality of management stewardship, as well as the usefulness of content concerned with helping investors and creditors understand the entity's financial performance[13] and position. Our findings also indicate strong support for the usefulness of content related to financial strategy and to the critical performance measures used by management.

The study is also timely and relevant in the light of current developments concerning non-financial reporting, EER, and standard setters' focus on updating guidance for MC. Such non-financial reporting is likely to take on even more significance as a result of recent legislative responses introduced to intensify efforts to limit climate change in NZ (Shaw, 2020), as well as even more recent impacts of COVID-19 on business. However, for NZ stakeholders, specifically incorporating environmental, social and governance factors within MC, is not a top priority. These NZ findings are consistent with its overall historical philosophy of standards setting and its relatively conservative approach. NZ has adopted financial reporting standards over the last 15 years with little compulsion for innovation or change. In particular, the focus of our respondents on financial performance, position and cash flows, as their most highly valued component, is understandable in that context. Further, the study has implications for the IASB, as it expects the revised MCPS1 to include more guidance on non-financial measures (IASB, 2017b), and to contribute to the work of the Task Force on Climate-Related Financial Disclosures (TCFD) (IASB, 2017b). Countries such as NZ, being more conservative standards-takers, are therefore likely to welcome the revised MCPS1 while countries that are more progressive and already advancing on the path of, for example adoption of integrated reporting or sustainability standards, might find the revised MCPS1 less useful.

Our findings suggest that stakeholders favour the mandatory preparation of MC in NZ, but that only the Auditor group supports mandatory assurance of MC. These findings should be of particular interest to the XRB, NZ's standard setter for accounting and auditing standards, as MC is not currently a mandatory requirement in their jurisdiction, and there is there is no prior evidence of stakeholders' views in this regard.

We acknowledge that there are some limitations to this study that impact the generalisability of results, including sample size and a focus on NZ. However, the insights are likely to be of value to other jurisdictions which have adopted IFRS and have a conservative standard setting culture similar to that which we have described for NZ. Future research could consider the distinction between firms' long term and short term prospects as objectives of MC and how this is perceived by investors; assurance and credibility of MC; and the incremental value MC provides to the decision-making of its users, particularly in jurisdictions where it is not mandatory.

[13] IASB Agenda Paper 15c includes a note on terminology explaining that staff use the term 'performance' to capture cash flows, as well as income and expenses and note that this is in line with the approach in the *Conceptual Framework for Financial Reporting*.(IASB, 2020c)

Table 1: Knowledge, Skills and experience of participants (mean response on a scale from 1 (very) to 5 (very high))

	Auditor			**Preparer**			**User**			**Total**		
	Mean	N	SD	Mean	N	SD	Mean	N	SD	Mean	N	SD
Knowledge and Skills	4.85	20	0.366	4.55	11	0.688	3.90	16	0.852	4.41	47	0.779
Experience	4.90	20	0.308	4.36	11	1.027	3.85	16	1.089	4.37	47	0.958

Table 2: Objectives of Management commentary

Objective	Auditor (N=20)		Preparer (N=11)		User (N=16)		Total (N=47)	
	N	%	N	%	N	%	N	%
- Assess the quality of management stewardship	16	80	10	91	15	94	41	87
- Assess short-term prospects	14	70	10	91	13	81	37	79
- Assess long-term prospects	13	65	11	100	12	75	36	77
- Assess future cash flows	6	30	4	36	11	69	21	45
- Other objectives	3	15	2	18	3	19	8	17

Table 3: The usefulness of the content of Management Commentary (mean response on a scale from 1 (least useful) to 5 (most useful))

	Auditor (n = 20)		Preparer (n =11)		User (n =16)		Total (n = 47)	
Content element	Mean	SD	Mean	SD	Mean	SD	Mean	SD
- The entity's financial performance and position, and cash flows.	3.6*	1.35	4.45	1.04	4.5	0.73	4.11	1.165
- Managements long-term financial objectives and its strategies for meeting those objectives.	3.65*	1.09	4.64	0.87	4.25	0.85	4.09	0.97
- Critical performance measures and indicators used.	3.85	0.93	4.27	0.79	4.25	0.58	4.09	0.8
- The nature of the entity's business and its operating environment.	3.95	1.23	4.18	0.98	4.06	0.93	4.04	1.06
- The entity's most significant risks.	3.9	1.12	4.36	0.81	4	1.03	4.04	1.02
- Managements short-term financial objectives and its strategies for meeting those objectives.	3.85	0.74	4.18	0.87	4.06	0.85	4.00	0.81
- An overview of the entity's business model.	3.70	1.13	4.18	0.98	4.06	0.85	3.94	1.01
- The entity's most significant resources, relationships, and opportunities.	3.55	0.89	4.20	0.92	3.94	0.77	3.83	1.02
- Future prospects of the entity	3.6	1.14	4.18	1.17	4.13	0.72	3.91	1.04
- The entity’s objectives, strategies and performance regarding other environmental, social and governance factors.	3.65	0.93	3.91	1.04	3.88	1.09	3.79	0.99

*Kruskal-Wallis test significant at 0.05.

Table 4: Principles of Management Commentary (mean rank with 1 the most important and 11 least important)

Principles	Auditor (n = 18)		Preparer (n =11)		User (n =16)		Total (n = 45)	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD
- Focus on the most important and relevant information	2.39	1.75	2.73	2.45	2.5	1.41	2.51	1.8
- Clear and straightforward	3.28	2.54	3.55	2.25	2.63	2.63	3.11	2.09
- Balanced coverage, including favourable and unfavourable matters.	4.89	2.87	3.55	2.42	4.63	2.12	4.47	2.52
- Consistency within the MC document and with its related financial statements.	4.5	2.12	4.91	1.97	4.75	2.59	4.69	2.22
- Relevance - use of measures that are most relevant to the entity's strategies.	5.11	2.83	6.09	3.27	5.5	2.25	5.49	2.72
- Consistency - use of consistent measures from one period to another.	7.61	2.79	5.82	2.44	5.44	3.54	6.4	3.11
- Avoids statements which cannot be substantiated.	6.61	2.95	7.18	3.34	8.5	2.56	7.42	2.97
- Avoids presenting immaterial disclosures that make the more important and relevant information difficult to find.	7.89	2.54	8.09	2.63	7	2.16	7.62	2.42
- Avoids generic disclosures that do not relate to the practices and circumstances of the entity.	7.89	2.91	7.91	3.26	8.31	1.82	8.04	2.65
- Comparability - use of a standardised set of measures across a prescribed list of subject areas.	8.22	1.89	8.00	2.41	7.94	2.52	8.07	2.21
- Avoids duplicating the disclosures made in the financial statements.	7.61	2.51	8.18	1.4	8.81	2.43	8.18	2.28

Table 5: Mandatory reporting and assurance

Panel A: Would the usefulness of Management Commentary increase if it were assured (audited or reviewed)?

	Yes		No		Not sure		
	Number	%	Number	%	Number	%	Total
Auditor	13	65	5	25	2	10	20
Preparer	4	36	4	36	3	27	11
User	7	44	5	31	4	25	16
Total	24	51	14	30	9	19	47

Panel B: Should Management Commentary be mandatory for reporting entities in New Zealand?

	Yes		No		Not sure		Total
	Number	%	Number	%	Number	%	
Auditor	12	60	4	20	4	20	20
Preparer	6	55	4	36	1	9	11
User	13	81	1	6	2	13	16
Total	31	66	9	19	7	15	47

Panel C: If yes in Panel B to mandatory reporting of Management Commentary, should it be mandatorily assured?

	Yes		No		Not sure		Total
	Number	%	Number	%	Number	%	
Auditor	9	75	2	17	1	8	12
Preparer	2	33	3	50	1	17	6
User	3	23	8	62	2	15	13
Total	31	45	9	42	7	19	31

Appendix A: The Survey questions

1. Your group

Please indicate which of the following groups best describes you or the institution you work for. Please select as many categories as appropriate.

- ▢ Individual Equity investor
- ▢ Institutional Equity investor
- ▢ Individual Debt investor
- ▢ Institutional Debt investor
- ▢ Other creditor
- ▢ Intermediary/adviser to investors
- ▢ Financial market/prudential regulator
- ▢ Auditor/assurance provider
- ▢ CFO/CEO (Financial statement preparer)
- ▢ Other, please specify

2. Interest in Management Commentary

Do you use or require any information from management commentaries?

- ▢ Yes - in annual reports
- ▢ Yes - through communication channels, other than annual reports
- ▢ No, please explain

3. The objective(s) of Management Commentary

In your view, what is/are the objective(s) of management commentary? To assist users in:

- assessing future cash flows
- assessing the quality of management's stewardship of the entity's resources
- assessing future prospects - in the long-term
- assessing future prospects - in the short-term
- Other objectives, please specify

4. Usefulness of information in Management Commentary

What would be the level of usefulness of the following areas of management commentary in annual reports? Please use the scale 1 to 5, where 1 indicates not useful at all and 5 indicates very useful. Please support your views with comments in the spaces provided.

	1 (Not useful at all)	2	3	4	5 (Very useful)	N/A or do not know
The nature of the entity's business and its operating environment.	O	O	O	O	O	O
An overview of the entity's business model.	O	O	O	O	O	O
Management's long-term financial objectives and its strategies for meeting those objectives.	O	O	O	O	O	O
Management's short-term financial objectives and its strategies for meeting those objectives.	O	O	O	O	O	O
The entity's most significant resources, relationships, and opportunities.	O	O	O	O	O	O
The entity's most significant risks.	O	O	O	O	O	O
The entity's financial performance and position, and cash flows.	O	O	O	O	O	O
Future prospects of the entity.	O	O	O	O	O	O
Critical performance measures and indicators used.	O	O	O	O	O	O
The entity's objectives, strategies and performance regarding other environmental, social and governance factors.	O	O	O	O	O	O
Others, please specify	O	O	O	O	O	O

5. Usefulness of principles of presentation of Management Commentary

We would like to gain insights into how you view the importance of the following principles in the presentation of management commentary. Please rank (by dragging and dropping) the various types of principles from the most important (1) to the least important (12), to indicate their approximate level of importance. Please support your views with comments in the spaces provided.

- Clear and straightforward
- Focus on the most important and relevant information
- Consistency within the management commentary document and with its related financial statements.
- Avoids duplicating the disclosures made in the financial statements.
- Avoids presenting immaterial disclosures that make the more important and relevant information difficult to find.
- Avoids generic disclosures that do not relate to the practices and circumstances of the entity.
- Balanced coverage, including favourable and unfavourable matters.
- Avoids statements which cannot be substantiated.
- Relevance - use of measures that are most relevant to the entity's strategies.

- Comparability - use of a standardised set of measures across a prescribed list of subject areas.
- Consistency- use of consistent measures from one period to another.
- Others, please specify.

6. Would the usefulness of Management Commentary increase if it were assured (audited or reviewed)?
    - Yes
    - No
    - Not sure

7. Should Management Commentary be mandatory for reporting entities in New Zealand?
    - Yes
    - No
    - Not sure

If response is “Yes’ to 7 above:

8. Should mandatory Management Commentary then also be mandatorily assured?
    - Yes
    - No
    - Not sure

9. Background information:
    Your job title: ……………………………………

10. Your knowledge, skills and experience
    How would you describe the level of your knowledge, skills, and experience in reading, understanding and analysing financial statements? Please use the scale where 0 indicates none and 5 very high.

	0 (None)	1	2	3	4	5 (Very high)
Knowledge and Skills	○	○	○	○	○	○
Experience	○	○	○	○	○	○

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