

STAFF PAPER

November 2018

IASB® Meeting

Project	Management Commentary
Paper topic	Summary of research on the objective of management commentary
CONTACT(S)	Yuki Fujiwara yfujiwara@ifrs.org +44 20 7246 6467 Matt Chapman mchapman@ifrs.org +44 7917 07 3662

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB *Update*.

Purpose of this paper

1. In November 2017, the International Accounting Standards Board (Board) added a project to its agenda to update IFRS Practice Statement 1 *Management Commentary* (Practice Statement). As explained in AP15 of the July 2018 Board meeting, the staff anticipate creating the following work streams for this project:
 - (a) objectives and principles of management commentary reporting (Stream 1);
 - (b) current-year financial analysis and forward-looking information (Stream 2);
and
 - (c) business model, strategy, risks, and operating environment and information about operational performance (Stream 3).
2. The purpose of this paper is to provide the Board with an overview of the research and analysis that the staff conducted in developing the recommendation to the Board in relation to the objective of management commentary as presented in AP15A for this meeting. The research on the remaining parts of Stream 1, relating to the application of materiality and principles for preparing management commentary, will be presented alongside their respective discussion at subsequent board meetings. Likewise, analyses of the findings related to Stream 2 or Stream 3 will be provided when the Board discusses those work streams.

3. The Board will not be asked any questions on this paper, but the staff would welcome any Board comments.

Structure of this paper

4. This paper is structured as follows:
 - (a) overview of the research (paragraphs 5–8);
 - (b) reporting environment (paragraphs 9–11); and
 - (c) objective (paragraphs 12–20).

Overview of the research

5. In July 2018, the staff reached out to national standard-setters with a request to provide information about the requirements and commonly applied non-mandatory guidance on management commentary that apply to listed companies in their respective jurisdiction. We have received 24 responses. Details of the respondents and their geographical distribution are presented in Appendix A of this paper.
6. The survey covered the following broad areas:
 - (a) reporting environment;
 - (b) principles and objectives;
 - (c) current-year financial analysis and forward-looking statements;
 - (d) operational information;
 - (e) business model, strategy, external environment and risks; and
 - (f) other matters.

The original survey questions are reproduced in Appendix B of this paper.

7. In addition to the survey on national requirements and guidance, the staff also reviewed other frameworks, guidance and reports on wider corporate reporting, including management commentary, and analysed the principles and objectives

included in those frameworks, guidance and reports. The findings from the review are also included in this paper. The review covered:

- (a) the European Union Directive on disclosure of non-financial information and diversity information (2014/95/EU) that entities listed in the EU must apply and the non-mandatory European Commission Guidelines on non-financial reporting (2017/C 215/01);
 - (b) independent frameworks or guidance, including the International Integrated Reporting <IR> Framework issued by the International Integrated Reporting Council and the GRI Sustainability Reporting Standards issued by the Global Sustainability Standards Board;
 - (c) guidelines, recommendations or reports of other bodies, including those of professionals in the area of corporate governance (eg the International Corporate Governance Network), investors and the accounting profession; and
 - (d) additional national guidance referred to in the responses to the survey or in other materials the staff have researched.
8. In this paper, we use the term ‘requirements and (or) guidelines’ to cover the materials referred to in paragraphs 5–7, unless otherwise stated.

Reporting environment

9. The definition and terminology vary greatly in relation to management commentary over requirements and guidelines. However, almost all jurisdictions that responded to the survey required listed entities to prepare management commentary. Many jurisdictions also published non-mandatory guidelines that entities can apply when they prepare management commentary.
10. No jurisdiction that responded to the survey requires that entities apply the Practice Statement. In many jurisdictions, entities can apply the Practice Statement voluntarily, as long as it does not contradict jurisdictional requirements. A few national standard-setters commented that some entities in their jurisdiction apply the Practice Statement voluntarily.

11. Some national standard-setters reported that although the requirements or guidelines in their jurisdiction were not based on the Practice Statement, the underlying principles are almost identical or broadly similar. Others responded that the requirements or guidelines in their jurisdictions have similarities to and differences from the Practice Statement.

Objective

12. Some jurisdictions set out management commentary objectives similar to each other, as described in the following paragraphs, although some objectives are mandatory requirements and others are non-mandatory guidelines.
13. *Context of financial statements*—some requirements and guidelines explain that the objective of management commentary is to provide a context within which financial information should be analysed, or to complement or supplement the financial statements. The Practice Statement also includes this point:

Practice Statement paragraphs 9–10

- 9 Management commentary should provide users of financial statements with integrated information that provides a context for the related financial statements. ...
- 10 Management commentary complements and supplements the financial statements ...

14. *Performance, development and position*—many requirements and guidelines state that the objective of management commentary is to provide non-financial information about the entity’s performance and position. The requirements and guidelines often refer to information about development of the entity as well. The Practice Statement includes this point, although it uses different terms:

Practice Statement paragraph 10

- 10 Management commentary complements and supplements the financial statements by communicating integrated information about the entity’s resources and the claims against the entity and its resources, and the transactions and other events that changed them.

15. *Prospects, risks and strategy*—some requirements and guidelines also state that one of the objectives of management commentary is to provide information about the entity’s prospects, risks and/or strategies, or information that helps users of

management commentary assess those factors. The Practice Statement mainly discusses these factors as elements of management commentary:

Practice Statement paragraph 24

24...management commentary should include information that is essential to an understanding of: ...

- (b) management's objectives and its strategies for meeting those objectives;
- (c) the entity's most significant resources, risks and relationship;
- (d) the results of operations and prospects; ...

16. *Value creation*—some requirements and guidelines refer to value creation as an important concept. The <IR> Framework states:

<IR> Framework 1.7

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates value over time. ...

The Practice Statement includes little discussion about value creation.

17. *Long-term perspective*—some requirements and guidelines refer to the importance of time horizons such as long-term or mid/long-term perspectives. The staff have not found any requirement or guideline that emphasises only the importance of a short-term perspective without simultaneously referring to the importance of a long-term perspective. The Practice Statement includes very little explicit discussion about long-term perspectives.

18. *Through the eyes of management*—some requirements and guidelines state that management commentary should be prepared from the management perspective. The staff could not find any requirements or guidelines that state that management commentary should be prepared from a viewpoint *other than* management's. The Practice Statement also takes a similar viewpoint:

Practice Statement paragraph 15

15 Management commentary should provide management's perspective of the entity's performance, position and progress. ...

19. *Forward-looking orientation*—a few requirements and guidelines describe as a principle that management commentary should have a forward-looking orientation. Others include forward-looking information as one of the content elements that should be included in management commentary, but do not regard forward-looking orientation as a principle of management commentary as a whole. The Practice Statement takes the latter view:

Practice Statement paragraph 18

18 Management should include forward-looking information when it is aware of trends, uncertainties or other factors that could affect the entity's liquidity, capital resources, revenues and the results of its operations.

20. Others—some requirements and guidelines refer to the *quality of earnings*, *stewardship*, and *investment decisions* for example. The Practice Statement does not explicitly refer to these concepts.

Appendix A: Distribution of respondents to the survey

A1. The organisations that responded to the survey were as follows: the staff note that the responses do not necessarily represent the position of the organisations and they have not necessarily undergone official due process of these organisations.

Respondent	Country / jurisdiction	Region
Institute of Chartered Accountants of Namibia	Namibia	Africa
Financial Reporting Standards Council	South Africa	Africa
Hong Kong Institute of Certified Public Accountants	Hong Kong	Asia-Oceania
Indonesian Financial Accounting Standards Board	Indonesia	Asia-Oceania
Financial Services Agency of Japan	Japan	Asia-Oceania
Korea Accounting Standards Board	Korea	Asia-Oceania
Malaysian Accounting Standards Board	Malaysia	Asia-Oceania
Financial Supervisory Commission Taiwan	Taiwan	Asia-Oceania
Federation of Accounting Professions	Thailand	Asia-Oceania
Australian Accounting Standards Board	Australia	Australia & New Zealand
New Zealand Accounting Standards Board	New Zealand	Australia & New Zealand
Ministry of Finance	Armenia	Europe
Autorité des normes comptables	France	Europe
Service for Accounting, Reporting and Auditing Supervision	Georgia	Europe
Accounting Standards Committee of Germany	Germany	Europe
Hellenic Accounting and Auditing Standards Oversight Board	Greece	Europe
Organismo Italiano Contabilità	Italy	Europe
Portuguese Securities Market Commission	Portugal	Europe
Ministry of Finance	Russia	Europe
Accounting and Auditing Institute	Spain	Europe

Respondent	Country / jurisdiction	Region
Financial Reporting Council	United Kingdom	Europe
Consejo Mexicano de Normas de Información Financiera	Mexico	Latin America
Accounting Standards Board	Canada	North America
Financial Accounting Standards Board	United States of America	North America

Appendix B: Survey of national practice and reporting requirements

Notes on responding to the survey questions

- a) In responding to our request, please note that definitions and terminology vary greatly in relation to management commentary. For the purpose of your answers please take management commentary to mean the narrative information (including both quantitative and qualitative disclosures) prepared by management to accompany the financial statements in a company's annual report or equivalent—sometimes referred to, for example, as 'MD&A', 'Operating and financial review' or 'strategic report'.
- b) In many jurisdictions, management commentary requirements may vary according to the listing status of a company. Please provide your answers for listed companies with a brief comment if the requirements for other companies differ.
- c) We request responses in English. We request a brief summary of the applicable requirements and guidance along with references to, links to or extracts from those requirements and guidance in English. If an English version of the applicable requirements and guidance is not available, we would find a local-language version useful as well. If there are no applicable requirements or guidance in your jurisdiction, please reflect that in your response.

1. Reporting environment

- a. Please identify legislation, regulations and non-mandatory guidance that companies apply in preparing management commentary in your jurisdiction.
- b. Are the legislation, regulations or non-mandatory guidance identified in 1(a) currently being reviewed or updated? If so, what areas are being reviewed or updated?
- c. Please describe whether and how IFRS Practice Statement 1 *Management Commentary* (Practice Statement) is applied in your jurisdiction. In particular, if the Practice Statement is required or permitted to be applied in your jurisdiction in specific circumstances, please describe those circumstances. If the Practice Statement has been used in developing national requirements or guidance, please summarise the main differences between the Practice Statement and the national requirements or guidance.

2. Principles and objectives

- a. Please describe the objective and the intended users of management commentary in your jurisdiction.
- b. Please summarise the principles (including those related to materiality judgements) that companies apply in preparing management commentary in your jurisdiction.

3. Current year financial analysis and forward-looking statements

Please identify and summarise requirements and guidance that companies apply in providing the following information in management commentary:

- a. discussion of the current year financial performance and financial position;
- b. so-called ‘non-IFRS measures’ (for example, underlying earnings) and other financial analysis (for example, pro-forma financial information);
- c. financial and operational forward-looking statements (for example, disclosure of underlying assumptions about the future); and
- d. comparison of the current-year financial performance to any previously made forward-looking statements.

4. Operational information

- a. Please identify any specific subject matter areas that companies are required or expected to discuss in management commentary (for example, environment, social responsibility or customer-related disclosures).
- b. Please identify and summarise requirements and guidance that companies apply in identifying other operational matters not covered in 4(a) for discussion in management commentary.
- c. Please identify and summarise requirements and guidance that companies apply in providing the qualitative and quantitative information about matters identified in 4(a) and 4(b).

5. Business model, strategy, external environment and risks

- a. Please identify and summarise requirements and guidance that companies apply in determining the content and the level of detail provided in management commentary in relation to:
 - i. the company’s business model and strategy; and
 - ii. factors and developments in the external environment.
- b. Please identify and summarise requirements and guidance that companies apply in:
 - i. identifying key risks for discussion in management commentary; and
 - ii. determining what information to provide in relation to each of those risks.
- c. Please identify and summarise requirements and guidance that companies apply in discussing progress in and potential implications for future financial performance of:
 - i. achieving the strategic objectives identified in 5(a); and
 - ii. managing the key risks identified in 5(b)(i).

6. Other matters

Are there matters not covered in the questions 1-5 that companies are required or expected to discuss in management commentary?