

Management Commentary

Slide deck 1 *Introduction*

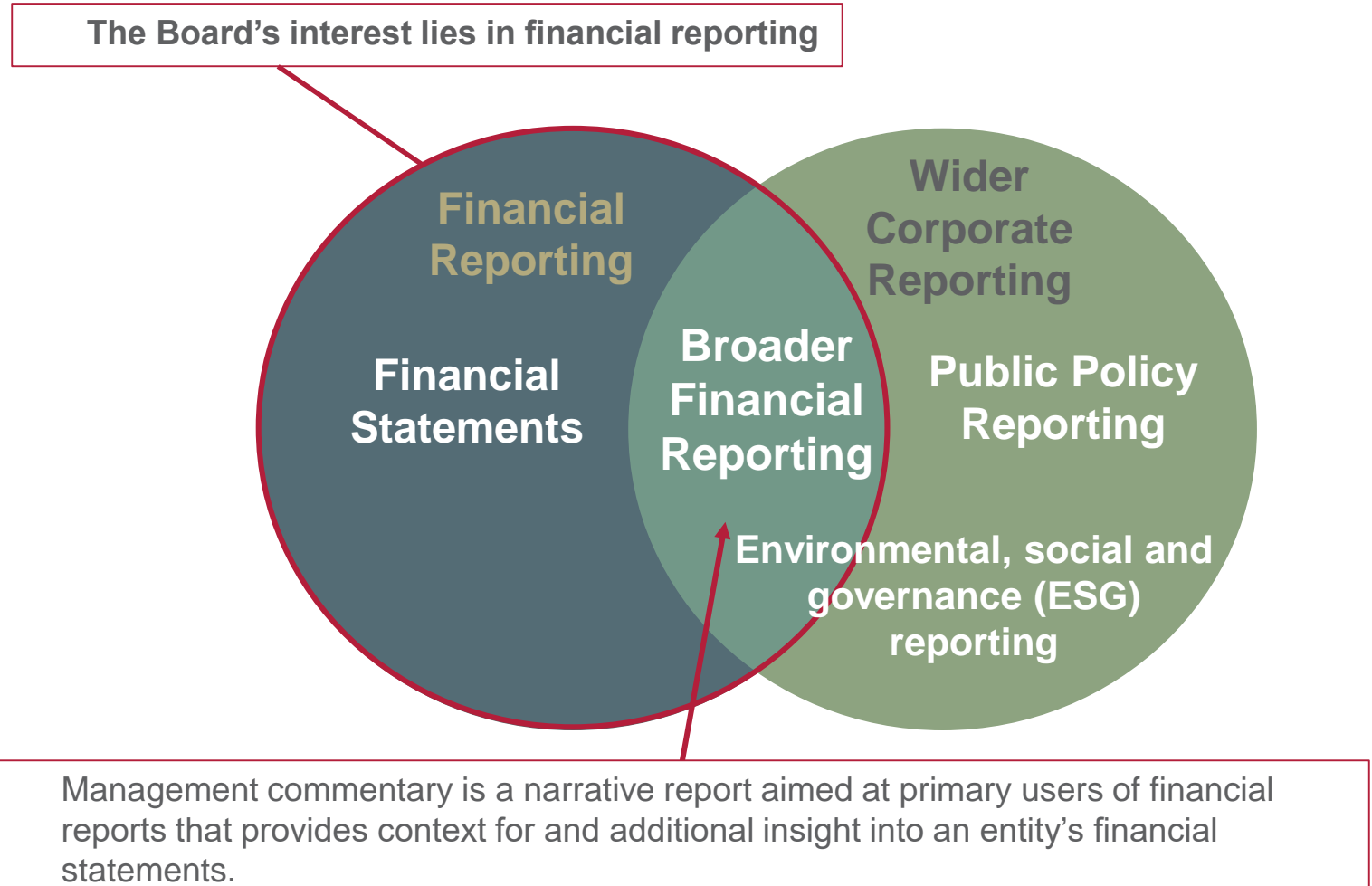
IFRS Management Commentary
Consultative Group – 28 September 2018

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or IFRS Foundation.

- The International Accounting Standards Board (Board) established the IFRS Management Commentary Consultative Group (Consultative Group) to gain access to practical experience and expertise in relation to the development and implementation of management commentary regimes and to the use of management commentary disclosures.
- The members of the Consultative Group are appointed in their individual capacity and are expected to express their individual views. The representatives of the observer organisations have the same right to contribute to the discussions as the members.
- The remit of the Consultative Group is to consider analysis presented by the staff and to provide input for the Board as it develops the proposals for revising IFRS Practice Statement 1 *Management Commentary*. The input from the Consultative Group will be considered by staff and summarised in the Agenda Papers for the Board.
- The Consultative Group is not asked to reach a consensus view.

Scope of Management Commentary project

- In undertaking the project to revise the Practice Statement, the Board has considered innovations and recent developments in wider corporate reporting (see November 2017 [Agenda Paper 28A](#) *Agenda proposal to revise and update the Management Commentary Practice Statement*).
- The Board's interest remains within the boundaries of financial reporting and is focused on the primary users of financial reports. The **primary users** of financial reports are defined in the *Conceptual Framework for Financial Reporting* as **existing and potential investors, lenders and other creditors**.



Our goals for revising the Practice Statement

Why we are revising the Practice Statement:

- Acknowledged gaps in narrative reporting practice, including:
 - inconsistent business model reporting
 - short-term strategic focus in reporting
 - challenges in reporting operational indicators
- Recent innovations in other reporting frameworks, including integrated and sustainability reporting
- Increasing proliferation of narrative reporting requirements with diverse objectives
- Growing concern with perceived investment and management short-termism



Opportunity to support entities in preparing management commentaries that provide better information **for primary users** of financial reports

What we set out to achieve:

- Support the preparation of management commentaries that reflect the specific circumstances of the business and provide useful information that meets primary users' information needs
- Set out both the principles and the application guidance that can be rigorously applied by preparers and provide a clear basis from which users, regulators, and assurers can assess whether an entity's management commentary meets its objective
- Provide a basis for preparing management commentaries that can be applied in the context of national legislative and regulatory requirements

Ground rules for revising the Practice Statement

IFRS Practice Statement 1 *Management Commentary* (published 2010)

Conceptual Framework for Financial Reporting (revised 2018)

IFRS Practice Statement 2 *Making Materiality Judgements* (published 2017)

Emerging best practice and guidance in management commentary reporting

Common themes in the current narrative reporting debate

In revising the Practice Statement, we will:

- use the existing Practice Statement as the starting point; we will aim to fill in the gaps where it is incomplete, update it where it is out of date and clarify it where it is unclear.
- be guided by the *Conceptual Framework for Financial Reporting*, in particular the **objective of general purpose financial reporting** and the **qualitative characteristics of useful financial information**.
- consult the IFRS Practice Statement 2 *Making Materiality Judgements*, in particular in developing the guidance on identifying material information for inclusion in management commentary.
- consider the results of our research into national management commentary requirements and practice, in particular the results of our survey of national standard-setters.
- consider common themes which have emerged in the debate on narrative reporting.

Common themes in narrative reporting (1/4)

- In deciding to take on the project to revise the Practice Statement, the Board discussed a number of topics and themes which have regularly featured in recent debates on wider corporate reporting, and acknowledged that these may need to be considered in this project.
- The staff think that some of these themes have a pervasive influence in determining the desirable features of the revised Practice Statement. In some cases they may best be included explicitly while in other cases they may best be used to inform the guidance on particular areas of content. Sometimes, a combination of the two approaches may be most appropriate.
- On the following pages we set out the staff's considerations for how these topics and themes may be reflected in the revised Practice Statement.
- Not all of these areas will be covered during today's meeting.



Common themes in narrative reporting (2/4)

	<i>Why it matters</i>	<i>How the staff plan to address it</i>	<i>Challenges to be managed</i>
Long-term value creation	<p>There is a widespread concern that corporate reporting does not address the full range of matters related to an entity's long-term prospects</p>	<ul style="list-style-type: none">• Link the objective of management commentary to assessment of the prospects for future net cash inflows and to providing insight into the entity's strategy, including over long term	<ul style="list-style-type: none">• Long-term view should not be an excuse for omitting discussion of shorter-term factors• The term 'value creation' can be seen as ambiguous
Resources & relationships	<p>Users need information about an entity's key resources and relationships irrespective of whether it is appropriate to discuss those resources and relationships in the financial statements</p>	<ul style="list-style-type: none">• Information on resources and relationships is a possible key area of content of a management commentary• Emphasise the role that reporting on business impacts can play in providing insight into the ongoing health of the entity's relationships	<ul style="list-style-type: none">• References to relationships across a range of stakeholders can create confusion over the objective of management commentary
Business model focus	<p>The specific issues and opportunities faced by an entity will be unique to each entity's business model and strategy, even across the same sector</p>	<ul style="list-style-type: none">• Retain a principles-based approach to business model reporting with onus on management to identify what is important in the entity's circumstances	<ul style="list-style-type: none">• The need to support rigorous application of the Practice Statement to the specific circumstances of the entity without prescribing detailed disclosures

Common themes in narrative reporting (3/4)

Coherence

Why it matters

The management commentary needs to tell a joined-up story of the business across the content elements without leaving unanswered questions

How the staff plan to address it

- An approach which builds the report out from the entity's business model
- Coherence identified as a distinct principle that supports the build of a complete 'story' of the business

Application of materiality

Preparers struggle with the application of materiality to narrative and operational performance information

- Provide guidance on the application of materiality judgements eg by making the link between the entity's future net cash inflows and stewardship
- Draw a distinction between significant matters and material information about those matters building on the four-step approach in Materiality Practice Statement

Operational information

Users need operational information to support their assessments of the entity's prospects for future net cash inflows and of stewardship

- Application guidance on the objective of management commentary will explicitly refer to both financial and operational information
- The revised Practice Statement will discuss operational performance as a separate content element of management commentary

Challenges to be managed

- Need to promote a cultural change in preparation of management commentary—from 'what are we required to tell users?' to 'what information would be **useful to primary users?**'
- Tension between supporting the rigour (often thought to require prescribed disclosures) and the relevance of measures
- Some use the term 'non-financial' to refer to operational information while others use it to refer to ESG information only.

Common themes in narrative reporting (4/4)

Why it matters

How the staff plan to address it

Challenges to be managed

Sustainability reporting

Users need relevant ESG information to support their assessment of an entity's prospects for cash flows

- Relevant ESG information will form a part of operational performance discussion and will be subject to same materiality considerations
- Reporting on 'resources and relationships' provides useful inputs for assessments of business sustainability

- Legislative and other public policy disclosure requirements may not meet user needs for information on a matter or may undermine conciseness
- 'Sustainability' is sometimes still considered purely as environmental information rather than information that is useful for the assessment of an entity's sustainable cash flows

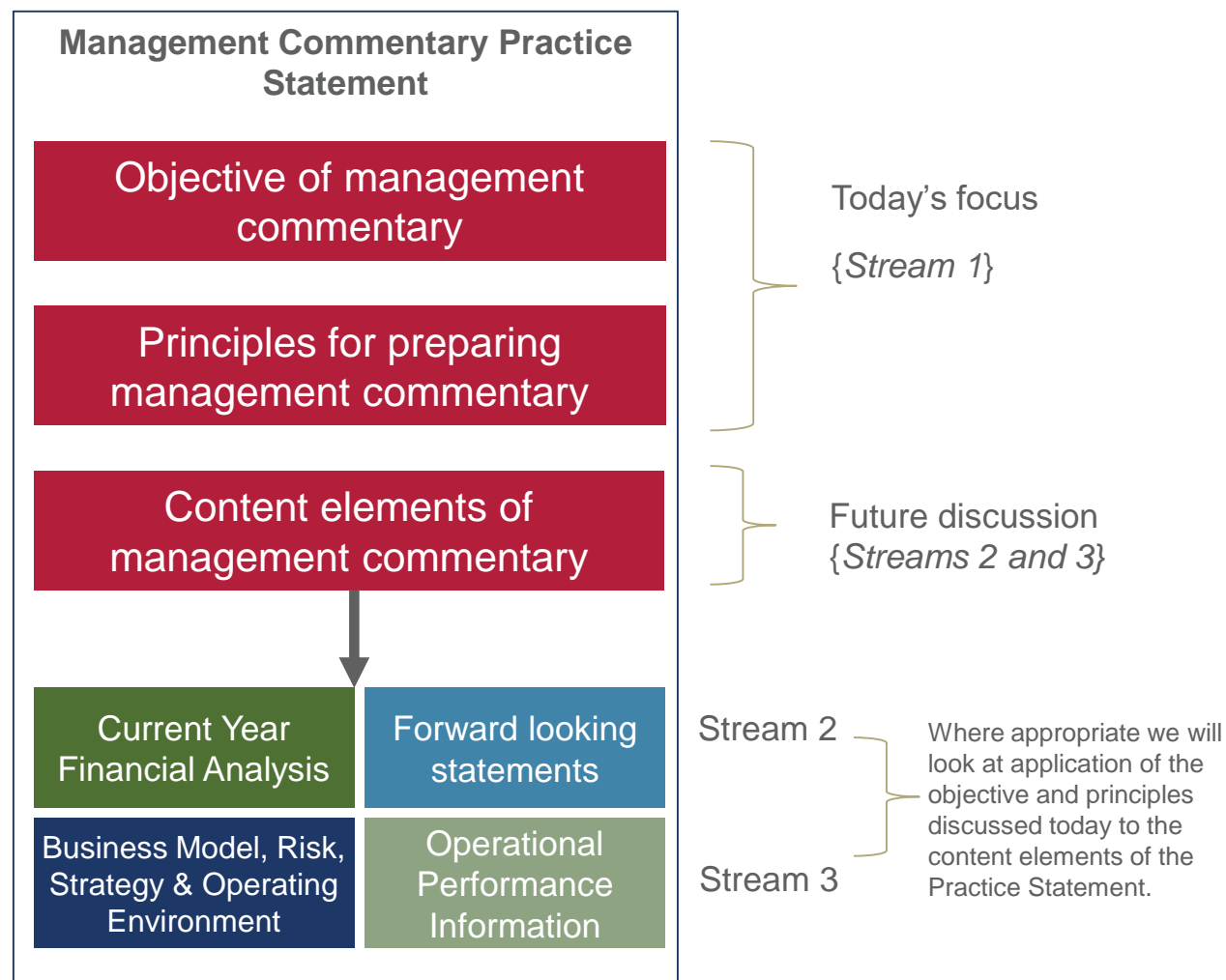
Stewardship & culture

Users use information about the stewardship of an entity's economic resources in assessing the relationship between the risks being taken and expected returns

- Link to stewardship in the objective of management commentary
- Consideration of the potential consequences for the entity of its external impacts to be incorporated into discussion of completeness
- Recognise the potential linkages between management commentary and governance reporting

- Need to stay focused on information that is needed to meet the objective of a management commentary

Structure of the discussion (1/2)–overview

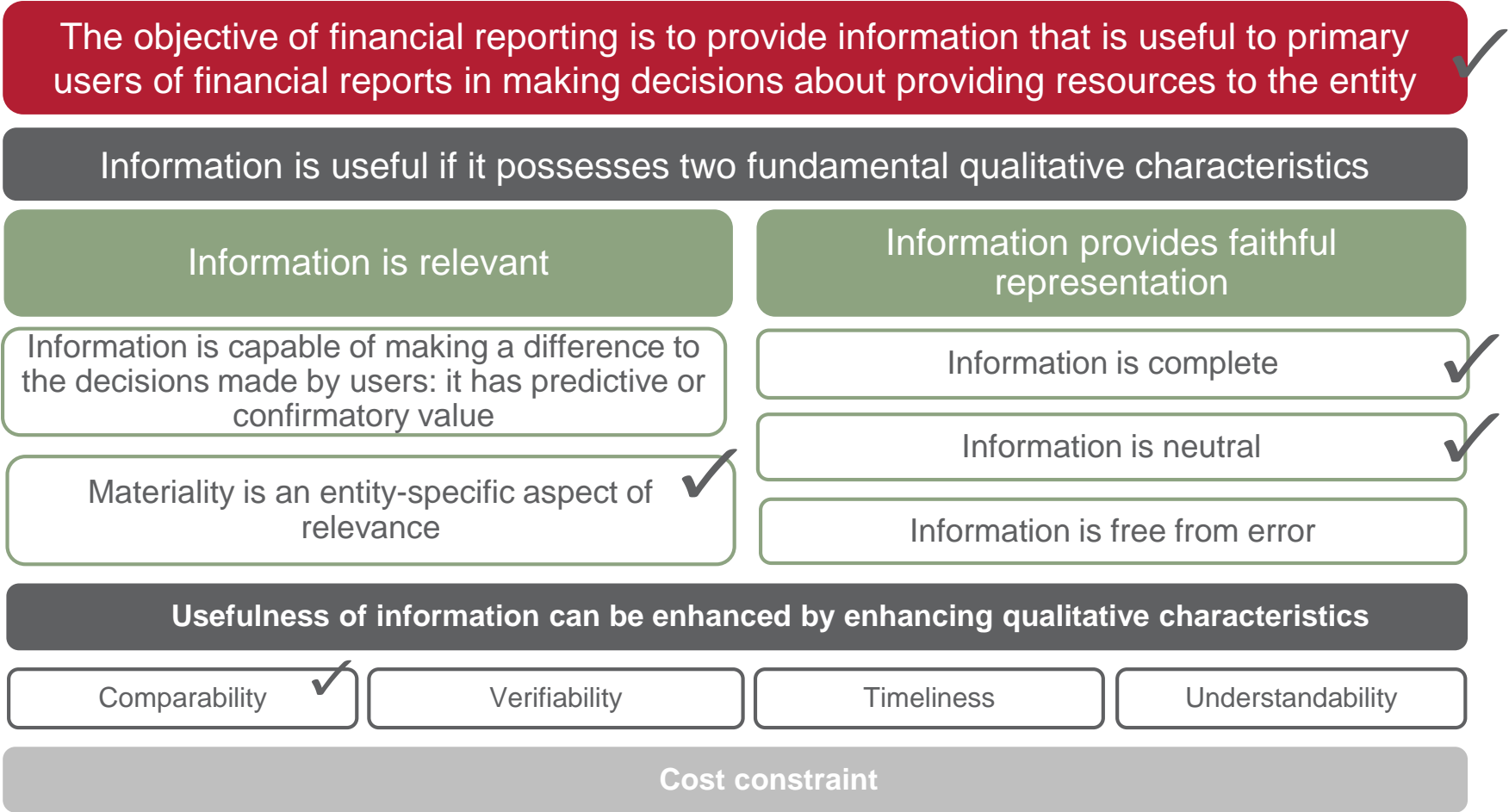


- It is not envisaged that the revised Practice Statement will prescribe or provide guidance on detailed industry or subject-matter specific measures.
- Although it is not practical to address in the revised Practice Statement all the different subject areas an entity may need to report on, we will look at whether providing guidance on reporting particular types of information (for example, estimates, survey data, operational transactional data) would be appropriate in the content elements of the Practice Statement.

- Today's focus is on the objective and principles that will:
 - i. form the overarching principles of the Practice Statement; and
 - ii. provide the foundation for discussion of detailed content elements during Streams 2 and 3.

Structure of the discussion (2/2)–Stream 1

As noted on slide 5, in revising the Practice Statement we will be guided by the *Conceptual Framework for Financial Reporting*, in particular the objective of general purpose financial reporting and the qualitative characteristics of useful financial information. Tick marks indicate the items that the staff think are particularly important in revising the Practice Statement and will be covered at today’s discussion.



Do you have any questions or comments on the background to the project or the staff's proposed approach?

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