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STAFF PAPER

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IASB® meeting

Project	**Management Commentary**
Paper topic	Enhancing qualitative characteristics in management commentary

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Purpose of this paper

1. This paper discusses what guidance on the enhancing qualitative characteristics should be included in the revised Practice Statement, and asks the Board for decisions.

Structure of the paper

2. This paper is structured as follows:

   (a) Summary of the staff recommendations (paragraphs 3–6);

   (b) Background (paragraphs 7–10);

   (c) Enhancing qualitative characteristics (paragraphs 11–12);

   (d) Comparability (paragraphs 13–19);

   (e) Understandability (paragraphs 20–44);

   (f) Verifiability (paragraphs 45–50);

   (g) Timeliness (paragraphs 51–54);

   (h) Appendix A—Analysis of other standard-setters' requirements or guidance on cross-referencing;

   (i) Appendix B—Overview of the input on the enhancing qualitative characteristics received from the Board's consultative groups.

Summary of the staff recommendations

3. On completeness, the staff recommend that the revised Practice Statement:

   (a) includes a description of comparability based on paragraphs 2.24, 2.26 and 2.28 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*);

   (b) explains that although comparability with other entities is desirable, this should not override the requirement to provide relevant entity-specific information;

   (c) states that in preparing management commentary, management should consider the fact that primary users need to make comparisons with information provided by other entities, information reported in management commentary in previous periods and other information published by the entity; and

   (d) requires management to:

      (i) explain assumptions and methods of calculation used in producing a performance measure, and state whether this is a common industry metric;

      (ii) explain changes in assumptions and methods of calculation from the previous year and the reason for the changes;

      (iii) highlight where new information is provided on a matter reported in the previous management commentary;

      (iv) provide comparative information for each performance measure over a period appropriate to show the emergence of trends; and

      (v) consider whether information presented in management commentary is consistent with information reported in the entity's financial statements, in investor presentations, in other reports in the public domain, or on the entity's website.

4. On understandability, the staff recommend that the revised Practice Statement:

   (a) includes in its discussion of understandability, the guidance in the existing Practice Statement on presentation;

(b) includes a specific requirement, based on the description of understandability in the *Conceptual Framework*, to the need to consider conciseness;

(c) permits incorporation of information in the management commentary by cross-reference, subject to the overarching principle that the information incorporated by cross-reference is part of the management commentary, and therefore must possess the qualitative characteristics of useful financial information. To help management apply the overarching principle, the revised Practice Statement would include guidance:

  (i) to enhance the understandability of management commentary when information is incorporated by cross-reference; and

  (ii) on conditions that a report containing the information to be incorporated by cross-reference must meet.

5. On verifiability, the staff recommend that the revised Practice Statement:

(a) includes a description of verifiability based on paragraphs 2.30 and 2.32 of the *Conceptual Framework*;

(b) requires management to:

  (i) distinguish information based on judgement from factual information; and

  (ii) explain the process and sources used to produce the information and its limitations and describe assumptions and methods of calculation used; and

(c) retains the statement that it does not mandate the level of assurance to which management commentary should be subjected.

6. On timeliness, the staff recommend that the revised Practice Statement:

(a) includes a description of timeliness based on paragraphs 2.33 of the *Conceptual Framework*;

(b) states that management commentary is more useful if it is published at the same time as the financial statements or soon after them.

Background

7. As discussed in July 2019 Agenda Paper 15A *Approach to guidance on qualitative characteristics*, in developing proposals for guidance to be included in the revised Practice Statement, the staff have considered gaps in current management commentary reporting practice. The staff have identified the following gaps related to enhancing qualitative characteristics of useful financial information:

   (a) lack of comparability of information, both between entities and for the same entity over time, as well as lack of consistency, notably between information in an entity's management commentary and financial statements; and

   (b) lack of understandability of information, in particular due to fragmentation of information, to lack of conciseness or to lack of focus on matters that are important to the entity.

8. In addition, the staff note a desire for verifiability by users and regulators. From discussions with different consultative groups, the staff are aware that users want to be able to corroborate and trust information presented by management, but are not always able to do so.

9. As discussed at the July 2019 and September 2019 IASB meetings, to help address the gaps in current reporting practice, the revised Practice Statement should provide more guidance on what makes information in management commentaries useful, and what enhances the information's usefulness. That revised guidance should take into account the following factors:

   (a) information in management commentaries is broader than information in financial statements. In particular, management commentaries are likely to contain more qualitative and forward-looking information than financial statements.

   (b) management commentaries are often prepared by a wider group of individuals than those involved in preparing IFRS financial statements, and some of them may not be familiar with IFRS Standards and the *Conceptual Framework*.

10. In addition, at those meetings the staff discussed with the Board that they anticipate that the revised Practice Statement should:

(a) include brief descriptions of each qualitative characteristic of useful information, based on the descriptions in the *Conceptual Framework* but using plain language as much as possible; and

(b) provide further guidance on particular qualitative characteristics where such additional guidance is necessary to address the gaps in current reporting practice, to support the provision of qualitative or forward-looking information, or to clarify challenging areas for preparers.

Enhancing qualitative characteristics

11. The existing Practice Statement states that ‘information in management commentary should also maximise the enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability’.[1] No further guidance is provided on these characteristics, except for guidance on comparability of performance measures and on presentation of information, as discussed in paragraphs 16 and 23, respectively. In the staff’s view, applying that guidance may contribute to making management commentary more understandable.

12. The *Conceptual Framework* explains that enhancing qualitative characteristics ‘enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent’.[2] However, these characteristics are secondary to relevance and faithful representation. They cannot, either individually or as a group, make information useful if that information is not relevant or does not possess the qualities that make up faithful representation. As explained in the *Conceptual Framework*, ‘sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic’.[3] For example, a reduction in comparability may be necessary to provide relevant, entity-specific information.

[1] See paragraph 20 of the Practice Statement.
[2] See paragraph 2.23 of the *Conceptual Framework*.
[3] See paragraph 2.38 of the *Conceptual Framework*.

Comparability

13. As stated in paragraph 7(a), the staff have identified gaps in current management commentary practice that relate to lack of comparability, either between entities, or for the same entity over time. In particular, members of the Board's consultative groups cited the following concerns:

    (a) diversity in calculation of performance metrics with the same name by different entities, often unaccompanied by explanations of the basis of calculation;

    (b) lack of consistency in how measures are calculated by an entity over time;

    (c) lack of sufficient information related to previous periods to enable comparisons over time and trend analysis; and

    (d) lack of consistency between information in an entity's management commentary and its financial statements or other reports published by the entity, including investor presentations.

14. Paragraph 2.24 of the *Conceptual Framework* states that 'information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date'. Paragraph 2.26 of the *Conceptual Framework* also explains that consistency—'the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities'—helps achieve comparability. Paragraph 2.28 explains that 'some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics'.

15. The staff identified two frameworks which discuss comparability in detail—the International Integrated Reporting Framework (<IR> Framework) and Canada's Management's Discussion and Analysis (MD&A): Guidance on preparation and disclosure (Canadian guidance on MD&A)—and both do so in a similar way to the *Conceptual Framework*. The <IR> Framework suggests using additional tools for enhancing comparability with other organisations, such as benchmark data, ratios and metrics commonly used by industry peers if they are relevant to the entity's circumstances. The Canadian guidance on MD&A states that 'any changes in matters being reported, or in their computation, should be explained unless irrelevant or

immaterial. If the information is no longer relevant or material, why this is so should be explained. Companies should discuss and update previously raised issues in subsequent MD&A reports'.

16. As noted in paragraph 11, the existing Practice Statement discusses comparability only in the context of performance measures and indicators:

> Comparability is enhanced if the performance measures and indicators are accepted and used widely, either within an industry or more generally. […] Consistent reporting of performance measures and indicators increases the comparability of management commentary over time.[4]

17. The staff think that this explanation should be retained in the revised Practice Statement when discussing the content element of performance, position and progress. However, for comparability to be enhanced for all types of information within management commentary, and not just for performance measures, and as is consistent with the approach set out in paragraph 10(a), the staff recommend including in the revised Practice Statement:

    (a) a description of comparability based on the description in the *Conceptual Framework* as set out in paragraph 14; and

    (b) a statement that although comparability with other entities is desirable, this should not override the requirement to provide relevant entity-specific information. This statement would be consistent with the guidance in the *Conceptual Framework* summarised in paragraph 12.[5]

18. Consistent with the approach in paragraph 10(b), the staff recommend including additional guidance on how to enhance comparability in management commentary. Specifically, the staff recommend that the revised Practice Statement should state that, in selecting and presenting information in management commentary, management should consider the fact that primary users need to draw comparisons against:

    (a) information provided by other entities, particularly within the same industry and where there are commonly accepted industry metrics (to address the concern discussed in paragraph 13(a));

[4] See paragraphs 38–39 of the Practice Statement.
[5] The statement about not overriding relevance and faithful representation equally applies to all enhancing characteristics—comparability, verifiability, understandability and timeliness.

(b) information reported in management commentary in previous periods, including estimates, forecasts and targets previously provided by the entity (to address the concerns discussed in paragraphs 13(b) and 13(c)); and

(c) other information published by the entity, including in the financial statements, in investor presentations, in other reports in the public domain, or on the entity's website (to address the concern discussed in paragraph 13(d)).

19. To help management select and present information that would help primary users to make such comparisons, the staff recommend that the revised guidance should require management to:

(a) explain the assumptions and methods of calculation used in producing performance measures (including those which may be estimates) presented in management commentary. Management should state whether a performance measure is one that is commonly used in the entity's industry, and should explain differences in its method from the commonly accepted practice in calculating that measure, and the reason for such differences. Such explanatory information would help primary users make comparisons between entities using the same performance measures and referred to by the same name. This information would address the concern discussed in paragraph 13(a) and facilitate comparisons with other entities as discussed in paragraph 18(a).

(b) explain changes from the previous year in assumptions and methods of calculation used in producing performance measures, estimates (and, if applicable, forecasts and targets) and discuss the reasons for such changes and why the changes result in more useful information. As discussed in paragraph 31 of September 2019 Agenda Paper 15A *Faithful representation in management commentary*, such explanations would also help enhance neutrality of information in management commentary. Management should also explain where it is providing new information about matters that it had reported in the previous management commentary, to help primary users identify what has changed in relation to those matters. This addresses the concern discussed in paragraph 13(b) and facilitates comparisons with past information provided by the entity as discussed in paragraph 18(b).

(c) provide comparative information for each performance measure over a period appropriate to show the emergence of trends. Some trends emerge only over an extended period, for example five years. This addresses the concern discussed in paragraph 13(c) and facilitates comparisons over time as discussed in paragraph 18(b).

(d) consider whether information presented on a matter in management commentary is consistent with information reported in the financial statements, in investor presentations, in other reports in the public domain, or on the entity's website. This addresses the concern discussed in paragraph 13(c) and facilitates comparisons discussed in paragraph 18(c).

Question 1 for the Board

The staff recommend that the revised Practice Statement:

(a) includes a description of comparability based on paragraphs 2.24, 2.26 and 2.28 of the *Conceptual Framework*, as summarised in paragraph 17;

(b) explains that although comparability with other entities is desirable, this should not override the requirement to provide relevant entity-specific information;

(c) states that in preparing management commentary, management should consider the fact that primary users need to make various types of comparisons as described in paragraph 18; and

(d) as described in paragraph 19, requires management to:

(i) explain assumptions and methods of calculation used in producing a performance measure, and state whether this is a common industry metric;

(ii) explain changes in assumptions and methods of calculation from the previous year and the reason for the changes;

(iii) highlight where new information is provided on a matter reported in the previous management commentary;

(iv) provide comparative information for each performance measure over a period appropriate to show the emergence of trends; and

(v) consider whether information presented in management commentary is consistent with information reported in the entity's financial statements, in investor presentations, in other reports in the public domain, or on the entity's website.

Do you agree with these recommendations?

Understandability

20. As stated in paragraph 7(b), the staff identified gaps in current management commentary reporting practice that relate to lack of understandability of information, in particular due to fragmentation of information, to lack of conciseness or to lack of focus.

21. Paragraph 2.34 of the *Conceptual Framework* states that 'classifying, characterising and presenting information clearly and concisely makes it understandable'. The *Conceptual Framework* also explains that information about complex phenomena which are not easy to understand should not be excluded from financial reports, as otherwise those reports could be incomplete and therefore possibly misleading.

22. Paragraph 7.6 of the *Conceptual Framework* also relates to understandability and states that:

> Effective communication in financial statements is also supported by considering the following principles:
>
> (a) entity-specific information is more useful than standardised descriptions, sometimes referred to as 'boilerplate'; and
>
> (b) duplication of information in different parts of the financial statements is usually unnecessary and can make financial statements less understandable.

23. The existing Practice Statement mentions understandability only when referring to the enhancing qualitative characteristics. However, the Practice Statement also has a section on Presentation (paragraphs 22–23). In the staff's view, applying the guidance in that section makes information in managemnt commentary more understandable. In summary, the existing guidance requires that management commentary should:

    (a) be clear and straightforward;

(b) be consistent with its related financial statements; and

(c) avoid duplication, boilerplate and disclosures that are merely generic.

24. The staff think that the guidance on presentation in the existing Practice Statement is helpful and is largely aligned with the guidance in the *Conceptual Framework* summarised in paragraphs 21–22. Accordingly, as is consistent with the overall approach to guidance on qualitative characteristics set out in paragraph 10(a), the staff recommend that the existing guidance is included in the discussion of understandability in the revised Practice Statement, together with a requirement to consider conciseness. Conciseness is addressed in the existing Practice Statement by reference to avoiding duplication.

25. The staff note that the following guidance that the Board has already considered would help promote understandability of management commentary:

(a) the guidance related to the notion of narrative coherence discussed in paragraphs 44–47 of July 2019 Agenda Paper 15B *Making relevance and materiality judgements*, as well as the staff's recommendation to highlight the links between different pieces of information when organising the information within management commentary discussed in paragraph 55 of the same Agenda Paper, would help address concerns about fragmentation of information.

(b) the guidance on identifying material information discussed in paragraphs 32–42 of July 2019 Agenda Paper 15B would help management focus on what is important to primary users' assessments and address concerns about lack of focus. In addition, the guidance on content elements in the Practice Statement, to be discussed in future Agenda Papers, will be a basis for identifying material information and therefore also help address these concerns about lack of focus.

Incorporating information by cross-reference (cross-referencing)

26. One way of reducing duplication of information is by incorporating information in management commentary by cross-reference to information included in other reports published by the entity. Doing so would not make management commentary (as a whole) more concise because the cross-referenced information in the other reports

would itself form part of management commentary. However, cross-referencing would help reduce duplication of information across an entity's reports and help reduce overall 'disclosure overload'. The staff emphasise that incorporating material information by cross-reference is different from both:

(a) sign-posting to complementary non-material information outside management commentary, usually for additional detail which may be of interest to some primary users in some cases (for example, additional information on the planned closure of a site); and

(b) acknowledging the source of information included in management commentary (for example, a third-party survey which is used for a key performance indicator or a study on the market the entity operates in, quoted to describe the entity's operating environment).

27. The existing Practice Statement does not explicitly refer to incorporating information by cross-reference, although it does state that 'when practicable, management should avoid duplicating in its management commentary the disclosures made in the notes to its financial statements'.[6]

28. The staff note that permitting incorporation of information in management commentary by cross-reference could give rise to concerns:

(a) about fragmentation because primary users would have to look elsewhere for material information, which would hinder understandability of management commentary; and

(b) about whether the report containing information incorporated by cross-reference has the same status as management commentary.

29. The staff think that if the Board were to permit incorporating information in management commentary by cross-reference, the Board would need to:

(a) determine the principles for when incorporating information by cross-reference is appropriate;

(b) consider providing guidance on applying those principles; and

[6] See paragraph 23 of the Practice Statement.

(c) consider whether to impose any constraints, for example, constraints on which type of reports could contain information incorporated by cross-reference, to help address concerns identified in paragraph 28.

30. In developing recommendations for the Board on incorporating information by cross-reference, the staff have:

(a) considered the analysis in the Discussion Paper *Disclosure Initiative–Principles of Disclosure* (PoD Discussion Paper) and subsequent feedback from stakeholders about cross-referencing for incorporating disclosures into financial statements and assessed how this could apply to management commentary, as discussed in paragraphs 31–34.

(b) reviewed other standard-setters' approaches to incorporating information in management commentary by cross-reference, as discussed in paragraph 35.

(c) discussed incorporating information by cross-reference with the Board's consultative groups, as discussed in paragraphs 36–37.

PoD Discussion Paper

31. Section 4 of the PoD Discussion Paper considered whether the Board should develop any requirements on providing outside the financial statements information that is necessary to comply with IFRS Standards. The Board's preliminary view was that it should:

(a) set out a general principle for disclosing information required by IFRS Standards outside of financial statements and incorporating such information into financial statements by cross-reference; and

(b) limit the application of this general principle to situations in which:

(i) an entity places information required by IFRS Standards outside of its financial statements but within its annual report, described as a single reporting package of the entity, with boundaries similar to those proposed by the International Auditing and Assurance Standards Board in ED ISA 720;

(ii) applying the general principle would make the annual report as a whole more understandable; and

(iii) the financial statements remain understandable and fairly presented.

32. Respondents to the PoD Discussion Paper raised concerns about using the term ‘annual report’ as some said that in some jurisdictions the ‘annual report’ includes documents that are separate from the financial statements or published at a different time to the financial statements. Feedback also included that the term ‘single reporting package’ was not clearly understood. Following the consultation, the staff performed further outreach which did not identify any of the terms ‘annual report’, ‘annual reporting package’, ‘single reporting package’ and ‘single document’ as being interpreted consistently across different jurisdictions. Some respondents suggested that instead of using one term to define the document from which information can be incorporated by cross-reference in the financial statements, the Board could provide a principle that the document must:

(a) be available at the same time as the financial statements;

(b) be available on the same terms as the financial statements;

(c) continue to be available for as long as the financial statements are available; and

(d) cannot be changed after the financial statements have been issued.

33. Many respondents to the PoD Discussion Paper also raised concerns about:

(a) excessive use of cross-referencing which could lead to fragmentation of, scattering, or obscuring information; and

(b) potential audit implications, including the risk of some IFRS information not being audited because it might be difficult to identify the complete set of information making up the financial statements, and potential lack of clarity about what has been audited.

34. The staff note that during outreach on the PoD Discussion Paper with regulators, some had expressed support for cross-referencing from outside the financial statements to information inside the financial statements, for example a management commentary cross-referencing to information in the notes to the financial statements, because it was seen as an acceptable way of reducing duplication of information across an entity’s different reports.

Other standard-setters' approaches

35. The staff reviewed what other standard-setters allow. Details can be found in Appendix A. In summary, the staff note the following different approaches to incorporating information by cross-reference:

(a) only allowed to financial statements;

(b) only allowed to other reports within the same report that management commentary forms part of (eg annual report);

(c) implicitly allowed to filed documents, by not allowing it to documents which are not filed with the regulator (such as investor presentations); and

(d) prohibited outright.

Discussion with consultative groups

36. The staff asked members of the various consultative groups for their views on this topic. Detailed feedback can be found in Appendix B. Some of the concerns raised were similar to those raised in the responses to the PoD Discussion Paper as discussed in paragraphs 32–34. Most members of the consultative groups agreed that cross-referencing to financial statements would be useful, particularly as management commentary is intended to provide a commentary on and context to the financial statements. However, some members expressed concerns about incorporating information by cross-reference to reports other than the financial statements because in their view:

(a) management commentary should contain all relevant information and be a stand-alone document (and as a result it may be necessary to sometimes duplicate information)—a few members expressed the view that even information from the financial statements should be duplicated such that management commentary is a stand-alone document;

(b) cross-referencing, particularly if done excessively or if there are long chains of cross-referencing, contributes to fragmentation of information and there is a risk that primary users may miss material information by having to search for that information elsewhere; and

(c) there is a risk that preparers could be discouraged from reporting material information in the management commentary.

37. Some other members of the consultative groups were of the view that cross-referencing to other reports was acceptable if those reports:

(a) were filed in a single report together with management commentary, ie in what is often referred to as the annual report;

(b) formed part of the entity’s annual filing requirements; or

(c) were prudential regulatory filings which are publicly available, such as Basel Pillar III reporting in the banking sector and Solvency II reporting in the insurance sector.

Analysis

38. Based on the above research and analysis, the staff identified three alternatives on how to approach incorporating information by cross-reference in the revised Practice Statement:

(a) permit incorporation of information by cross-reference (see paragraphs 41–44);

(b) prohibit incorporation of information by cross-reference so that management commentary is a stand-alone document; or

(c) stay silent on incorporating information by cross-reference, as is the case in the existing Practice Statement, as discussed in paragraph 27.

39. The staff do not recommend a prohibition because incorporating information by cross-reference:

(a) could address concerns about lack of conciseness and duplication across an entity’s reports;

(b) at least in some cases, notably cross-reference to financial statements, is generally supported by most stakeholders; and

(c) in some jurisdictions is allowed within the report which management commentary forms part of—this is consistent with the approach adopted in the PoD Discussion Paper as discussed in paragraph 31(b)(ii).

40. Similarly, the staff do not recommend that the revised Practice Statement stays silent on incorporating information by cross-reference, because there is a risk that without principles or guidance, cross-referencing could be used excessively, leading to fragmented information and reduced understandability.

41. Therefore, the staff recommend that incorporating information by cross-reference should be permitted, subject to principles and guidance supporting those principles, as discussed in the following paragraphs.

42. The staff recommend including an overarching principle in the revised Practice Statement that incorporating information in management commentary by cross-reference means that such information is part of the management commentary and is therefore subject to all the requirements of the Practice Statement and must possess the qualitative characteristics of useful information. Including this principle would also mean that the information incorporated in management commentary by cross-reference would be subject to the same level of assurance as applied to management commentary. In addition, the staff recommend that the principle states that incorporating information by cross-reference must help avoid duplication and must not hinder understandability and neutrality of management commentary as a whole. This would help limit excessive cross-referencing which could obscure information.

43. In addition, the staff recommend including the following guidance to enhance the understandability of management commentary when information is incorporated by cross-reference and to meet the overarching principle discussed in paragraph 42:

(a) the reference should be to a precisely specified part of the other document, so that it is clear which information is being incorporated in management commentary;

(b) the information incorporated by cross-reference must be current at the date the management commentary is approved and cannot be changed after the management commentary has been approved (unless the change is highlighted in an updated management commentary);

(c) if the information incorporated by cross-reference was part of a report which was up to a period that was different from the period being covered by management commentary, management must indicate in management commentary the cut-off date for that information and explain any subsequent events in relation to that information up to the date of the management commentary; and

(d) if the information incorporated by cross-reference is in a digitally available report, that report should provide a digital link back to the management commentary where the reference is being made. Some members of the consultative groups called this giving users a 'return ticket' back to the original location.

44. Furthermore, the staff recommend including guidance on which reports host information incorporated by cross-reference. The staff do not think that incorporation of information by cross-reference should be limited only to the financial statements, because as mentioned in paragraph 37, some stakeholders suggested it may be appropriate to cross-refer to some of the entity's other reports, in particular to reports in the same reporting package which management commentary forms part of. However, as discussed in paragraph 32, there is no one term such as 'annual report' or 'single reporting package' which is interpreted consistently across different jurisdictions. Therefore, the staff recommend including in the revised Practice Statement the following conditions—that are the consequences of the overarching principle in paragraph 42—that a report containing the information to be incorporated by cross-reference must meet:

(a) the report must be available on the same terms, at the same time and for as long as the management commentary;

(b) the referenced report must be filed with the same regulatory authority as the management commentary; and

(c) the members of management who authorise the management commentary for issue must take the same degree of responsibility for the information included by cross-reference as they do for all information included in the management commentary directly.

Question 2 for the Board
The staff recommend that the revised Practice Statement:

(a) includes in its discussion of understandability, the guidance in the existing Practice Statement on presentation;

(b) includes a specific requirement, based on the description of understandability in the *Conceptual Framework*, to the need to consider conciseness;

(c) permits incorporation of information in the management commentary by cross-reference, subject to the overarching principle that the information incorporated by cross-reference is part of the management commentary, and therefore must possess the qualitative characteristics of useful financial information (as discussed in paragraph 42). To help management apply the overarching principle, the revised Practice Statement would include:

 (i) guidance to enhance the understandability of management commentary when information is incorporated by cross-reference (as discussed in paragraph 43); and

 (ii) conditions that a report containing the information to be incorporated by cross-reference must meet (as discussed in paragraph 44).

Do you agree with these recommendations?

Verifiability

45. As discussed in paragraph 8, primary users want management commentary to be verifiable and they want to be able to corroborate and trust information presented by management, but are not always able to do so. Some members of the consultative groups, particularly users, thought that the characteristic of verifiability should be discussed in the guidance because they want information to be reliable and easily corroborated.

46. However, other members of the consultative groups raised the concern that requiring verifiability could be an obstacle to disclosing information based on management's judgements and forward-looking information. Some standard-setters tend to associate verifiability with assurance because the *Conceptual Framework* discusses verification by observation and recalculation (which an auditor may be more in a position to do than a user), and some members of the Accounting Standards Advisory Forum were of the view that discussing verifiability in the Practice Statement could appear to imply a requirement for assurance over the management commentary.

47. As is consistent with the overall approach to guidance on qualitative characteristics set out in paragraph 10(a), the staff recommend including in the revised Practice Statement a description of verifiability based on paragraph 2.30 of the *Conceptual Framework* which explains that:

> Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.

48. Furthermore, the staff think that the explanation in paragraph 2.32 of the *Conceptual Framework* addresses the concern discussed in paragraph 46 that some types of information included in management commentary may not be verifiable and recommend incorporating that explanation in the description of verifiability in the Practice Statement:

> It may not be possible to verify some explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

49. As discussed in paragraph BC44 of Basis for Conclusions on the existing Practice Statement, 'information in management commentary, including forward-looking information, can possess the qualitative characteristic of verifiability [and…] the test to ensure verifiability may be one of reasonableness: do the assumptions that support forward-looking information in financial reports make sense?'. September 2019 Agenda Paper 15A discussed guidance on how to provide information which is free from error. The staff believe that such guidance would be consistent with the approach in paragraph 10(b) and would promote transparency about assumptions, methods of calculation and about where judgement is exercised, and therefore support verifiability. That guidance explains that management should:

(a) distinguish information based on judgement from factual information; and

(b) explain the process and sources used to produce the information and its limitations and describe assumptions and methods of calculation used.

50. Furthermore, to address the concern that verifiability could appear to imply a requirement for assurance over the management commentary, as discussed in paragraph 46, the staff recommend retaining the statement in the existing Practice Statement that it does not mandate the level of assurance to which management commentary should be subjected.

Question 3 for the Board

The staff recommend that the revised Practice Statement:

(a) includes a description of verifiability based on paragraphs 2.30 and 2.32 of the *Conceptual Framework*;

(b) requires management to:

(i) distinguish information based on judgement from factual information; and

(ii) explain the process and sources used to produce the information and its limitations and describe assumptions and methods of calculation used; and

(c) retains the statement that it does not mandate the level of assurance to which management commentary should be subjected.

Do you agree with these recommendations?

Timeliness

51. The staff have heard some concerns raised by users about the timing of financial reporting, including management commentary, which may be published long after an event has taken place. Until then, users may have to use other information provided by an entity, for example, press releases, for their analysis. However, those users still find management commentary useful even if only for confirmatory value.

52. The existing Practice Statement refers to timeliness only when referring to the enhancing qualitative characteristics but does not provide any further guidance. As is consistent with the overall approach to guidance on qualitative characteristics set out in paragraph 10(a), the staff recommend including in the revised Practice Statement a

description of timeliness based on paragraph 2.33 of the *Conceptual Framework* which describes timeliness as:

> …having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

53. In addition, the staff recommend that the revised Practice Statement should include guidance stating that management commentary is more useful if it is published at the same time as the financial statements or soon after them, because it provides context for the financial statements.

54. The staff do not recommend adding further comments on timeliness because:

    (a) the timing of publication is a local jurisdictional and regulatory matter; and

    (b) management commentary can still have confirmatory value, and therefore be useful, even if published after the financial statements, because it can help primary users to confirm whether their previous assessments are still valid.

Question 4 for the Board
The staff recommend that the revised Practice Statement: (a) includes a description of timeliness based on paragraphs 2.33 of the *Conceptual Framework*; (b) states that management commentary is more useful if it is published at the same time as the financial statements or soon after them. Do you agree with these recommendations?

Appendix A—Analysis of other standard-setters' requirements or guidance on cross-referencing

Standard-setter	Requirements or guidance on cross-referencing
Financial Reporting Council (FRC) *Guidance on the Strategic Report*—UK	The *Guidance on the Strategic Report* distinguishes between cross-referencing and sign-posting. Cross-referencing is intended to mean that the cross-referred information forms part of the strategic report. Cross-referencing (ie incorporating information in the strategic report by cross-referencing) is only allowed to other parts of the annual report which the strategic report forms part of, ie the financial statements or the directors' report, including the corporate governance report. ***Extracts on cross-referencing:*** *Cross-referencing within the annual report* 3.16 In some instances, it may be helpful to group together similar or related disclosure requirements arising from different legal or regulatory requirements that apply to different components of the annual report. This will reduce duplication and enable linkages to be highlighted and explained clearly in one place. 3.17 Where information satisfying a disclosure requirement that applies to the strategic report is presented outside of that component, cross-referencing must be used in order for the disclosure requirement to be met. Cross-references should be clear and specific. Cross-referencing may also be applied to other components of the annual report. 3.18 The use of cross-referencing should be limited to when a piece of information would tell the company's story more effectively if it were located in another component of the annual report. 6.20 Similarly, there are many examples where separate sources of requirements that apply to different components of the annual report result in the disclosure of related information. While each component of the annual report is independently useful, more valuable insight can be provided if the strategic report highlights and explains linkages between the information disclosed in them. 6.21 The most appropriate method of dealing with these linked requirements will depend on factors such as the nature of the information and any regulatory requirements specific to the disclosures being made. The methods are closely linked to the guidance on the placement of information in the annual report set out in Section 3 and may involve the use of cross-referencing or signposting or combining related disclosures. Where cross-referencing or signposting is used, care should be taken that the nature of the relationship or interdependency is adequately explained, rather than just highlighting its existence. 6.22 It is probable that the information related to some disclosure requirements will be relevant to several different parts of the annual report. Where this is the case, directors will need to consider how the linkages between these discrete disclosure requirements can be highlighted and explained in the most efficient and understandable way. 6.23 The duplication of information should generally be avoided as it usually leads to unnecessary volumes of disclosure detracting from the understandability and usefulness of the annual report as a whole. This can be achieved by using signposting or cross-referencing. In some cases, it may be

Standard-setter	Requirements or guidance on cross-referencing
	necessary to repeat certain pieces of information, although this should be limited to circumstances when this would tell the company's story more effectively. 7B.86 There are a number of directors' report disclosure requirements that are closely related to matters that should be considered for inclusion in the strategic report. Where this information is also necessary for an understanding of the development, performance, position or future prospects of the business, it should be included as part of the strategic report. However, where the information is not necessary for that purpose, these disclosures should be included in the directors' report. In such cases, a signpost enabling shareholders to drill-down to this information should be considered when it is related to matters covered in the strategic report. […] 9.2 […] disclosures that are included in the strategic report by cross-reference to another part of the annual report must also be sent to shareholders along with the main body of the strategic report in order to comply with the law. ***Glossary definitions*** **Cross-referencing**: A means by which an item of information, which has been disclosed in one component of an annual report, can be included as an integral part of another component of the annual report. A cross-reference should specifically identify the nature and location of the information to which it relates in order for the disclosure requirements of a component to be met through the relocated information. A component is not complete without the information to which it cross-references. Cross-referenced information must be located within the annual report. Cross-referencing is different to signposting. **Signposting**: A means by which a shareholder's attention can be drawn to complementary information that is related to a matter disclosed in a component of the annual report. A component must meet its legal and regulatory requirements without reference to signposted information. Signposts should make clear that the complementary information does not form part of the component from which it is signposted. Signposted information may be located either within or separately from the annual report. Signposting is different to cross-referencing.
REGULATORY GUIDE 247: Effective disclosure in an operating and financial review—Australia	The guide does not permit cross-referencing to other reports other than the financial statements, and all required information must be included in the operating and financial review itself: RG247.15: All information required under s299A must be included in the body of the OFR itself. An OFR cannot incorporate by reference other documents (outside of the financial report) or rely on the fact that relevant information may have previously been disclosed to the market (e.g. in continuous disclosure announcements) to satisfy the requirements of s299A. Depending on the circumstances, an entity's OFR may need to include more or less detail about an event than has been previously disclosed in a continuous disclosure notice. It may be appropriate to cross-refer to more detail in the financial report to which the OFR is attached.
German Accounting Standard (GAS 20) *Group Management Report*—Germany	The Standard does not make explicit reference to cross-referencing but for some specific disclosures, it includes the following in relation to cross-referencing to the financial statements: 'The disclosures in accordance with paras [X] may be omitted if they are required to be disclosed in the notes to the consolidated financial statements. In such cases, reference shall be made to the appropriate note to the consolidated financial statements.'

Standard-setter	Requirements or guidance on cross-referencing
	These disclosures relate to share capital, direct and indirect interests if in excess of 10% of voting rights, compensation arrangements for the executive board or employees in the event of a takeover bid, and post-balance sheet events. There is no further detail on what the reference should include. There is also permission to refer to the entity's website in relation to the entity's corporate governance declaration. If disclosures related to the corporate governance declaration are made publicly available on the parent entity's website, a reference in the group management report can be made to the location on the website.
European Commission *Guidelines on non-financial information*—EU	In paragraph 3.3, the guidance states: 'The non-financial statement may include internal cross references or signposting in order to be concise, limit repetition, and provide links to other information. Cross referencing and signposting should be smart and user-friendly, for instance, by applying a practical rule of 'maximum one "click" out of the report'.' The guidance does not explain the difference between cross references and signposting, but it does refer to 'internal cross references'.
Securities Exchange Commission (SEC) *Interpretation: Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*—USA	The guidance does not explicitly prohibit cross-referencing, but states that all material information needs to be included in the Management's Discussion and Analysis (MD&A). The guidance also includes the following in relation to information reported outside the entity's filed documents (see Section 3 Part A): '…if companies disclose material information (historical or forward-looking) other than in their filed documents (such as in earnings releases or publicly accessible analysts' calls or companion website postings) they also should evaluate that material information to determine whether it is required to be included in MD&A, either because it falls within a specific disclosure requirement or because its omission would render misleading the filed document in which the MD&A appears. We are not seeking to sweep into MD&A all the information that a company communicates. Rather, companies should consider their communications and determine what information is material and is required in, or would promote understanding of, MD&A.'
Chartered Professional Accountants (CPA) *Management's Discussion and Analysis—Guidance on preparation and disclosure*—Canada	The CPA Canada guidance does not allow cross-referencing and states that the MD&A needs to be a stand-alone document: {Executive Summary} '…As a cornerstone of continuous disclosure, the MD&A should incorporate key information needed by readers that appears elsewhere.' [2.2] '…The MD&A must be a self-contained document that complements and supplements the financial statements. The MD&A must be capable of being read by itself and should not address any aspects of the story it tells by asking the readers to look to other documents. While ensuring the MD&A is integrated with the financial statements, it is important to note that cross-referencing is not an option.'

Standard-setter	Requirements or guidance on cross-referencing
International Integrated Reporting Council– International Integrated Reporting Framework	The <IR> Framework states the following, which seems to only refer to references to additional information (more detailed information), and not incorporating information by cross-referencing: 1.16 An integrated report can provide an "entry point" to more detailed information outside the designated communication, to which it may be linked. The form of link will depend on the form of the integrated report (e.g., for a paper-based report, links may involve attaching other information as an appendix; for a web-based report, it may involve hyperlinking to that other information).

Appendix B—Overview of the input on the enhancing qualitative received from the Board's consultative groups

The staff discussed their proposals for guidance on comparability and understandability (in particular, the use of cross-referencing) with the Management Commentary Consultative Group (MCCG), Accounting Standards Advisory Forum (ASAF), Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF).

Staff's proposals discussed with consultative groups	Feedback	Staff's response
Comparability		
Explain that to enhance comparability of information in management commentary: (a) The form and presentation of information should take into account users' needs to draw comparisons against: (i) other information provided by the entity, whether within or outside the management commentary and financial statements; (ii) estimates and forecasts previously published; and (iii) commonly applied definitions of the measures provided. (b) Disclosure of scope, basis of preparation, and assumptions in relation to KPIs and other measures reported in management commentary should be sufficient to allow users to assess the limitations of comparative analysis they may reasonably perform.	The consultative groups broadly supported the principles-based approach but had some concerns about comparability with peers. Some MCCG members raised concerns about requiring comparability with, or reconciliations to, industry measures and other measures commonly provided by peers as this could lead to having to disclose sensitive information. A few CMAC, GPF and ASAF members commented that a requirement for comparability with industry peers could detract from an entity's ability to explain its 'story' and that disclosing metrics prevalent in its industry could conflict with the principle of providing information that reflects management's view if management's view was that different information would meet the objective of management commentary better than metrics prevalent in the entity's industry.	As discussed in paragraph 19(a) of this Agenda Paper, the staff have clarified the guidance on industry metrics and do not propose to require explanations on, or reconciliations to, common industry metrics if the entity has decided that information provided by those metrics is not relevant in its circumstances. Instead, the staff recommend that management is asked to state whether a performance measure used is the one that is commonly used in the entity's industry and explain differences in its method from the commonly accepted practice and the reason for such difference. In addition, the staff recommend that the revised Practice Statement explicitly states that although comparability with other entities is desirable, this should not override the requirement to provide relevant entity-specific information. This would help address the concerns that references to comparability could encourage approaches that detract from the entity's 'story'.

(c) Where the entity's strategy or circumstances differs from that of its peers, comparability may be achieved by reconciling entity-specific analysis to an alternative basis of presentation or calculation, such as a common industry measure. (d) Management should consider the appropriate period to present each measure over, taking into account that some trends emerge over a period of 3-5 years. In addition, explain that comparability is only an enhancing qualitative characteristic of useful financial information and so does not override the requirement to provide relevant information.	A few MCCG members suggested that it should be clear that guidance on trend information over 3-5 years referred to providing historical comparative information.	The staff will clarify in drafting that the comparatives relate to historical information only.
	An ASAF member cautioned that comparability for narrative information is particularly difficult, and that the term comparability as used for financial statements may not work well for management commentary. Another ASAF member commented that consistency and transparency would best help users assess comparability.	The staff think that the guidance recommended in paragraphs 18–19 promotes transparency and consistency of application and should help preparers produce more comparable information. Furthermore, as discussed in paragraph 14 of this Agenda Paper, some degree of comparability is likely to be attained by providing information that possesses the fundamental qualitative characteristics.
Understandability		
{The staff did not discuss the qualitative characteristic of understandability with the consultative groups, except for the proposals on incorporating information by cross-reference.}	A few MCCG members suggested that guidance on communication principles, such as understandability and conciseness, would be helpful and may merit inclusion in the Practice Statement.	As discussed in paragraphs 24 and 41–44 of this Agenda Paper, the staff recommend to: (a) retain the existing guidance on presentation of information and explain how applying that guidance would make information more understandable; (b) add a requirement to the need to consider conciseness; (c) include guidance on incorporating information by cross-reference.
	A CMAC member expressed the view that for management commentary to be understandable, it needs to be internally consistent, and suggested that the Practice Statement should include a principle on consistency.	Internal consistency is addressed in the recommended guidance on comparability which refers to users needing to draw comparisons with information within management commentary (see paragraphs 18–19 of this Agenda Paper).

Provide a principles-based approach to incorporating information by cross-reference, with restrictions on when cross-references from management commentary to financial statements and to other reports are permitted. Explain that: (a) where information is included by cross-referencing to other reports, the specific section being referenced will be considered to form part of management commentary and will be subject to all the requirements of the Practice Statement. (b) management commentary should include all relevant information needed to meet the objective of management commentary, either directly or by cross-referencing; (c) information provided, either directly or by cross-reference, should faithfully represent the substance of the relevant matter; (d) management commentary can incorporate information by cross-reference to financial statements or other reports to provide a coherent discussion and avoid duplication of information in these reports; (e) incorporation of information by cross-reference should not be done in a way that hinders understandability and neutrality of management commentary. Include the following restrictions on incorporating information by cross-reference: (a) the reference should be to a precisely specified part of the document; (b) the referenced document should be available: (i) at the same (or approximately the same) time as management commentary; (ii) on the same terms as management	Most members of the consultative groups explicitly agreed that cross-referencing to financial statements was helpful and should be permitted, but some members expressed concern about allowing cross-referencing to other reports. Some CMAC members, a few MCCG members and a few GPF members were of the view that management commentary should contain all relevant information and be a stand-alone document (and as a result it may be necessary to sometimes duplicate information) because the management commentary is a primary source of information. Furthermore, they expressed concerns that: (a) cross-referencing contributes to fragmentation of information and makes it more difficult to give users a 'coherent story'; (b) there is a risk that users may miss material information by having to search for that information elsewhere; (c) there is a risk that preparers could be discouraged from reporting material information in management commentary; and (d) cross-referencing to other reports could alter the perceived status of the management commentary in relation to the status of the entity's other reports.	The staff recommend guidance supporting the overarching principle on incorporating information by cross-reference that could help avoid the inappropriate or excessive use of cross-referencing which could lead to fragmented information and reduce understandability. In particular (as discussed in paragraph 42 of this Agenda Paper), the principle that incorporation of information by cross-reference should not hinder understandability and neutrality of management commentary, would help address these concerns. The staff recommend guidance explaining that the parties who authorise the management commentary for issue must take the same degree of responsibility for information incorporated by cross-reference as they do for information included in the management commentary directly (see paragraph 44). This guidance would help address the concerns on the perceived status of management commentary in relation to the reference document.
	Some CMAC members suggested that incorporating information by cross-reference to the entity's published reports, other than the financial statements, may be appropriate if: (a) the other report is filed as part of the	The Principles of Disclosure Discussion Paper consultation had shown the difficulties in using terms such as 'annual report' and 'regulatory filings' which could be interpreted inconsistently

commentary, ie, users should have access to the referenced material on the same basis as they have for accessing management commentary; and (iii) for as long as the management commentary is available. (c) the referenced information is current at the date the management commentary is approved and cannot be changed after the management commentary has been approved (unless the change is highlighted in an updated management commentary).	annual report of which management commentary forms part, for example, the corporate governance report; and (b) the cross-reference is to prudential regulatory filings in a regulated industry, for example, cross-referencing to Basel Pillar 3 reports in the banking sector. A few MCCG and ASAF members made similar suggestions. A MCCG member suggested that cross-referencing to Solvency II reports in the insurance sector should be allowed.	across different jurisdictions. To avoid, this, the staff recommend guidance on conditions intended to limit incorporation by cross-reference to only those reports discussed in paragraph 44 of this Agenda Paper.
	A few ASAF members said the staff's proposals on incorporating information by cross-reference are not expected to lead to issues for auditors, mainly because management commentaries are not audited in many jurisdictions. A few MCCG members commented on the potential implications for assurance if the referenced report is not subject to the same level of assurance as management commentary, and expressed the view that users are not always aware of the different levels of assurance over reported information. An ASAF member suggested that management commentary should specify the level of assurance provided on referenced information to help users understand the quality of that information.	As discussed in paragraph 42, introducing the overarching principle that information incorporated by cross-reference is part of management commentary would mean that the information incorporated by cross-reference would be subject to the same level of assurance as applied to management commentary. As discussed in paragraph 50 of this Agenda Paper on verifiability, the staff recommend retaining in the existing Practice Statement that it does not mandate the level of assurance to which management commentary should subjected.
	A few CMAC members were concerned that in some jurisdictions, the referenced document could be legally interpreted to be part of	The staff think that the guidance recommended in paragraph 43(a) that the reference should be to a

	management commentary in full, and not just the referenced information.	precisely specified part of the other could address this concern.
	Some ASAF members emphasised the importance of the restrictions related to changes in the referenced document, in particular that: (a) the referenced document is not temporary and should be available for as long as the management commentary is available; and (b) the change of the referenced document is highlighted in management commentary either by updating it or by issuing a separate modification to the issued management commentary. A few GPF members suggested that instead of restricting cross-referencing to reports that do not change, it may be more helpful if the management commentary indicates whether the referenced information is subject to (periodic) updating or relates to a single point in time.	The staff think that this concern is addressed by introducing the overarching principle that information incorporated by cross-reference is part of management commentary and by guidance in paragraphs 43(b) and 43(c) supporting this principle.
	An MCCG member suggested that management commentary should provide context for cross-references to make it clear why particular information is included by cross-reference rather than directly, while another member suggested that maps or lists of cross-references made should be provided.	The staff think that the principles-based approach to cross-referencing, including the principle that incorporating information by cross-reference must not hinder understandability of management commentary as a whole (paragraph 42) should limit the excessive use of cross-referencing and therefore a list of cross-references may not be necessary.
	A few MCCG members suggested that it would be helpful to sign-post to additional information in other reports, including 3rd party reports, for example to provide further detail or evidence to	As discussed in paragraph 26 of this Agenda Paper, the staff distinguish incorporation by cross-referencing from sign-posting to additional non-material information for reference purposes and

	support information included in management commentary. A CMAC member commented that cross-referencing to external reports published by other parties may be useful if the entity discusses key performance indicators reflecting how the entity is perceived in the market and that it would be helpful to know the source of the indicators.	from identifying the source of information included in management commentary. The staff see no reason to prohibit such sign-posting or identification of the source.
	A few ASAF members suggested replacing the term 'restrictions' with 'conditions' or 'requirements' to avoid any negative connotations.	The staff have removed the term 'restrictions' from their proposals, and instead refer to principles for when incorporation by cross-reference is allowed and supporting guidance and conditions.
	A CMAC member recommended that in developing the proposals for the revised Practice Statement, the Board should consider the guidance on cross-referencing in the EU Non-Financial Reporting Directive on non-financial information. An ASAF member also suggested that the staff should consider local regulations in developing its proposals on cross-referencing.	As discussed in paragraph 35 of this Agenda Paper, the staff reviewed what other standard-setters allow in terms of cross-referencing.
	A GPF member suggested that advances in technology (eg the use of hyperlinks) should be considered in developing proposals for the use of cross-referencing. A few CMAC members also suggested that good practice on cross-referencing included using two-way cross-referencing, particularly in electronic documents.	The staff included a recommendation on hyperlinks in paragraph 43(d) of this Agenda Paper.