This document highlights potential areas for consideration as the Practice Statement is developed.
Content

• Scope of the Board’s interest
• What is management commentary?
• Reasons for updating the Management Commentary Practice Statement
• Staff’s proposed approach to an update
• What could a revised Management Commentary Practice Statement cover?
Scope of the Board’s interest

‘Other financial’: information outside the financial statements that assists in the interpretation of a complete set of financial statements or improves users’ ability to make better economic decisions.

Management commentary: a narrative report that provides financial and non-financial information useful to users of financial reports

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1. Reporting to support public policy objectives
2. Other frameworks (e.g. GRI Sustainability Reporting Standards) and regulation address the needs of a wider community of report users
3. International Integrated Reporting Framework and national narrative reporting frameworks, along with a number of subject matter (e.g. Carbon Disclosure Standards Board) and sector based (e.g. Sustainability Accounting Standards Board) frameworks, also target this space
The Management Commentary Practice Statement (MCPS) provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements prepared applying IFRS Standards. The MCPS focuses on what’s relevant to the unique circumstances of the business. It does not prescribe detailed industry or issue-specific disclosures.
Reasons for updating the MCPS

- Proliferation of requirements with diverse objectives
- Incorporate relevant developments from other frameworks
- Close gaps in existing practice
- Growing importance of intangible business resources & relationships
- Complementary information to support longer-term decision making
- Better support for the interpretation of the financial statements

In November 2017 the Board added to its agenda a project to update the Management Commentary Practice Statement.
The current Management Commentary Practice Statement:
A principles based non-binding framework for presenting investor-relevant narrative content based on the specific circumstances of the business

This is not expected to change, but the update could support a more rigorous approach to determining which matters to address and the information to provide in the management commentary

Recent developments:
• Innovations from International Integrated Reporting Framework and national narrative reporting frameworks build on MCPS
• Acknowledged gaps in practice, including:
  • inconsistent business model reporting
  • short-term strategic focus
  • continuing challenges in reporting pre-financial indicators
• Growing frustration with investment and management short-termism

Key concepts expected to drive the update:
Value creation puts more emphasis on long term prospects
Business model and strategy provide a focus for building the report
Integration and linkage ensure key issues are followed across the report
Key resources and intangibles further support a long-term focus
Materiality—when to report a matter and the information to provide

It is not envisaged that the update will prescribe detailed industry or subject-matter specific measures
What could a revised MCPS cover?

Management commentary
Information relevant to understanding the future development of the financial statements

**Business model, risk, strategy and operating environment**
Qualitative and quantitative information on:
- the operational position of the business
- the factors affecting its future development

**Current year financial analysis**
- Explanation of current year financial performance and position
- Additional / non-GAAP financial analysis

**Non-financial Information**
Pre-financial information and explanations that provide insight into:
- business progress
- implications for future financial performance
Covers resources and relationships key to value creation

**Forward-looking statements**
Explaining statements of forecast and target financial and non-financial expectations (*where made*)

*Insight* into the company’s *strategy* for creating shareholder value over time, its *progress* in implementing it, and the *potential impact* on future financial performance *not yet captured* by the financial statements
Illustrations

Business model, risk, strategy and operating environment

Qualitative and quantitative information on:
- the operational position of the business
- the factors affecting its future development

Illustrations:
- ‘80% of our sales derive from existing relationships with lead contractors…’
- ‘…to build on this, we plan to sell red widgets to all our blue widget customers’
- ‘Our competitive strength is in engineers’ know-how. Their retention is a priority’

Current year financial analysis

- Explanation of current year financial performance and position
- Additional / non-GAAP financial analysis

Illustrations:
- ‘Total capex includes $m to enhance existing stores’
- ‘Organic earnings growth was % after allowing for….’
- ‘Gross margin fell due to operational issues at….’

An explanation of how the business generates value and the factors expected to materially affect this in the short and longer term

Interpretation and analysis of historical financial information
Illustrations (continued)

**Non-financial information**

Pre-financial information and explanations that provide insight into:
- business progress
- implications for future financial performance

Covers resources and relationships key to value creation

**Illustrations:**
- Shorter-term:
  - Sales order-book
  - Headcount reductions
- Longer term:
  - Customer wins and retention
  - Store upgrade progress
  - Product quality measures
  - R&D staff retention

**Forward-looking statements**

Explaining statements of forecast and target financial and non-financial expectations (*where made*)

**Illustrations:**
- Shorter-term:
  - Forecast sales growth %
- Longer term:
  - ‘target 20% penetration of the red widget market by 2020’
  - ‘targeting a 50% reduction in carbon emissions to meet potential regulatory change’

Historical non-financial information relevant to an understanding of future financial performance and position in both the short and longer term

Management’s view of future outcomes including the factors expected to drive them
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