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*This document is provided as a convenience to observers at the Analyst Representative Group meeting, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*Note: These notes are based on the staff papers prepared for the ARG meeting. Paragraph numbers correspond to paragraph numbers used in the ARG agenda paper.*

## **INFORMATION FOR OBSERVERS**

***ARG Meeting:***                    ***June 2008, London***

***Project:***                         ***Management Commentary***  
                                              ***(Agenda Paper 6)***

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## **INTRODUCTION**

1. At the December 2007 meeting, the Board voted to move the management commentary project from its research agenda to its active agenda. The Board decided that work on the project should result in the production of a guidance document based on the *Management Commentary* discussion paper issued in October 2005. This guidance document will not be part of the suite of mandatory provisions of IFRS.

## **BACKGROUND**

2. In late 2002, the IASB established a project team comprising representatives from the national standard-setters in Canada, Germany, New Zealand and the United Kingdom to examine the potential for issuing a standard or guidance on management commentary. The project team focused its review on the practices in place in the following countries:

- Australia

- Canada
- Germany
- United Kingdom
- United States

The project team also reviewed the EU Modernisation Directive as well as guidance issued by the Technical Committee of the International Organization of Securities Commissions (IOSCO).

3. In October 2005, the IASB published the results of the project team's research in a discussion paper. The discussion paper presents an assessment of the role the IASB might play in improving the quality of the management commentary that accompanies financial statements. In the discussion paper, the project team presented their views regarding the users, objective and qualitative characteristics of management commentary. The discussion paper also presented essential content elements of management commentary and a possible placement framework for use by standards-setters in distinguishing between information that would appear in the management commentary and information that would appear in the notes to the financial statements.

## **SUMMARY OF MAJOR TENTATIVE DECISIONS**

4. The discussion paper is the result of a research process undertaken—it was not issued as a preliminary views document. The major tentative decisions summarised are those reached by the team that prepared the discussion paper.
5. The project team concluded that an entity's financial report should be viewed as a package comprising the primary financial statements, accompanying notes and management commentary. They also concluded that the quality of management commentary was likely to be enhanced if the Board issued requirements related to management commentary. The project team organised these requirements into a framework comprised of an objective, principles, qualitative characteristics and specific content elements. A summary of those requirements is provided in the appendix to this paper.

## **SCOPE**

6. The discussion paper represents the first stage in due process for the management commentary project. Consequently, the scope of the project is limited to that which is described in the discussion paper. Specifically, the project is limited to the development of a framework for use in the preparation of management commentary. This framework includes specific principles (appendix, paragraph 3), qualitative characteristics (appendix, paragraph 4) and content elements (appendix, paragraph 5), all of which are geared towards fulfilling a stated objective (appendix, paragraph 2).
7. This project is not designed to address the inclusion of other types of narrative reporting, namely sustainability reporting, environmental impact reporting or corporate social responsibility reporting. Also, this project will not identify specific performance measures to be reported in management commentary. Additionally, this project will not delineate what the goals and objectives of specific types of entities should be, nor will it specify benchmark levels of performance that should be met.

## **APPROACH AND TIME LINE**

8. The approach and time line for this project is predicated on a number of staff assumptions about 1) the project in general; and 2) the outcome of the Board's deliberations on issues pursuant to the agenda decision. The assumptions are outlined below:
  - the Board accepts the conclusions reached by the project team in the *Management Commentary* discussion paper as its preliminary views (thereby substantially limiting deliberations);
  - the Board supports the staff recommendation that it will be more efficient and effective to bring the project to the Board as a complete package, rather than discussing individual topics in isolation; and
  - the next due process step is the preparation and publication of an exposure draft.

9. The staff envisage publication of an exposure draft for this project by the end of Q4 2008. The final guidance document is scheduled for issuance at the end of Q4 2009.

## MANAGEMENT COMMENTARY AND THE CONCEPTUAL FRAMEWORK

10. The conclusions reached in the discussion paper were premised, in part, on the Board's (then current) thinking in Phase A of the Conceptual Framework project (Phase A). Subsequent to the issuance of the *Management Commentary* discussion paper, the Board issued the discussion paper *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*.
11. At the end of May 2008, the Board published an exposure draft that details its latest thinking on Phase A. The exposure draft includes changes from the Phase A discussion paper with regard to the Board's thinking on topics such as the users of financial statements and the qualitative characteristics of financial reporting. Consequently, the conclusions reached in the *Management Commentary* discussion paper must be revisited in the context of the Board's revised proposals for Phase A.
12. At the July Board meeting, the staff intend to present an agenda paper that summarises the conclusions reached in the discussion paper and how those conclusions may be affected by the tentative decisions reached in the exposure draft *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information*. The Board response to that agenda paper will ultimately determine the course of the management commentary project.

## QUESTIONS FOR THE ARG

13. The project staff would like feedback from the Analyst's Representative Group on the following:

<p><b>Q1: Given its status as a guidance document, to what extent do ARG members believe the management commentary project should be tied to the conceptual framework project?</b></p>
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**Q2: Do ARG members believe that the conclusions reached in the discussion paper remain relevant (see the appendix), particularly when viewed in the light of the current global credit crisis?**

## APPENDIX—SUMMARY OF DISCUSSION PAPER CONCLUSIONS

1. The project team defined management commentary in paragraph 19 of the discussion paper as:

...[I]nformation that accompanies financial statements as part of an entity's financial reporting. It explains the main trends and factors underlying the development, performance and position of the entity's business during the period covered by the financial statements. It also explains the main trends and factors that are likely to affect the entity's future development, performance and position.

In support of that definition, the project team developed an objective of management commentary as well as principles, qualitative characteristics and essential content elements for use in its preparation. The project team identified investors as the primary users of management commentary.

2. The objective of management commentary proposed by the project team is to provide information to help investors:
  - (a) interpret and assess the related financial statements in the context of the environment in which the entity operates;
  - (b) assess what management views as the most important issues facing the entity and how it intends to manage those issues; and
  - (c) assess the strategies adopted by the entity and the likelihood that those strategies will be successful.
3. In support of that objective, the project team developed three principles for use in the preparation of an 'information useful' management commentary. Management commentary should:
  - (a) supplement and complement information in the financial statements;
  - (b) provide an analysis through the eyes of management; and
  - (c) have an orientation to the future.

4. The project team determined that, if management commentary is intended to help investors understand the financial statements, management commentary should be expected to meet, as far as possible, qualitative standards similar to those applicable to the financial statements. To that end, the project team decided that management commentary should be understandable, relevant, supportable, balanced and comparable over time. The project team concluded that management commentary exhibiting all of these qualitative characteristics is most likely to meet the needs of investors.
  
5. The project team also identified the key elements that reflect the *type* of content expected to be included in management commentary; the project team did not define the specific elements. To meet the objective of management commentary, the project team concluded that an entity should disclose information on:
  - (a) the nature of its business;
  - (b) its objectives and strategies;
  - (c) its key resources, risks and relationships;
  - (d) its results and prospects; and
  - (e) its performance measures and indicators.