



Project **Management commentary**

Topic **Review of the Board's proposals for management commentary**

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## Introduction

1. This paper reviews the Board's proposals for management commentary. It is meant to provide both a 'refresher' for the Board on the progress of the project and context for the staff draft of the exposure draft (see agenda paper 2B).

## Background

2. In late 2002, the International Accounting Standards Board (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. In October 2005, the IASB published the results of the project team's research in a discussion paper *Management Commentary*.
3. In the discussion paper, the project team present their views regarding the users, objective and qualitative characteristics of management commentary. The project team also describe essential content elements of management commentary and a possible placement framework for use by standard-setters in distinguishing between information that would appear in management commentary and information that would appear in the notes to the financial statements.
4. In December 2007, the management commentary project was moved from the Board's research agenda to its active agenda. As part of the agenda decision, the Board decided that it would produce a non-authoritative guidance document for management commentary rather than an International Financial Reporting Standard (IFRS). Additionally, the Board instructed the staff to develop an

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This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

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exposure draft based on the proposals contained in the discussion paper. The Board also decided to exclude consideration of a disclosure placement framework from the scope of the management commentary project. The Board's intention is to consider issues of disclosure placement in phase E of the conceptual framework project.

5. In July 2008, the Board reconsidered the proposals in the discussion paper in the context of its in process work on the objectives of financial reporting and the qualitative characteristics of decision-useful information (hereafter, Phase A Framework ED) in their joint project with the Financial Accounting Standards Board (FASB) to improve the conceptual framework.<sup>1</sup> At that meeting the Board decided to anchor its proposals for management commentary to its proposals in the Phase A Framework ED.
6. In a departure from the discussion paper, the Board decided that a framework for the preparation and presentation of management commentary must be *fully* consistent with the broader [draft] conceptual framework for financial reporting. Said differently, in order to remain consistent, all aspects of management commentary must take their cue from phase A of the conceptual framework. That decision affected three of the proposals in the discussion paper: the objective, the users and the qualitative characteristics of management commentary.
7. The staff draft of the management commentary exposure draft (see agenda paper 2B) is based on the proposals in the discussion paper, modified to reflect the Board's in process work from the Phase A Framework ED. The staff also considered:
  - (a) the Board's redeliberations of its proposals in the Phase A Framework ED;
  - (b) constituents responses to both the management commentary discussion paper and the Phase A Framework ED;

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<sup>1</sup> See the exposure draft *An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*, IASB (May 2008)

- (c) developments in narrative reporting at the regulatory level in a variety of local and regional jurisdictions; and
- (d) several recent third-party publications, in particular the CFA Institute's *A Comprehensive Business Reporting Model* (July 2007).

### **Managing expectations**

8. The staff has found it helpful to view the management commentary project as a starting point for a lengthy conversation about disclosure within the financial reports. Reduced to its most basic purpose, the final work product is simply a placeholder for a type of disclosure that precedes the financial statements but is not part of them. That placeholder (ie management commentary) should evolve over time, particularly as the Board advances its work on phase E of the conceptual framework.

### ***What the management commentary exposure draft does***

9. The management commentary exposure draft:
- (a) places management commentary within the boundaries of financial reporting;
  - (b) explicitly links management commentary to the financial statements, both of which are 'governed' by the [draft] conceptual framework for financial reporting;
  - (c) establishes a framework for the preparation and presentation of management commentary; and
  - (d) describes essential content elements for management commentary.

### ***What the management commentary exposure draft does not do***

10. The management commentary exposure draft does not:
- (a) resolve questions about disclosure placement (the notes to the financial statements versus management commentary);
  - (b) modify the disclosure requirements in existing IFRS to clarify disclosure placement;
  - (c) offer a definition for what the Board means when it refers to 'financial information' or 'non financial information';
  - (d) create a 'hard and fast' boundary between management commentary and the rest of financial reporting;

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- (e) explicitly keep out from management commentary aspects of reporting that could be described as environmental impact reporting or corporate social responsibility reporting;
  - (f) directly answer the question as to whether management commentary is necessary for a ‘true and fair view’ of the entity being reported on; or
  - (g) contain application guidance or illustrative examples.
11. The Board may wish to consider some (or all) of the items in paragraph 10 when it activates its work on phase E of the conceptual framework. Alternatively, the Board may wish to consider some (or all) of those items in an as-yet-to-be-determined second phase of the management commentary project.

### **Comparison of proposals: discussion paper versus exposure draft**

12. For convenience, the appendix to this paper contains a matrix presenting a summary of difference between the proposals made in the discussion paper versus those that are made in the exposure draft. Proposals that have **not** been modified for inclusion in the exposure draft have been omitted from the table.

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Appendix

Topic		Discussion paper	Exposure draft
1	Final work product	Indicated a preference for a standard	Non-mandatory guidance
2	Relationship to the conceptual framework	DP written in such a way that the MC framework stands separate and apart from the CF. Management commentary is expected to meet, <i>as far as possible</i> , qualitative standards similar to those applicable to the financial statements.	MC explicitly tied to the CF, meaning all aspects of MC must take their cue from the CF.
3	Identification of management commentary	An entity must clearly identify what it is presenting as MC. An entity shall make an explicit and unreserved statement that it has complied with all the requirements of the MC standard, when those requirements have been met.	Management should identify clearly what it is presenting as management commentary and distinguish it from other information in the same published financial report. (No assertion requirement.)
4	Purpose of management commentary	Content in this section originally cast as the 'objective' of MC.	Recast as the 'purpose' of management commentary; content remains the same.
5	Users of management commentary	Investors	Present and potential capital providers
6	Qualitative characteristics	Used <i>understandability, relevance, supportability, balance and comparability over time</i> ; guidance on the application of the QC's included.	Uses <i>faithful representation</i> and <i>relevance</i> as fundamental qualitative characteristics; uses <i>comparability, verifiability, timeliness</i> and <i>understandability</i> as enhancing qualitative characteristics; no guidance on the application of QC's.
7	Presentation	Management required to decide the best way to present the content; no presentation guidance.	Limited presentation guidance included; explicit requirement for management commentary to be consistent with the financial statements; emphasis on segment reporting.
8	Content elements	Extensive application guidance and illustrative examples included.	Limited application guidance and no illustrative examples.