

Joint CMAC-GPF meeting, 14-15 June 2018
Agenda Paper 6

Management Commentary

Yulia Feygina, yfeygina@ifrs.org, +44 (0) 20 7332 2743
Matt Chapman, mchapman@ifrs.org, +44 (0) 20 7246 6971

Please print the slides in colour.

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

Copyright © IFRS Foundation. All rights reserved

Overview

Session Aim: Input from users and preparers on the aspects of management commentary (MD&A) reporting practice that most need improving, and the guidance that could be included in the IFRS Practice Statement 1 *Management Commentary* to support that.

Background

slides 3-6

- Scope of the Board's interest
- Factors behind the update
- What might we cover in the update?

Discussion topics for the breakout session

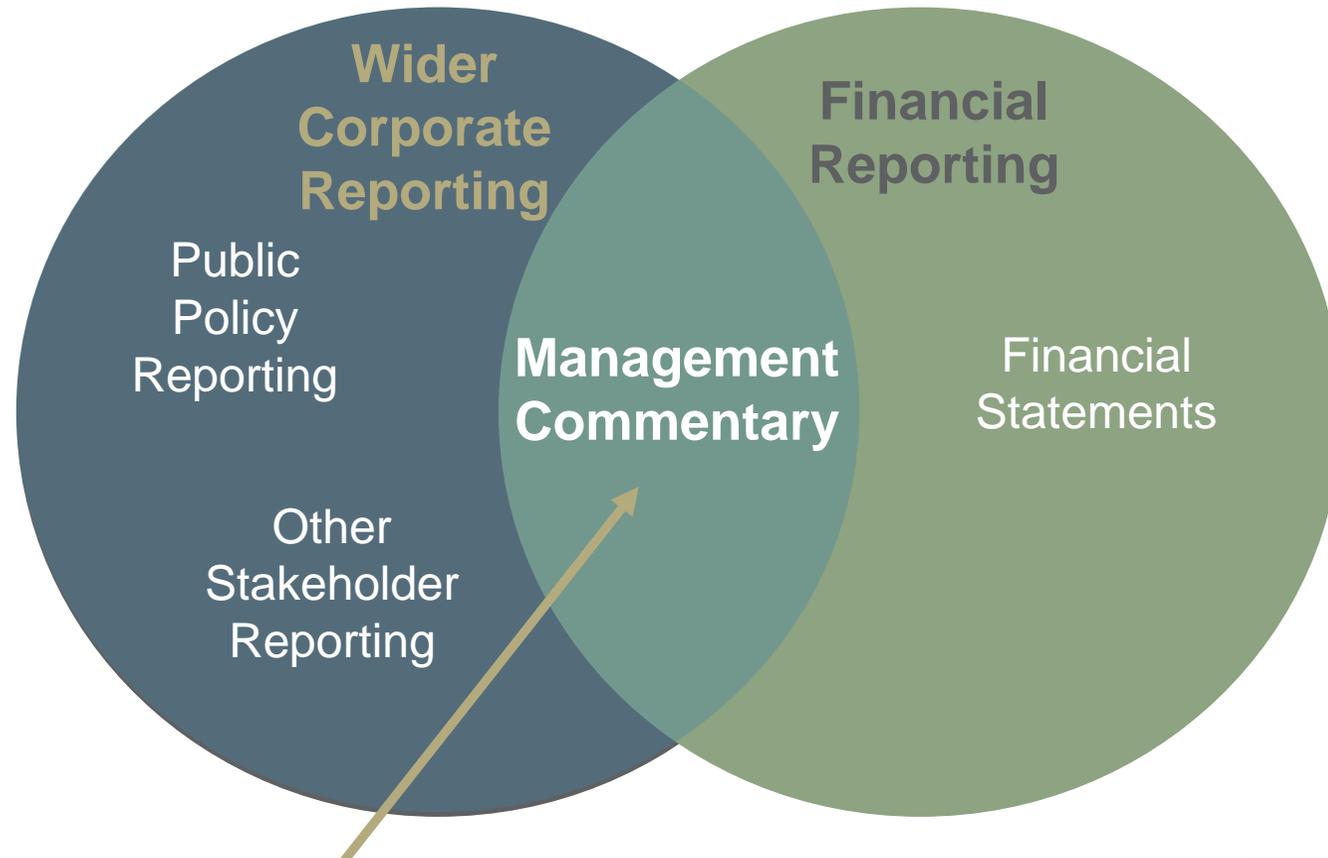
slides 7-16

- What are the issues that need addressing?

Background

Management Commentary

Scope of the Board's interest



Narrative report ('MD&A') providing financial and operational information useful to users of financial reports. Its role is confirmatory – companies may choose or be required to provide information on these topics throughout the year through other channels.

Management Commentary

Factors behind the update

The Current Management Commentary:

A principles based approach to defining investor-relevant narrative content based on the specific circumstances of the business



Recent Developments:

- Innovations from existing frameworks including Integrated Reporting
- Gaps in practice, including:
 - inconsistent business model reporting
 - short-term strategic focus
 - relevance of performance indicators
- Growing concern with short-termism

Consolidate existing practice

Support more rigour

Emphasise role of the *Conceptual Framework*

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.

Key areas of content

**Business Model,
Risk, Strategy &
Operating
Environment**

**Current Year
Financial Analysis**

**Operational
Performance
Information**

**Forward looking
statements
(if made)**

focus on factors driving long term business success

Key principles relevant to the update

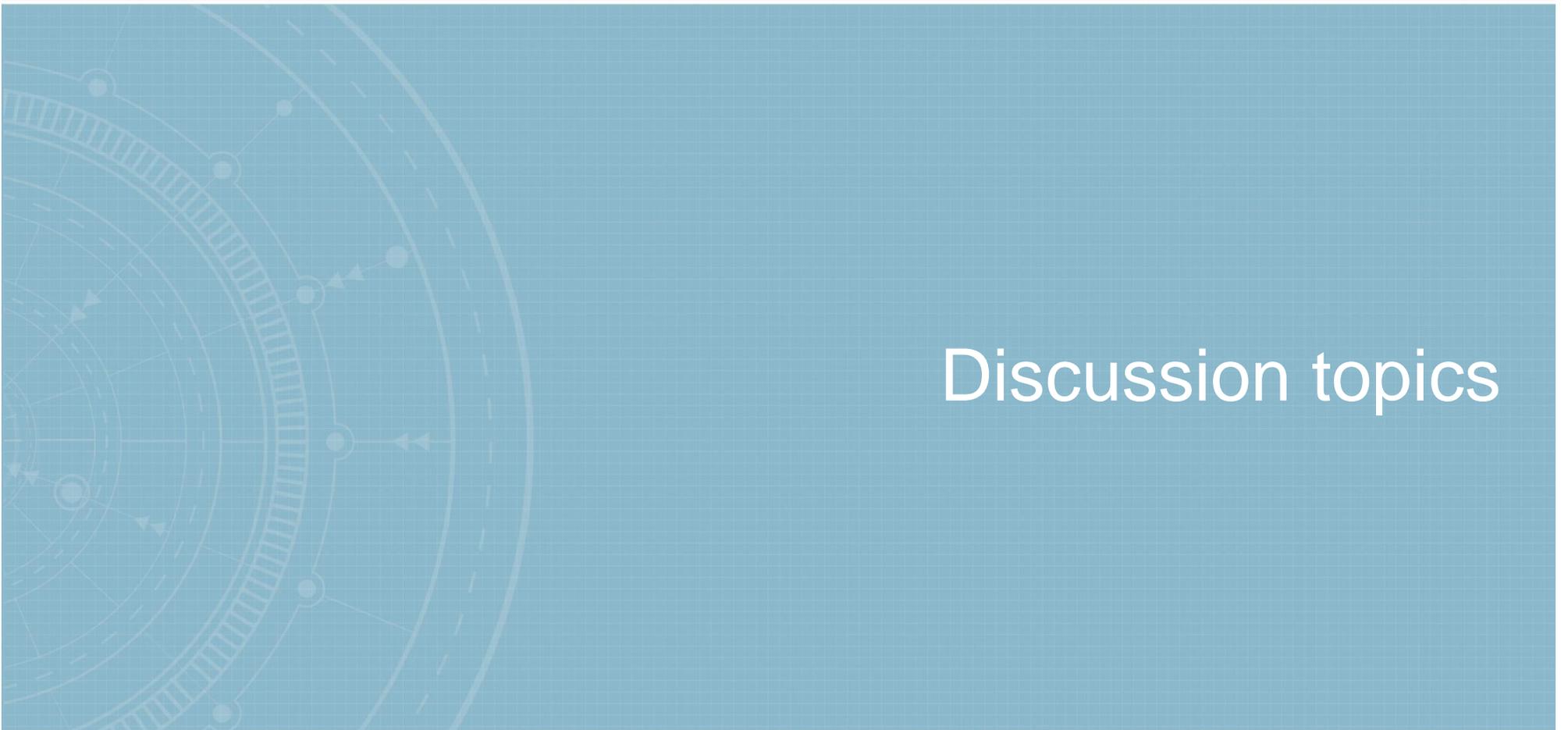
**long term
value creation**

**business model
focus**

**integration &
linkage of
information**

**relationships,
resources &
intangibles**

materiality



Discussion topics

We need your views:

- Please choose 2 or 3 discussion topics (slides 10-16)
- For each topic please consider:
 - Are there issues with the information being reported?
 - What aspects of practice could be improved?
 - What guidance is needed to support these improvements?

Remember: The role of the management commentary is confirmatory – companies may choose or be required to provide information on these topics throughout the year through other channels.

Management Commentary

Discussion topics

Topic 1: Underlying financial performance

Topic 2: Forecast information

Topic 3: Operational performance – Short term

Topic 4: Operational performance – Medium term

Topic 5: Operational performance – Long term

Topic 6: Business strategy

Topic 7: Something else

Are there issues?
What could be improved?
What guidance is needed?

Underlying financial performance

“Company explanations of current year financial performance are meeting investor needs” – Do you agree?

underlying
earnings

earnings
bridges

operational
drivers

	What could be improved? What guidance is needed?	Does it need 'fixing'?
Presentation is neutral & balanced?		 it's not a problem there's a major failing
Analysis is consistent & comparable?		 it's not a problem there's a major failing
Explanations are understandable & clear?		 it's not a problem there's a major failing
What else?		 it's not a problem there's a major failing

Forecast information

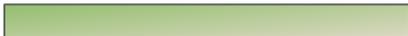
“Where companies provide a forecast, they do a good job of explaining it to their investors” – Do you agree?

current year
revenue

current year
earnings

earnings
trajectory

operational
targets

	What could be improved? What guidance is needed?	Does it need 'fixing'?
Forecasts are presented on a balanced basis?		 it's not a problem there's a major failing
Forecast assumptions are clearly explained?		 it's not a problem there's a major failing
It's clear how actual performance differed?		 it's not a problem there's a major failing
What else?		 it's not a problem there's a major failing

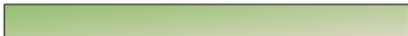
Management Commentary

Discussion topic 3

Operational performance – Short term

“Companies’ use of current year operational performance measures is meeting investor needs” – Do you agree?



	What could be improved? What guidance is needed?	Does it need 'fixing'?
Relevant operational KPIs are given in the right detail?		 it's not a problem there's a major failing
Definitions are balanced and clearly explained?		 it's not a problem there's a major failing
Analysis is consistent and comparable?		 it's not a problem there's a major failing
What else?		 it's not a problem there's a major failing

Operational performance – Medium term

“Companies are doing a good job of explaining progress against their operational priorities” – Do you agree?

implementation progress

risk & opportunity management

implications for future earnings

	What could be improved? What guidance is needed?	Does it need 'fixing'?
Relevant operational KPIs are given in the right detail?		 it's not a problem there's a major failing
Definitions are understandable & clear?		 it's not a problem there's a major failing
Analysis is consistent & comparable?		 it's not a problem there's a major failing
What else?		 it's not a problem there's a major failing

Management Commentary

Discussion topic 5

Operational performance – Long term

“Companies are providing their investors with objective insight into the sustainability of their business model” – Do you agree?

social
responsibility
indicators

know-how creation
& retention

key staff retention
/ satisfaction

	What could be improved? What guidance is needed?	Does it need 'fixing'?
Relevant operational KPIs are given in the right detail?		 it's not a problem there's a major failing
Definitions are understandable & clear?		 it's not a problem there's a major failing
Analysis is consistent & comparable?		 it's not a problem there's a major failing
What else?		 it's not a problem there's a major failing

Business strategy

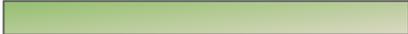
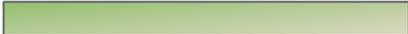
“Companies do a good job of explaining their business model and strategy, and the factors affecting this over the long term” – Do you agree?

business activities

key resources & relationships

risks & opportunities

long term strategy

	What could be improved? What guidance is needed?	Does it need 'fixing'?
The factors relevant to long term prospects are addressed?		 it's not a problem there's a major failing
The right detail is provided; divergent trends are visible?		 it's not a problem there's a major failing
The commentary doesn't leave unanswered questions?		 it's not a problem there's a major failing
What else?		 it's not a problem there's a major failing

Contact us

17

Keep up to date



@IFRSFoundation



IFRS Foundation



www.ifrs.org



IFRS Foundation

Comment on our work



go.ifrs.org/comment