

IASB Agenda ref 15A

Management Commentary Practice Statement

Education session

IASB Meeting - March 2018

Disclaimer

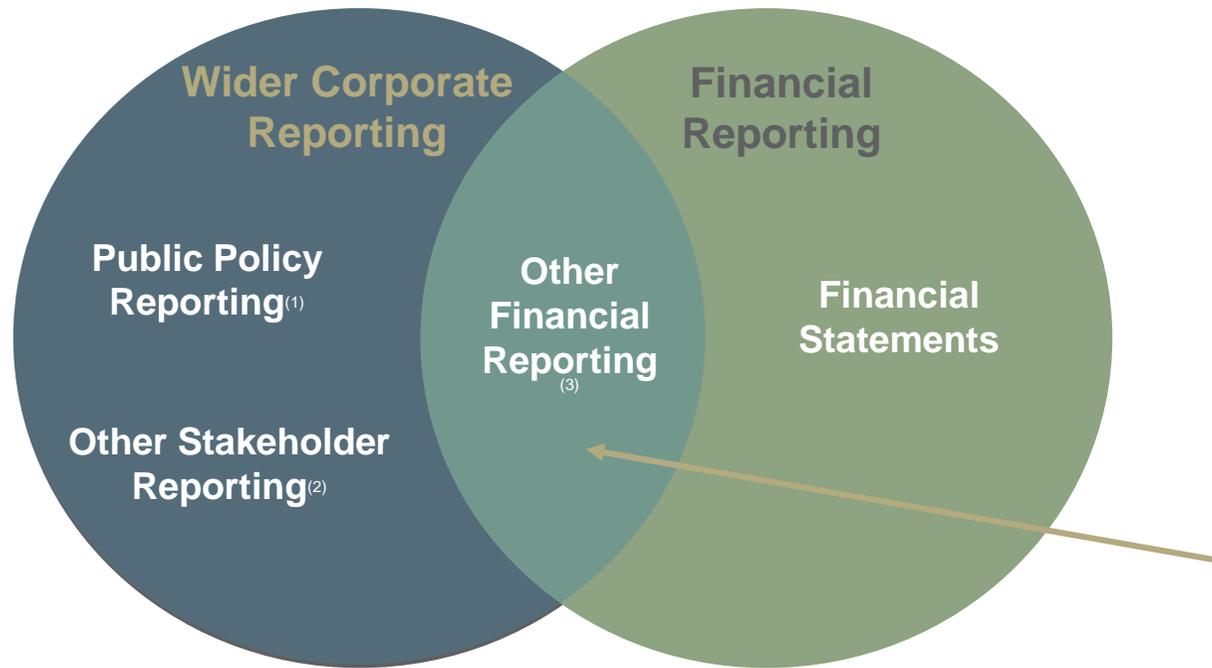
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|--------------------|------------------------------|-------------------|---------------------|
| Project | Management Commentary | | |
| Paper topic | Education session | | |
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Content

- 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.

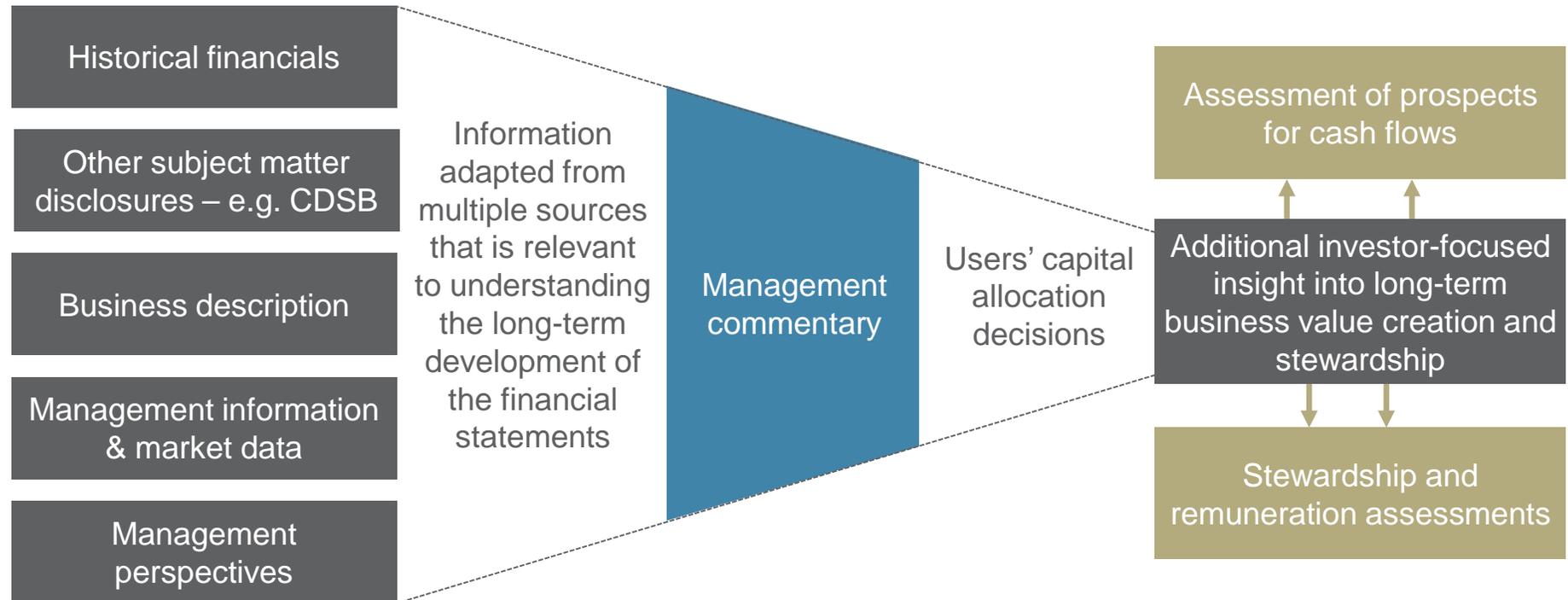
Management commentary:
 a narrative report that provides financial and non-financial information useful to users of financial reports

⁽¹⁾ Reporting to support public policy objectives

⁽²⁾ Other frameworks (eg GRI Sustainability Reporting Standards) and regulation address the needs of a wider community of report users

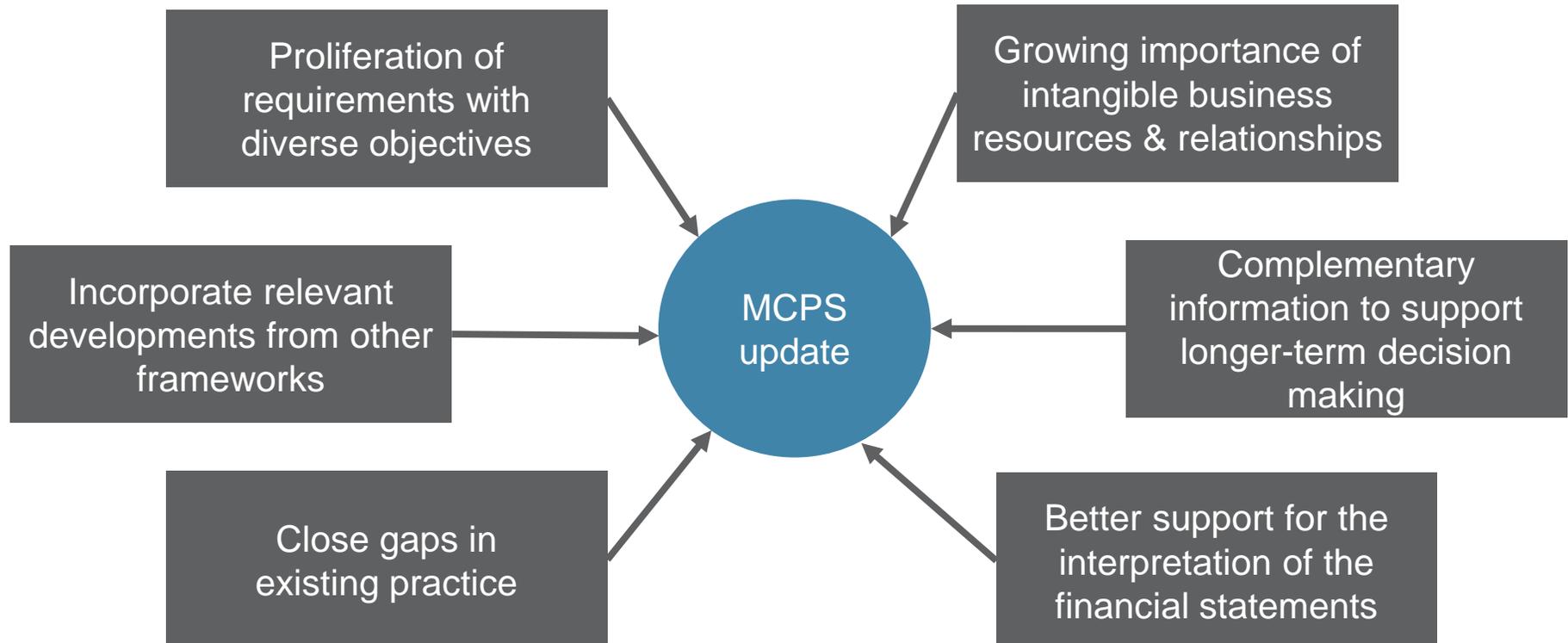
⁽³⁾ International Integrated Reporting Framework and national narrative reporting frameworks, along with a number of subject matter (e.g. Carbon Disclosure Standards Board) and sector based (e.g. Sustainability Accounting Standards Board) frameworks, also target this space

What is management commentary?



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



In November 2017 the Board added to its agenda a project to update the Management Commentary Practice Statement.

Staff's proposed approach to an update

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

foundation for a performance discussion focused on long-term business success

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*)

+ Linkage to governance and remuneration disclosures

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

Thank you

