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# Management Commentary

Marie Claire Tabone- Technical Staff  
Jelena Voilo- Technical Staff

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

- To seek feedback from GPF members on:
  - how to determine content of management commentary (slides 3–5)
  - the interaction between management commentary and other reports (slides 6–12)
  - forward-looking information in management commentary (slides 13–16)
  - information about tax in management commentary (slides 17–19)Feedback from the Management Commentary Consultative Group (the Consultative Group) on these topics is provided on corresponding slides

## *Notes:*

- Update on the feedback received from the GPF in November 2018 is included on slides 20-21
- Background information on the Management Commentary project can be found in Appendix A (slides 23–25). Further details can also be found at <https://www.ifrs.org/projects/work-plan/management-commentary/>



# How to determine content of management commentary

# Existing guidance and staff's proposed approach

## Existing Practice Statement

- The Practice Statement includes a principle that management commentary should provide management's view of performance, position and progress (see Appendix B – slide 27).

## Staff's proposed approach

- The staff propose to retain the principle in the revised Practice Statement that information in management commentary should be provided from *management's view* (or 'through the eyes of management').
- The staff also propose to extend the description of the objective of management commentary by clarifying that the objective is 'to give context for the financial statements by providing primary users of management commentary with [...] information that is useful in assessing the prospects for the entity's future net cash inflows and management's stewardship of the entity's economic resources' (the Board broadly agreed with this objective at its November 2018 meeting).

## Feedback from the Consultative Group

- In general, the Consultative Group supported the objective and the principle of providing information in management commentary through the eyes of management. However, some members suggested it may be challenging for management to identify what information is useful for users.

## Question 1

How do you decide which information to include in management commentary, and how do you consider users' information needs in making these decisions?

## Question 2

What are the challenges you encounter in making these decisions?



# Interaction between management commentary and other reports

## Issue and feedback from the Consultative Group

- At the January 2019 meeting the Consultative Group discussed the interaction (1) between management commentary and financial statements, and (2) between management commentary and other reports. The members questioned whether:
  - (a) management commentary and financial statements should be viewed as a single reporting package or as separate reports;
  - (b) cross-referencing could be used to avoid duplication and encourage conciseness;
  - (c) allowing cross-referencing to financial statements and other reports could have any negative implications, eg for audit.

## Existing Practice Statement

- The Practice Statement discusses management commentary as being supplementary to financial statements (see Appendix B – slide 28). The Practice Statement does not explicitly refer to cross-referencing but discusses avoiding duplication.
- The Practice Statement does not discuss the link between management commentary and other reports provided by the entity.

## Staff's proposed approach

- In November 2018, the Board broadly agreed that the objective of management commentary should be to give context for the financial statements [...].
- The staff do not suggest specifying in the revised Practice Statement whether management commentary and financial statements are a single reporting package because this is likely to depend on jurisdictional requirements. Furthermore, specifying whether they are a single reporting package is unlikely to make management commentary more useful to users.
- Instead, the staff suggest introducing:
  - (a) a principles-based approach to the interaction between management commentary and financial statements and incorporation of information by cross-referencing (see slide 9). The staff suggest that similar principles should apply when incorporating information in management commentary by cross-referencing to other reports.
  - (b) restrictions on providing cross-references between management commentary and financial statements and other reports (see slide 10).
  - (c) a requirement that where information is included by cross-referencing to other reports, the specific section being referenced will be considered to form part of management commentary and subject to all the requirements of the Practice Statement.



**Principles-based approach for the interaction between management commentary and other reports and incorporation of information by cross-referencing**

(to avoid duplication and encourage coherent and understandable discussion)



- (a) management commentary should include all relevant information needed to meet the objective of management commentary, either directly or by cross-referencing;
- (b) information provided, either directly or by cross-referencing, should faithfully represent the substance of the relevant matter;
- (c) management commentary can incorporate information by cross-referencing to financial statements or other reports to provide a coherent discussion and avoid duplication of information in these reports;
- (d) incorporation of information by cross-referencing should not be done in a way that hinders understandability and neutrality of management commentary.

## Restrictions on providing cross-references

(to avoid excessive cross-referencing that may lead to fragmentation of information)



- (a) the reference should be to a precisely specified part of the document;
- (b) the referenced document should be available:
  - (i) at the same (or approximately the same) time as management commentary;
  - (ii) on the same terms\* as management commentary; and
  - (iii) for as long as the management commentary is available.
- (c) the referenced document cannot be changed after the management commentary has been issued, unless the change is highlighted in an updated management commentary.

\* I.e., users should have access to the referenced material on the same basis as they have for accessing management commentary

## *Examples of when cross-references could be used*

### **Example 1—cross-reference to notes to financial statements**

IFRS 7 *Financial Instruments: Disclosures* requires entities to disclose breaches of loan agreements during the reporting period.

If information about a breach is material to understanding the entity's financial position, management commentary should include information about the breach and its implications.

Such information could be provided by identifying the issue (ie the breach of a loan agreement) and cross-referencing the specific note in the financial statements.

However, it would not be sufficient to simply include a general cross-reference saying 'Note X to financial statements discusses the entity's loan agreements' because that would not help users understand the substance of the issue.

### **Example 2—cross-reference to other reports required in local jurisdiction**

Local regulation might require an entity to provide a sustainability report. If the report discusses issues that may materially affect the entity's future operations (for example, a change in CO2 emissions requirements), management commentary should inform the users that such issues exist and may provide the further information that users need through a cross-reference to the precisely specified part of the sustainability report.

### **Example 3—cross-reference to other published reports**

Management may decide to provide in management commentary information about customer satisfaction based on a survey. In this case, management commentary may include directly a summary of the results but include the information on the methodology and a more detailed breakdown of the survey results by cross-referencing to the publicly available report on the survey (for example, when published on the entity's website).

## Question 3

Is there currently duplication of information between management commentary and financial statements or other reports? Are there any practical obstacles to including information in management commentary by cross-referencing to financial statements or to other reports?

## Question 4

Would the principles for interaction between management commentary and other reports and the restrictions on providing cross-references described on slides 9 and 10 help in providing coherent and understandable discussion in management commentary?



# Forward-looking information in management commentary

# Existing guidance and staff’s proposed approach

The existing Practice Statement states that forward-looking information is ‘information about the future (for example, information about prospects and plans) that may later be presented as historical information (ie results). It is subjective and its preparation requires the exercise of professional judgement’.

At this session, the staff would like to discuss provision of forecasts and targets in management commentary. The table below includes the key points on providing forecasts and targets from the existing Practice Statement (the related paragraphs can be found in Appendix B – slide 29), and the corresponding staff’s proposals:

Existing Practice Statement	Staff’s proposed approach
Management should provide forward-looking information through narrative explanations or through quantified data, which may—but are not required to—include projections or forecasts, and disclose the assumptions used.	Maintain the existing guidance of not requiring forecasts, but add a requirement to include forecasts or targets in management commentary if these have already been published elsewhere.
Management should explain how and why the performance of the entity varies from forward-looking disclosures made in the prior period management commentary, as well as the implications of those variances for the entity’s future performance.	Extend the existing requirement to provide comparisons of the entity’s actual performance to past forecasts and targets included in the prior period’s management commentary to forecasts and targets that were previously published elsewhere.

## Feedback from the Consultative Group

- The Consultative Group members expressed varying views about including forecasts in management commentary:
  - (a) some suggested that the revised Practice Statement should encourage the provision of forecasts;
  - (b) others expressed concerns related to legal liability risks arising from including forecasts in management commentary.
- One member commented that the proposed requirement to include forecasts published elsewhere in management commentary and provide comparisons to the entity's actual results may deter entities from publishing any forecasts.

## Question 5

What forecasts or targets do you currently provide in management commentary? Are there any challenges in providing such information?

## Question 6

Do you agree with the staff's proposals to:

- (a) add a requirement to include forecasts and targets in management commentary if they have already been published elsewhere; and
- (b) extend the requirement to provide comparisons of the entity's actual performance to past forecasts and targets to forecasts and targets previously published elsewhere?





# Information about tax in management commentary

# Existing requirements, issue and staff's proposed approach

## Existing requirements

- The existing Practice Statement does not explicitly require any disclosures in management commentary related to tax.
- IAS 12 *Income Taxes* requires an entity to disclose an explanation of the relationship between tax expense and accounting profit and of significant effects of enacted or announced tax changes (see Appendix B – slide 30).

## Issue

- Taxation and the sustainability of tax rates have become high-profile issues. Users may need more information than that required by IAS 12 to assess whether an entity's tax rate is sustainable.

## Staff's proposed approach

- The required explanation of the relationship between tax expense and accounting profit in IAS 12 should provide users with useful information if it is sufficiently granular. If it is not granular enough in practice, it is not the role of management commentary to remedy that defect.
- However, there are some factors that may affect an entity's tax expense *in the future* that may not be captured by IAS 12 disclosures. Information on these factors would be necessary for users to assess whether an entity's effective tax rate is sustainable. The staff propose that management commentary should discuss factors such as:
  - (a) known or expected future changes in applicable tax rates or in tax law; and
  - (b) known or expected factors that could reasonably be expected to result in the relationship between tax expense and accounting profit for future periods differing from the relationship for the current year (for example, if a tax break or incentive is expected to expire).

## Feedback from the Consultative Group

- Some members suggested that the entity's discussion of risks should include any material information about tax risks, and any implications for strategy.
- Some cautioned against duplication of information with the financial statements.
- Some suggested they would like management commentary to include information on the expected future tax rate.
- Some commented that tax is a sensitive topic and caution should be exercised in prescribing requirements.

## Question 7

Do you provide any information on tax in management commentary?

## Question 8

Do you agree with the staff's approach to including information about tax in management commentary as described on slide 18? If not, why and what do you propose instead?



# Update on feedback received from GPF in November 2018

# Update since last GPF meeting

In November 2018, the staff discussed with GPF the following topics:

- the objective of management commentary;
- application of materiality to management commentary; and
- principles for preparing management commentary.

The feedback on the objective of management commentary from that meeting was reported to the Board at its November 2018 meeting. The remaining feedback will be included in the staff's analysis in the Board Papers for the Board's upcoming discussions. The feedback was also considered in preparing the materials for the Stream 2 and Stream 3 discussions with the Consultative Group.

The Consultative Group's Stream 2 discussion on performance, position and progress was held in January 2019. The discussion covered:

- (a) analysis of the financial statements; and
- (b) matters that could affect the entity's future development.

The papers supporting that discussion, including a summary of the meeting, as well as papers for other meetings, can be found at <https://www.ifrs.org/projects/work-plan/management-commentary/#meetings>

# Appendices



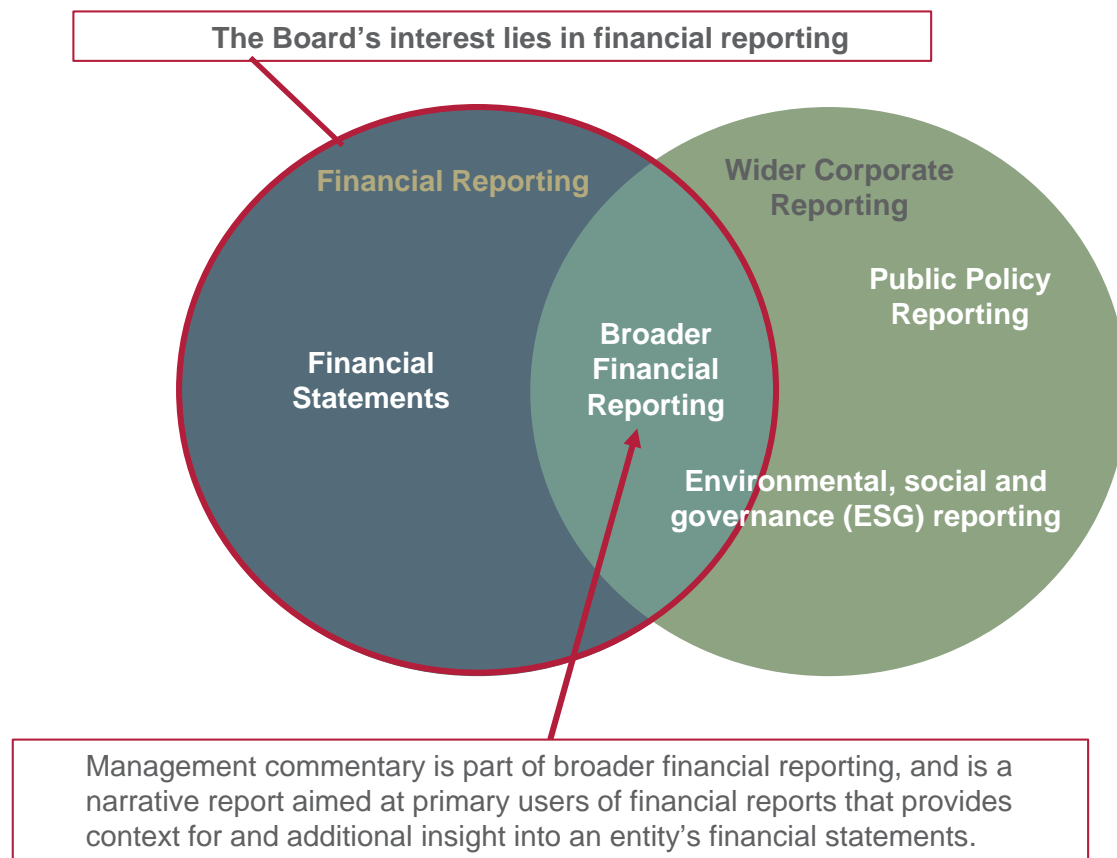
# Appendix A – Background

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## Project scope

- The objective of revising IFRS Practice Statement 1 *Management Commentary* is to:

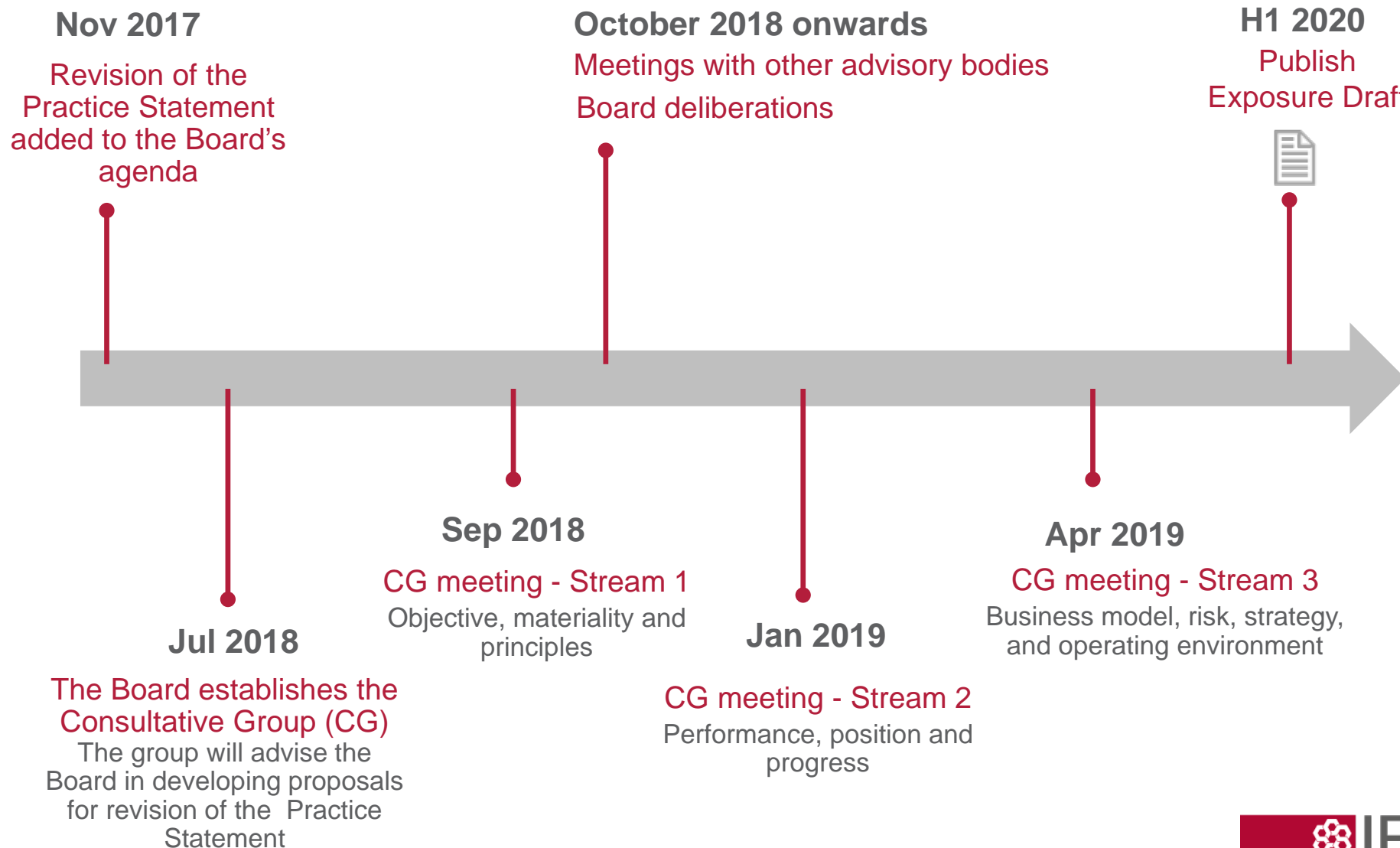
improve guidance on preparation of management commentary that complements financial statements to support users' assessments of entities' sustainable prospects and stewardship, including guidance on provision of information about their intangible resources and relationships and ESG issues.





# Appendix A – Background

## Project timeline



# Appendix B – Extracts

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## Extracts from IFRS Practice Statement 1 *Management Commentary* on management's view

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9 Management commentary [...] explains management's view not only about what has happened, including both positive and negative circumstances, but also why it has happened and what the implications are for the entity's future.

12 Management should present commentary that is consistent with the following principles:

(a) to provide management's view of the entity's performance, position and progress; ...

15 Management commentary should provide management's perspective of the entity's performance, position and progress. Management commentary should derive from the information that is important to management in managing the business.

5. When management commentary relates to financial statements, an entity should either make the financial statements available with the commentary or identify in the commentary the financial statements to which it relates.

6. Management should identify clearly what it is presenting as management commentary and distinguish it from other information.

9. Management commentary...provides a context for the related financial statements...

16. Management commentary should supplement and complement the financial statements with explanations of the amounts presented in the financial statements and the conditions and events that shaped that information...

23. (b) When practicable, management should avoid duplicating in its management commentary the disclosures made in the notes to its financial statements.

*The Basis for Conclusions explains that the Board decided to link management commentary to the financial statements because:*

BC20 ...management commentary is designed to supplement and complement information provided in a related set of financial statements. The Board observed that providing management commentary without (at minimum) identifying the related financial statements might be misleading for users. Consequently, the Board decided that when an entity presents management commentary that relates to IFRS financial statements, it should either make the financial statements available with the commentary or identify the financial statements to which the commentary relates.

### Forward-looking information

17. Management commentary should communicate management's perspective of the entity's direction. Such information does not predict the future, but instead sets out management's objectives for the entity and its strategies for achieving those objectives. The extent to which management commentary looks forward will be influenced by the regulatory and legal environment within which the entity operates.

18. Management should include forward-looking information when it is aware of trends, uncertainties and other factors that could affect the entity's liquidity, capital resources, revenues and the results of its operations. Such information should focus on the extent to which the entity's financial position, liquidity and performance may change in the future and why, and include management's assessment of the entity's prospects in the light of current period results. Management should provide forward-looking information through narrative explanations or through quantified data, which may—but are not required to—include projections or forecasts. Management should disclose the assumptions used in providing forward-looking information.

19. Management should explain how and why the performance of the entity is short of, meets or exceeds forward-looking disclosures made in the prior period management commentary. For example, if management stated targets for future performance in previous reporting periods, it should report the entity's actual performance in the current reporting period and analyse and explain significant variances from its previously stated targets as well as the implications of those variances for management's expectations for the entity's future performance.

### Prospects

36. Management should provide an analysis of the prospects of the entity, which may include targets for financial and non-financial measures. This information can help users of the financial reports to understand how management intends to implement its strategies for the entity over the long term. When targets are quantified, management should explain the risks and assumptions necessary for users to assess the likelihood of achieving those targets.

## Appendix B – Extracts

### Extracts from IAS 12 *Income Taxes*

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[The entity shall disclose]:

81(c) an explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:

- (i) a numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or
- (ii) a numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed;

81(d) an explanation of changes in the applicable tax rate(s) compared to the previous accounting period;

88 [...] where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities.

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