
IASB[®] meeting

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Project	Management Commentary
Topic	Indicative drafting—targeted refinements to proposals in Chapters 1–3 of the Exposure Draft
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Purpose

1. This paper presents indicative drafting of the targeted refinements to the proposals in Chapters 1–3 of the Exposure Draft *Management Commentary* (Exposure Draft) and related definitions discussed in Agenda Paper 15B *Targeted refinements to proposals in Chapters 1–3 of the Exposure Draft* for this meeting. This paper should be read in the context of Agenda Paper 15B which discusses the rationale for these targeted refinements and explains the use of terminology. This paper is for reference only.
2. The targeted refinements illustrated in this paper relate to:
 - (a) the meaning of the term 'management' and authorisation of management commentary for issue;
 - (b) the objective of management commentary; and
 - (c) relationship of management commentary to information in general purpose financial reports outside the management commentary.

3. To provide sufficient context for these targeted refinements, this paper reproduces the entire text of Chapters 1 and 2, relevant extracts from Chapter 3, and related definitions from Appendix A.
4. The paper does not consider all possible targeted refinements to Chapter 3. In particular, it does not include indicative drafting for possible targeted refinements that the staff plan to present to the International Accounting Standards Board at a future meeting in relation to:
 - (a) the discussion of 'value creation' and its alignment with the corresponding concept in the Integrated Reporting Framework; and
 - (b) the use of terminology, including alignment with the terminology used in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.
5. Explanatory notes are included to the right of the reproduced text in the following format:

References to the paragraphs in Agenda Paper 15B (AP15B) for this meeting in which these targeted refinements are discussed.

Chapter 1—Using this [draft] Practice Statement

In this chapter

Purpose and status of this [draft] Practice Statement

Effective date

Introduction

- 1.1 [Draft] IFRS Practice Statement 1 *Management Commentary* is set out in paragraphs 1.2–15.28 and appendices A and B. Terms defined in Appendix A are in **bold** the first time they appear in each chapter of this [draft] Practice Statement.

Note

Notes explain a requirement in further detail or provide context for a requirement.

Illustration

Illustrations describe particular circumstances and show how an entity might apply a requirement in those circumstances. Management of an entity would judge how to apply the requirement in that entity's circumstances.

Link

Links highlight relationships between requirements.

Include reference to information in general purpose financial reports, including sustainability-related financial disclosures, if provided outside the management commentary (see par 59(a) of AP15B)

Purpose and status of this [draft] Practice Statement

- 1.2 This [draft] Practice Statement applies to **management commentary**. Management commentary that complements general purpose financial statements prepared in accordance with IFRS Accounting Standards or on another basis. Management commentary also complements other information in general purpose financial

reports, including information in sustainability-related financial disclosures, if an entity provides such information outside management commentary. This [draft] Practice Statement sets out requirements for that management commentary and explains how those requirements can be met.

Note

Throughout the [draft] Practice Statement, the term 'management' refers to management or the governing board of an entity or both.

Clarify the meaning of the term 'management' (see par 24(a) of AP15B)

- 1.3 This [draft] Practice Statement does not specify which entities are required to prepare management commentary, how frequently entities should do so, who should authorise management commentary for issue or the level of external assurance to which management commentary should be subjected.

Link

Paragraph 2.4 requires an entity to identify the body(s) or individual(s) who authorised management commentary for issue.

Clarify that the Practice Statement does not specify who should authorise management commentary (see par 24(b) of AP15B)

- 1.4 Some entities might be required by local laws or regulations to publish management commentary that complies with this [draft] Practice Statement and other entities might choose to do so.

Link

Regulators might require particular information to be included in the same report as management commentary. Paragraph 2.1 requires an entity to identify management commentary clearly and distinguish it from other information provided in the same report. Paragraph 13.18 requires an entity to provide immaterial information in a way that avoids obscuring material information.

Include a Link to give greater prominence requirements that apply when an entity is required by regulators to include particular information in management commentary (see par 59(d) of AP15B)

- 1.5 This [draft] Practice Statement is not an IFRS Accounting Standard. Financial statements can comply with IFRS Accounting Standards even if they are not accompanied by management commentary or if they are accompanied by management commentary that does not comply with this [draft] Practice Statement.

Effective date

- 1.6 This [draft] Practice Statement supersedes IFRS Practice Statement 1 *Management Commentary* (issued in December 2010) for annual **reporting periods** beginning on or after [the date of its issue]. Earlier application is permitted. If an entity applies this [draft] Practice Statement for an earlier period, it shall disclose that fact.

Chapter 2—Identification, authorisation and statement of compliance

In this chapter

Identifying management commentary and ~~the~~ related ~~financial statements~~ general purpose financial reports

Authorisation of management commentary

Statement of compliance

Identifying management commentary and ~~the~~ related general purpose financial reports ~~financial statements~~

- 2.1 An entity may provide **management commentary** as a stand-alone report or with other information as part of a larger report. An entity shall identify the management commentary clearly and distinguish it from other information provided in the same report or in other reports published by the entity.
- 2.2 Management commentary shall identify the financial statements to which it relates. If the management commentary is not part of the same larger report as the related financial statements, it shall explain how to access those financial statements. If the related financial statements are not prepared in accordance with IFRS Accounting Standards, the management commentary shall disclose the basis on which the financial statements are prepared. If an entity prepares sustainability-related financial disclosures, the management commentary shall disclose the basis on which those disclosures are prepared. If those disclosures are not part of the same larger report as management commentary, the management commentary shall explain how to access those disclosures.
- 2.3 Management commentary shall identify the **reporting period** that it and the related financial statements cover.

Include reference to sustainability-related financial disclosures (see par 59(b)–(c) of AP15B)

Note

Management commentary covers the same period as the financial statements to which it relates.

Authorisation of management commentary

- 2.4 An entity shall state the date on which the management commentary was authorised for issue and identify the body(s) or individual(s) who gave that authorisation.

Statement of compliance

- 2.5 Management commentary that complies with all of the requirements of this [draft] Practice Statement shall include an explicit and unqualified statement of compliance.
- 2.6 Management commentary that complies with some, but not all, of the requirements of this [draft] Practice Statement may include a statement of compliance. However, that statement shall be qualified, identifying the departures from the requirements of this [draft] Practice Statement and giving the reasons for those departures.

Chapter 3—Objective of management commentary

In this chapter

The objective of management commentary

Supporting explanations

Management's perspective

Complementing financial statements
Complementary role of management commentary
 [...]

The objective of management commentary

3.1 An entity's **management commentary** shall provide information that:

- (a) enhances **investors and creditors'** understanding of the entity's financial performance and financial position reported in its financial statements; and
- (b) provides management's insight into factors, including sustainability-related factors, that could affect the entity's ability to **create value** and generate cash flows across all time horizons, including in the long term.

Link

Management commentary can meet its objective only if the related financial statements and sustainability-related financial disclosures, if provided outside the management commentary, are available whenever the management commentary is available, and on the same terms. Paragraph 2.2 requires management commentary to explain how to access the financial statements and the sustainability-related financial disclosures if they are not part of the same larger report as the management commentary.

Give greater prominence to management's perspective (see par 37(a) of AP15B)

Give greater prominence to information about sustainability-related factors (see par 37(b) of AP15B)

Include reference to sustainability-related financial disclosures (see par 59(b)–(c) of AP15B)

[...]

Supporting explanations

Management's perspective

- 3.48X1 An entity's management commentary provides management's perspective of the factors, including sustainability-related factors, that have affected the entity's financial performance and financial position reported in its financial statements, or those that could affect the entity's ability to create value and generate cash flows in the future:
- (a) information in management commentary derives from information used by management—for example, **metrics** management uses to monitor aspects of the entity's performance and position;
 - (b) management commentary focuses on **key matters** identified by management, and management applies its judgement to identify information about these matters that is material to investors and creditors in the context of management commentary; and
 - (c) the insights provided about the causes or implications of a matter reflect management's views of these causes or implications.
- 3.49X2 By providing management's perspective, information in management commentary helps investors and creditors assess both the entity's prospects for future cash flows and management's stewardship of the entity's resources.

Give prominence to management's perspective (see par 35 of AP15B)

Complementing financial statements Complementary role of management commentary

- 3.5X3 An entity's management commentary provides information that complements information in the entity's financial statements, thus enhancing investors and creditors' understanding of the entity's financial performance and financial position reported in those financial statements. Management commentary also complements other information in general purpose financial reports, including information in sustainability-related financial disclosures, if the entity provides that information outside the management commentary.
- 3.6X4 Management commentary provides a single, concise and coherent narrative setting out management's perspective of explains the factors, including sustainability-related factors, that have affected the entity's financial performance and financial position or that could affect them in the future. ~~Accordingly, management commentary includes more discussion, analysis, forward-looking information and non-financial information than is included in the financial statements.~~

Acknowledge the role of management commentary in complementing other information in general purpose financial reports, including information in sustainability-related financial disclosures, if provided outside the management commentary (see par 59(a) of AP15B)

Note

Management commentary includes more discussion, analysis, forward-looking information and non-financial information than is included in the financial statements.

Move explanation to a note for readability

Extracts from Appendix A—Defined terms

This appendix is an integral part of the [draft] Practice Statement.

	First use in paragraph		
general purpose financial statements	1.2	<p>Financial statements that are intended to meet the needs of investors and creditors who are not in a position to require an entity to prepare reports tailored to their particular information needs.</p> <p><u>A particular form of general purpose financial reports that provide information about the entity's assets, liabilities, equity, income and expenses.</u></p>	Amend definition (see par 63(a) of AP15B)
management commentary	1.2	<p><u>A particular form of general purpose financial reports</u> that complements an entity's financial statements <u>and other information in general purpose financial reports, including information in sustainability-related financial disclosures, if the entity provides such information outside the management commentary.</u> It provides management's insights <u>perspective into</u> on factors that have affected the entity's financial performance and financial position and factors that could affect the entity's ability to create value and generate cash flows in the future.</p> <p>Management commentary might accompany the related financial statements as a distinguishable part of a larger report, or it might be a stand-alone report. <u>Management commentary might also accompany or include sustainability-related financial disclosures.</u> It might have another name.</p>	Amend definition (see par 60 of AP15B)
<u>sustainability-related financial disclosures</u>	1.2	<p><u>A particular form of general purpose financial reports that provide information about the reporting entity's sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term, including information about the entity's governance, strategy and risk management in relation to those risks and opportunities, and related metrics and targets.</u></p>	Add definition (see para 63(b) of AP15B)