

STAFF PAPER

November 2019

IASB® Meeting

Project	Management Commentary		
Paper topic	Cover paper		
CONTACT(S)	Marie Claire Tabone	mctabone@ifrs.org	+44 (0)20 7246 6415
	Yulia Feygina	yfeygina@ifrs.org	+44 (0)20 7332 2743
	Jelena Voilo	jvoilo@ifrs.org	+44 (0)20 7246 6914

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

Purpose of this paper

1. This paper:
 - (a) provides background information on the Management Commentary project to date (paragraphs 2–5);
 - (b) introduces the Agenda Paper to be discussed at this month’s meeting (paragraph 6); and
 - (c) discusses next steps (paragraph 7).

Background to the project

2. In November 2017, the International Accounting Standard Board (Board) added to its agenda a project to update IFRS Practice Statement 1 *Management Commentary* (Practice Statement).
3. In July 2018, the Board established the Management Commentary Consultative Group (Consultative Group). The Consultative Group has met three times and discussed the staff’s thinking on all main topics for the revised guidance on preparing management commentary. A fourth Consultative Group meeting has been confirmed for December 2019 in addition to the three meetings originally planned. The staff

also sought input on particular topics from the Accounting Standards Advisory Forum, Capital Markets Advisory Committee and Global Preparers Forum.

4. To date, the Board discussed the following topics:
 - (a) the objective of management commentary (November 2018);
 - (b) the staff's approach to revising the Practice Statement (May 2019);
 - (c) the staff's approach to guidance on qualitative characteristics (July 2019);
 - (d) making materiality and relevance judgements (July 2019);
 - (e) the guidance on qualities that make up faithful representation (September 2019);
 - (f) the guidance on enhancing qualitative characteristics (October 2019); and
 - (g) the staff's research and preliminary analysis to be used in developing guidance on the business model (October 2019).
5. A summary of the Board's discussions and tentative decisions related to the above topics is included in the appendix to this paper.

Paper for this meeting

6. At this month's meeting the staff will present Agenda Paper 15A *What an entity's business model is*. This paper discusses how to explain in the revised Practice Statement what an entity's business model is, and asks the Board for decisions.

Next steps

7. Next, the staff plan to discuss with the Board the objective of describing an entity's business model in management commentary and guidance on types of information about the entity's business model that should be discussed in management commentary.

Appendix— Summary of previous discussions with the Board

Ref	Topic and discussion date	Board's tentative decision	Follow-up steps (if any)
A1	Approach to revising the Practice Statement (May 2019)	<p>The Board noted that the revision of the Practice Statement is intended to promote preparation of management commentaries that better meet the information needs of the primary users of financial reports. The revised Practice Statement will provide guidance that:</p> <ul style="list-style-type: none"> (a) consolidates innovations in narrative reporting; (b) addresses gaps in reporting practice; and (c) remains principles-based but contains sufficient detail to support rigorous application. <p>The Board was not asked to make any decisions.</p>	
A2	The objective of management commentary (November 2018)	<p>The staff recommended that the objective of management commentary should be to give context for the financial statements by providing primary users with historical financial and operational information and analysis that is useful in assessing the prospects for the entity's future net cash inflows, and its management's stewardship of the entity's economic resources.</p> <p>The Board did not formally vote at this meeting but agreed in broad terms with that objective, and with the staff's recommendations for guidance to support it.</p>	<p>The Board asked the staff to consider whether it is possible to provide further clarity on:</p> <ul style="list-style-type: none"> (a) the roles that historical information and forward-looking information play in management commentary; and

			(b) the difference between the objective of management commentary and the objective of financial statements.
A3	Approach to guidance on qualitative characteristics (July 2019)	<p>The Board noted that the plan for the revised Practice Statement is to:</p> <ul style="list-style-type: none"> (a) include a brief description of each qualitative characteristic based on its description in the <i>Conceptual Framework for Financial Reporting (Conceptual Framework)</i>; and (b) provide specific guidance on considering particular qualitative characteristics where such guidance is needed due to the nature of information included in management commentary. <p>The Board was not asked to make any decisions.</p>	
A4	Making relevance and materiality judgements (July 2019)	<p>The Board tentatively decided to introduce in the revised Practice Statement guidance on making materiality judgements in preparing management commentary that would:</p> <ul style="list-style-type: none"> (a) incorporate key elements of the guidance from Practice Statement 2 <i>Making Materiality Judgements</i> (Materiality Practice Statement) supported, where necessary, by cross-references to further guidance in the Materiality Practice Statement; (b) provide additional guidance where it is necessary because the nature of management commentary differs from the nature of financial statements; and (c) focus on explaining the materiality process, in particular on identifying material information. 	

		<p>Further, the Board tentatively decided that the guidance on identifying material information in the revised Practice Statement would:</p> <ul style="list-style-type: none"> (a) recognise the guidance in the Practice Statement on elements of management commentary (content elements) as a general source of identifying such information; (b) provide the following guidance on considering primary users' common information needs in identifying material information: <ul style="list-style-type: none"> (i) make an explicit link between identification of material information and the objective of management commentary—that is providing information that is useful in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources; and (ii) describe practical sources that could help management identify matters that may need to be discussed in management commentary. Those sources include the entity's capital markets communications, information management uses in managing the business and information identified through engagement with the entity's key stakeholders; and (c) explain how management would consider what information to provide about such matters in each content element to deliver a coherent narrative. <p>Finally, the Board tentatively decided to include in the revised Practice Statement guidance on the other steps of the materiality process that would prompt management to:</p> <ul style="list-style-type: none"> (a) consider the likelihood of a matter occurring, not just the size of the impact, in assessing the quantitative factors when making materiality judgements; (b) consider the appropriate level of aggregation when assessing what information an entity needs to provide in management commentary; and 	
--	--	--	--

		(c) highlight the links between different pieces of information when organising the information within management commentary.	
A4	Faithful representation (September 2019)	<p>The Board tentatively decided that the revised Practice Statement would:</p> <ul style="list-style-type: none"> (a) include guidance on the qualities that make up faithful representation—completeness, neutrality and freedom from error; and (b) explain that these qualities should be maximised to the extent possible. <p>The Board tentatively decided that the revised Practice Statement would include a description of completeness based on paragraph 2.14 of the <i>Conceptual Framework</i>. In particular, that description would explain that:</p> <ul style="list-style-type: none"> (a) a complete depiction of a matter should include material information about the nature of that matter and about factors and circumstances that might affect it. (b) completeness of a depiction of a matter is determined by reference to primary users’ information needs. To be complete, a depiction of a matter does not necessarily require management to provide all information it has about that matter. <p>The Board tentatively decided that the revised Practice Statement would:</p> <ul style="list-style-type: none"> (a) require that the management commentary be neutral. To facilitate that: <ul style="list-style-type: none"> (i) each matter that needs to be discussed in the management commentary should be given due prominence; and (ii) the overall tone and language used in management commentary should contribute to an unbiased depiction of the entity’s performance and position. (b) include a description of neutrality based on paragraph 2.15 of the <i>Conceptual Framework</i>. In particular, that description would explain that, for the depiction of a matter to be neutral, information about it cannot be omitted, obscured, given undue prominence or otherwise be 	

		<p>manipulated to influence primary users' view of the matter favourably or unfavourably.</p> <p>(c) require explanatory information to help primary users understand the likelihood of outcomes within a range when the range of possible outcomes is given.</p> <p>The Board also discussed what guidance on freedom from error should be included in the revised Practice Statement but did not make a decision on this topic. The Board also highlighted the importance of using plain language in describing the qualitative characteristics of useful financial information in the revised Practice Statement.</p>	
A5	Enhancing qualitative characteristics (October 2019)	<p>The Board tentatively decided that the revised Practice Statement would:</p> <p>(a) include a description of comparability reflecting paragraphs 2.24, 2.26 and 2.28 of the <i>Conceptual Framework</i>;</p> <p>(b) explain that although comparability with other entities is desirable, it should not override the requirement to provide relevant entity-specific information;</p> <p>(c) state that in preparing management commentary, an entity's management should consider the fact that primary users need to make comparisons with information provided by other entities, with information reported in management commentary in previous periods and with other information published by the entity; and</p> <p>(d) require an entity's management to:</p> <p>(i) explain the assumptions made and methods of calculation used in producing a performance measure, and state whether the performance measure in question is a commonly used metric;</p> <p>(ii) explain any changes since the previous year in those assumptions and methods, and the reason for them;</p>	

		<ul style="list-style-type: none"> (iii) highlight where new information is provided on a matter reported in previous management commentary; (iv) provide comparative information for each performance measure over a period that is long enough to show the emergence of trends; and (v) consider whether information presented in management commentary is consistent with information reported in the entity's financial statements, in investor presentations, in other reports in the public domain, and on the entity's website. <p>The Board tentatively decided that the revised Practice Statement would:</p> <ul style="list-style-type: none"> (a) include in its discussion of understandability the current guidance in the Practice Statement on presentation; (b) explain that making management commentary concise is an important part of making it understandable; (c) permit the incorporation of information in management commentary by cross-reference, subject to the overarching principle that the information incorporated by cross-reference is part of management commentary and, therefore, must possess the qualitative characteristics of useful financial information. To help management apply the overarching principle, the revised Practice Statement should include guidance: <ul style="list-style-type: none"> (i) on enhancing the understandability of management commentary when information is incorporated by cross-reference; and (ii) on conditions that must be met by a report when management commentary incorporates information by cross-reference to that report. <p>The Board tentatively decided that the revised Practice Statement would:</p> <ul style="list-style-type: none"> (a) include a description of verifiability based on paragraphs 2.30 and 2.32 of the <i>Conceptual Framework</i>; 	
--	--	---	--

		<p>(b) require management to:</p> <ul style="list-style-type: none">(i) distinguish information based on judgement from factual information; and(ii) explain the process and sources used to produce the information, describe the assumptions and methods used to calculate it, and state the information's limitations; and <p>(c) retain the statement that it does not mandate the level of assurance to which management commentary should be subjected.</p> <p>The Board tentatively decided that the revised Practice Statement would not include guidance on timeliness.</p>	
--	--	---	--