STAFF PAPER

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IASB® meeting

Project	**Management Commentary**
Paper topic	Feedback summary—Completeness, balance, accuracy and other attributes

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Purpose of paper

1 The papers for this meeting summarise feedback on the International Accounting Standards Board (IASB)'s proposals for a revised Practice Statement on management commentary (Practice Statement), as set out in the Exposure Draft *Management Commentary* (Exposure Draft).

2 This paper summarises feedback on:

(a) the proposed requirements for information in management commentary to possess specified attributes—for example, completeness, balance, accuracy and coherence—and guidance to help management identify information that possesses those attributes; and

(b) the proposal to permit information to be included in management commentary by cross-reference to another report, subject to specified conditions and requirements.

3 This paper should be read in the context of Agenda Paper 15 *Feedback summary—Cover paper*, which explains some of the terminology used and how we have quantified feedback.

4 This paper does not ask the IASB to make decisions but invites IASB members' questions and comments on the feedback.

Structure of paper

5 This paper includes

(a) a recap of the Exposure Draft proposals (paragraphs 6–15);

(b) an overview of the key messages in the feedback (paragraphs 16–18);

(c) summaries of the feedback on requirements and guidance relating to:

(i) the attributes of information in management commentary (paragraphs 19–31); and

(ii) information included by cross-reference (paragraphs 32–36).

Exposure Draft proposals

Attributes

6 Chapter 13 of the Exposure Draft proposed that information in management commentary should be:

(a) complete, balanced, accurate, clear, concise and coherent; and

(b) provided in a way that:

(i) enhances comparability—making it easier for investors to compare the information with information provided by the entity in previous periods and with information provided by other entities; and

(ii) enhances verifiability—making it possible for investors to corroborate either the information itself or the inputs used to derive it.

7 Chapter 13 also proposed guidance to help management identify and present information with the required attributes.

8 The Basis for Conclusions explained that the aim of the proposed requirements and guidance was to help address a shortcoming identified in current practice—that information in management commentary is sometimes not useful to investors because it lacks the attributes described in paragraph 6. For example, it sometimes:

(a) lacks coherence—is fragmented or difficult to reconcile to information in the entity's financial statements or to information in other reports the entity has published;

(b) lacks comparability—is difficult to compare with information the entity provided in previous periods or with information provided by other entities with similar activities; or

(c) is incomplete or unbalanced—for example, lacking information investors need to fully understand the implications of matters discussed, or placing undue emphasis on positive aspects of the entity's performance.

9 The IASB derived the proposed requirements and guidance from the descriptions of the qualitative characteristics of useful financial information in the IASB's *Conceptual Framework for Financial reporting* (*Conceptual Framework*). However, recognising that management commentary is often prepared by individuals who might not be familiar with IFRS Standards and the *Conceptual Framework*, the IASB proposed more 'everyday' terminology for some of the attributes.

10 The table below compares the qualitative characteristics described in the *Conceptual Framework* with the attributes proposed in the Exposure Draft. Differences are highlighted in *italic* font:

Conceptual Framework qualitative characteristics			Exposure Draft attributes
Fundamental qualitative characteristics	Relevance (and its entity-specific aspect, materiality)		*Materiality* is *embedded in the objective of management commentary* (see paragraph 11)
	Faithful representation	Completeness	Completeness
		Neutrality	*Balance*
		Freedom from error	*Accuracy*
Enhancing qualitative characteristics	Understandability	Clarity and conciseness	Clarity and conciseness
	Comparability		Comparability
	Verifiability		Verifiability
	Timeliness		*Not identified as a required attribute* (see paragraph 12)
	-		*Coherence* (see paragraph 13)

11 The Exposure Draft did not propose to specify ‘relevance’ (capability of making a difference to investors’ decisions) as a ‘required attribute’. It proposed to require management commentary to provide information that investors have told us they need—information that meets the objective of management commentary specified in Chapter 3 of the Exposure Draft and the disclosure objectives specified in Chapters 5–10 of the Exposure Draft—and embedded the requirement for material information within the objective of management commentary.

12 The Exposure Draft did not propose ‘timeliness’ as a required attribute. The Basis for Conclusions explained that the timing of publication of management commentary is a local jurisdictional and regulatory matter, and management commentary can be useful even if it is published after the related financial statements.

13 The Exposure Draft proposed to include coherence as a required attribute because investors have identified lack of coherence as one of the main shortcomings in current practice. The Exposure Draft discussed four aspects of coherence:

(a) providing enough information about each matter for investors to assess the implications of that matter;

(b) providing pieces of information in a way that explains the relationships between them;

(c) providing information in a way that allows investors to relate that information to information in the entity's financial statements; and

(d) explaining apparent inconsistencies between information in management commentary and other information provided by the entity, for example in investor presentations.

Information included by cross-reference

14 As an application of the requirement for management commentary to be clear and concise, the Exposure Draft proposed that:

> Information required by this [draft] Practice Statement might be available in another report published by the entity. That information may be included in management commentary by cross-reference to the other report if including the information in this way rather than directly within the management commentary does not make the management commentary less clear.

15 The Exposure Draft noted that information included in management commentary by cross-reference becomes part of the management commentary and so needs to comply with all the requirements of the Practice Statement, including requirements relating to the attributes of the information. The Exposure Draft also contained specific requirements that would apply if information is included by cross-reference to another report—for example, a requirement for the management commentary to identify the other report clearly, explain how to access it, and refer to a precisely specified part of the report.

Key messages in feedback

16 Many respondents commented on the proposed requirements and guidance on the attributes of information in management commentary. Most of those respondents—including the investors commenting—broadly supported the proposals, either expressing unqualified agreement or suggesting only limited refinements. However, some respondents suggested that, before finalising the Practice Statement, the IASB should consider requirements and guidance to be issued in the future by the International Sustainability Standards Board (ISSB), or work with the ISSB to develop attributes that could be specified by both boards in their future requirements.

17 Some respondents suggested aligning the terms used for the proposed attributes more closely with the terms used for the qualitative characteristics of useful financial information specified in the *Conceptual Framework*.

18 Many respondents commented on the proposal to permit information to be included in management commentary by cross-reference to another report, subject to specified conditions and requirements. Most of these respondents supported the proposals. However, some respondents, including some investors, expressed concerns, in particular that extensive cross-referencing may make it more time-consuming and complex for investors to understand information in management commentary.

Attributes of information in management commentary

Overall comments

19 Many respondents commented on the proposed requirements and guidance on the attributes of information in management commentary. Most of those respondents—including the investors commenting—broadly supported the proposals, either expressing unqualified agreement or suggesting only limited refinements (which are discussed further in paragraphs 23-31).

20 As reported in [Agenda Paper 15B *Feedback summary—Investor Feedback*] for the IASB's March 2018 meeting, investors confirmed the IASB's analysis of the shortcomings of management commentary—including the shortcomings relating to the attributes described in paragraph 8 of this paper. They, and a few other respondents stated that they agreed that requiring the attributes proposed in the Exposure Draft could make information in management commentary more useful.

21 A few respondents commended the comprehensiveness of the attributes, or highlighted aspects of the requirements or guidance that they particularly supported, including:

(a) the requirements for coherence, completeness, balance or accuracy:

> We agree with the proposals, particularly with the emphasis on completeness of information. Without this, there is a risk that entities might highlight only information that casts the entity in a positive light while excluding related information that might be perceived as negative. For example, disclosing information about an entity's strategy to develop its business model towards more environmentally friendly products, while not disclosing the associated risks such as increased production costs. *CL57 BDO*

> The clear requirement to be complete, balanced, and accurate would reduce the incentive … to avoid disclosing negative information… *CL33 Securities Analysts Association of Japan*

(b) the examples of poor practice to avoid (as well as of good practice to adopt).

(c) the reference in paragraph 13.14 to the need for clear language.

22 However, some respondents suggested reconsidering the proposed requirements and guidance:

(a) some respondents suggested that, before finalising the Practice Statement, the IASB should consider requirements and guidance to be issued in the future by the ISSB, or work with the ISSB to develop attributes that could be specified by both boards in their future requirements. A few of those respondents suggested that working with the ISSB would be especially important if there is an intention to develop an overarching framework for what was commonly described as connected reporting.

(b) a few—mainly Japanese—respondents disagreed with the proposal to align the attributes required for management commentary with the qualitative characteristics of useful financial information described in the *Conceptual Framework*. They suggested that those qualitative characteristics were developed with financial statements in mind, and that some of the qualitative characteristics—for example, completeness, comparability, accuracy and conciseness—are not appropriate for the entity-specific, non-financial, qualitative and forward-looking information reported in management commentary:

> Paragraph BC98(b) states that "*information in management commentaries is broader than information in financial statements. For example, management commentaries are likely to contain more qualitative and forward-looking information than financial statements and to provide information about matters that may not have led to recognition or even disclosure in the financial statements.*" This indicates that information in management commentary and information in financial statements significantly differs primarily in terms of the contents and objectives. It would therefore not be reasonable to require information in management commentary to possess the same qualitative attributes set out in the *Conceptual Framework* because it was developed specifically to be applied to financial statements.
> *CL16 Japanese Bankers Association*

(c) a few South African respondents suggested giving further consideration to the guiding principles set out in the Integrated International Reporting Council (now Value Reporting Foundation)'s International Integrated Reporting Framework (<IR> Framework).

Closer alignment with the Conceptual Framework

23 Some respondents suggested aligning the proposed attributes more closely with the qualitative characteristics of useful financial information described in the *Conceptual Framework*. Most of those respondents suggested aligning the terminology, on the grounds that:

(a) introducing new terms for the same concepts adds complexity and increases the risk of confusion. The relationship between the attributes proposed in the Exposure Draft and the qualitative characteristics described in the *Conceptual Framework* becomes unclear.

(b) the terminology in the *Conceptual Framework* is better—more precise and no less understandable. For example, 'freedom from (material) error' is more understandable and appropriate than 'accuracy' for narrative information, and a better reflection of the level of precision achieved in financial reporting.

(c) those involved in preparing management commentary would generally be familiar with accounting terminology, including the terminology in the *Conceptual Framework*.

(d) replacing 'understandability' with 'clarity and conciseness' results in the loss of useful guidance. In explaining understandability, the *Conceptual Framework* observes that some phenomena are inherently complex and cannot be made easy to understand, but a financial report would not be complete without material information about those phenomena.

(e) in some jurisdictions, local laws require an entity's board of directors to confirm that the entity's annual financial report (which includes both management commentary and financial statements) taken as a whole, is fair, balanced and understandable. The Practice Statement should avoid terms that are used with a possibly different meaning in local requirements.

24 A few respondents made other suggestions for closer alignment with the *Conceptual Framework*. Suggestions included:

(a) specifying relevance as a required attribute, or explaining better why it is not specified as a required attribute.

(b) clarifying why materiality is not positioned as a required attribute.

(c) adding 'timeliness' as an enhancing attribute—timeliness is important because of management's commentary's potential to influence investor decisions.

(d) replacing the detailed requirements in the Exposure Draft with a single requirement to apply the attributes described in the *Conceptual Framework*.

Individual attributes

Coherence

25 Respondents generally agreed with the proposal to include coherence among the required attributes. A standard-setter explicitly supported the proposal to require coherence not only within management commentary but also between management commentary and the related financial statements, noting that such coherence is essential if management commentary is to satisfy its objective of enhancing investors' understanding of the financial statements.

26 A few respondents suggested that coherence is so important it should be given more prominence in the Practice Statement:

> We believe that coherence is an overarching principle that should apply to management commentary and the annual report as a whole. We encourage the IASB to consider giving the principle more prominence, upfront in the document, as it will be important in encouraging companies to ensure that management commentary and the financial statements are viewed as a package. *CL10 UK Financial Reporting Council*

27 A few respondents suggested changes to the guidance on, or term used for, coherence:

(a) a group representing preparers suggested omitting the guidance[1] that coherence would require management commentary to explain areas of apparent inconsistency between information in management commentary and information provided by the entity outside its annual reporting package, for example on its website or in investor communications:

> The requirement to consider … information provided outside the reporting package (external coherence) goes from our perspective too far and would create an additional burden for reporting entities when preparing management commentary within tight deadlines. It would be the task for securities and markets authorities to define whether investor communication with other means than those defined in financial statements or management commentary needs to be supplemented with additional disclaimers or disclosures on a case-by-case basis. To include such disclosures in management commentary does not seem to be reasonable. *CL11 German Insurance Association*

(b) the European Financial Reporting Advisory Group (EFRAG) suggested that the IASB consider the report Proposals for a relevant and dynamic EU sustainability reporting standard setting, published by EFRAG's Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards. This report describes a process for achieving coherence (referred to as 'linkage' in the report) between financial statements and other reports.

(c) a few respondents suggested aligning the requirements and guidance on coherence (more explicitly) with notions of connectivity in the<IR> Framework. Suggestions included:

(i) explaining more explicitly that coherence requires explanation of the connections tying factors in the external environment to the entity's

[1] Stated generally in paragraph 13.30(b) of the Exposure Draft, and applied to metrics in paragraph 14.11.

business model, strategy, resources and relationships, risks and opportunities; or

(ii) changing the terminology from ‘coherence’ to ‘connectivity’.

(d) identifying consistency (over time and with other information, for example in the financial statements) as a separate attribute from other aspects of coherence.

Comparability

28 A group representing preparers of management commentary disagreed with the proposal that information in management commentary should ‘be provided in a way that enhances comparability’. The group read that proposal as setting an expectation that the information would be directly comparable with the information the entity provided in previous periods, and with the information provided by other entities with similar activities. The group argued that management should be free to tell their story in a format and with the information they deem most relevant to their investors at the time of reporting— entities with similar activities could have different business models or structures, and management commentary should not be static but should reflect changes in the business environment.

29 An accounting firm suggested expanding the guidance on comparability so it is clearer that entities do not have to provide the same information as their peers. A standard-setter, suggested clarifying the requirements for comparability (in paragraphs 12.5, 12.6, 13.23 and 14.10 of the Exposure Draft) by stating more explicitly that entities are not required to actively monitor the information provided by other entities.

Balancing competing attributes

30 A few respondents suggested that the Practice Statement should explain how to balance competing attributes. An accountancy body suggested that without such guidance, a requirement for conciseness may lead to management commentary including only general information and omitting material detail.

Other comments

31 Other comments—each made by only one or two respondents—included suggestions that the IASB:

(a) specify 'management's perspective' as a required attribute or reporting principle.

(b) add guidance on the presentation of management commentary (for example, its location in the annual report). An investor suggested this guidance would aid comparability of information across different jurisdictions.

(c) reconsider the requirements for:

  (i) accuracy. A standard-setter suggested accuracy cannot be achieved for forward-looking and subjective information, so a requirement for reliability would be more appropriate.

  (ii) balance. A preparer suggested preparers might interpret a requirement for balance as a requirement to provide favourable and unfavourable information on every matter covered in management commentary, possibly leading to boilerplate information.

  (iii) information to be provided in a way that enhances verifiability. A standard-setter suggested that verifiability is achievable only for some types of information, such as metrics—most information in management commentary is inherently subjective and not verifiable.

(d) reconsider the need to specify completeness and balance as required attributes. A group of academics suggested the requirement to provide material information encompasses both of these attributes.

(e) add 'assumptions' to the list of types of information that could be provided about estimates or approximations to enhance their verifiability.

(f) clarify the statement in paragraph 13.17 that for management commentary to be concise it needs to avoid unnecessary duplication of information also provided in the related financial statements. A standard-setter and an accountancy body suggested that people might interpret that statement to mean that no information provided in financial statements should be duplicated in management commentary.

Information included by cross-reference

32 Many respondents commented on the proposal to permit information to be included in management commentary by cross-reference to another report, subject to specified conditions and requirements. Most of these respondents supported the proposals. Reasons included:

(a) allowing information to be included by cross-reference could reduce duplication of information and make management commentary more concise;

(b) the use of cross-referencing could reduce the cost of producing management commentary;

(c) cross-referencing between electronic documents is easy and generally accepted;

(d) appropriate use of cross-referencing could enhance the connectivity between corporate reports; and

(e) the strict requirements proposed by the IASB should prevent the use of cross-referencing from making management commentary less clear:

> Cross-referencing might be helpful to achieve a more concise management report regarding its size, but it has still to be a document which contains in general all material information on a stand-alone basis regarding its content. We believe that reporting entities will be well in a position to weight the efforts necessary to meet the IASB's requirements when cross-referencing against the alternative of not doing so. *CL11 German Insurance Association*

33 As reported in Agenda Paper 15B *Feedback summary—Long-term prospects, intangible resources and relationships and ESG matters*, many respondents commenting on the matters covered in that paper expressed a view that the Practice Statement should explicitly address reporting on governance-related matters in management commentary. A standard-setter suggested clarifying that governance-related information can be included in management commentary by cross-reference to another report, for example, a governance report prepared to comply with local laws or regulations.

34 However, some respondents, including some investors, expressed concerns about the inclusion of information in management commentary by cross-reference. They expressed concerns that:

(a) extensive cross-referencing may make it more time-consuming and complex for investors to understand information in management commentary:

> Duplication of information can be helpful and necessary if it provides context to the information provided. If additional information that is required to understand an item is only included by way of cross-reference, it might contribute to fragmentation of management commentary that is undesirable. Users of management commentary should not be required to jump between different sections of the document to understand the information provided. *CL68 Deloitte*

(b) there could be implications for assurance if the report containing the information included in management commentary by cross-reference is subject to a different level of assurance than the management commentary:

> In particular, the public expectation for assurance of non-financial information is expected to increase in the future, and it is necessary to clarify the scope of information subject to assurance. We are opposed to cross-referencing to other reports if it expands the scope of management commentary, as it may obscure the scope of information subject to assurance.
> *CL35 Japanese Institute of Certified Public Accountants*

(c) notwithstanding the requirements proposed in the Exposure Draft, there could be a risk that material information is omitted if information is included by cross-reference to a report with a different publication date from that of the management commentary.

(d) management may not feel comfortable providing an explicit and unqualified statement of compliance if they have not been directly involved in the preparation of the reports to which the management commentary cross-refers.

35 A few respondents suggested adding more conditions and requirements for including information by cross-reference. Suggestions included:

(a) allowing information to be included by cross-reference only if it is provided alongside the management commentary within a larger report—not if it is provided in a separate report;

(b) requiring management commentary to provide a summary of the key messages in the cross-referenced information; and

(c) requiring management commentary to include a table setting out where, either within management commentary or in other referenced reports, information is provided to meet the requirements of the Practice Statement.

36 A few respondents argued that cross-referencing should not be used for material information that forms an integral part of the management commentary—it should be used only to point investors to more detailed information on specific topics in other reports:

> We agree with measures taken to reduce volume, duplication and boilerplate in management commentary. We further believe that entities should apply professional judgment to distinguish between **core** and **supplementary** information. The former introduces and explains material matters, puts those matters into context and, wherever possible, provides quantitative and assurable information to support their inclusion or to illustrate a fundamental point. Such information critically informs the decisions of investors and creditors.
>
> By contrast, supplementary information – which might take the form of corporate policies, white papers, case studies or third-party evidence – provides further depth, but is unlikely to substantively inform the decisions of investors and creditors. On the contrary, including such information in management commentary could compromise readability, obscure truly material information and add volume with little incremental benefit.
> *CL5 Value Reporting Foundation*

Question for IASB members

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Do you have any questions or comments on the feedback reported in this paper?