

IASB Project Update

Management Commentary Practice Statement Project and Wider Corporate Reporting

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Slides

- Management commentary: a brief introduction
- Rationale for project
- Staff's proposed approach
- Board decisions to date

3–6

7–14

15–20

21–23

***Note:** The proposed approaches in this presentation are the staff's views, unless stated that tentative decisions have been made by the Board.*

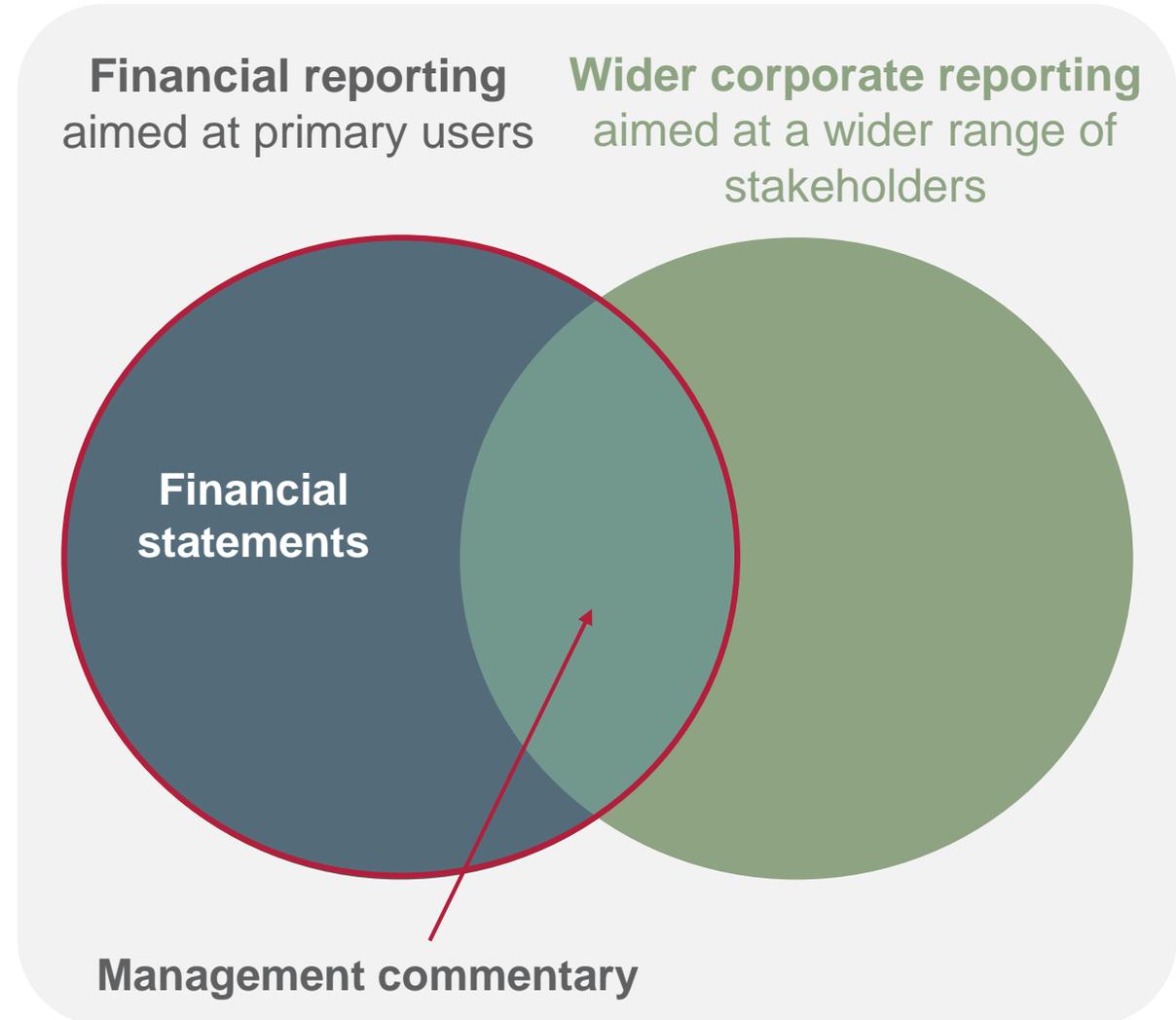
Management commentary: a brief introduction

What is management commentary?

Management commentary:

- is a narrative report that gives context for the financial statements and additional insight into the entity's long-term prospects
- sits within the boundaries of financial reporting and is aimed at primary users* of financial reports—existing and potential investors, lenders and other creditors

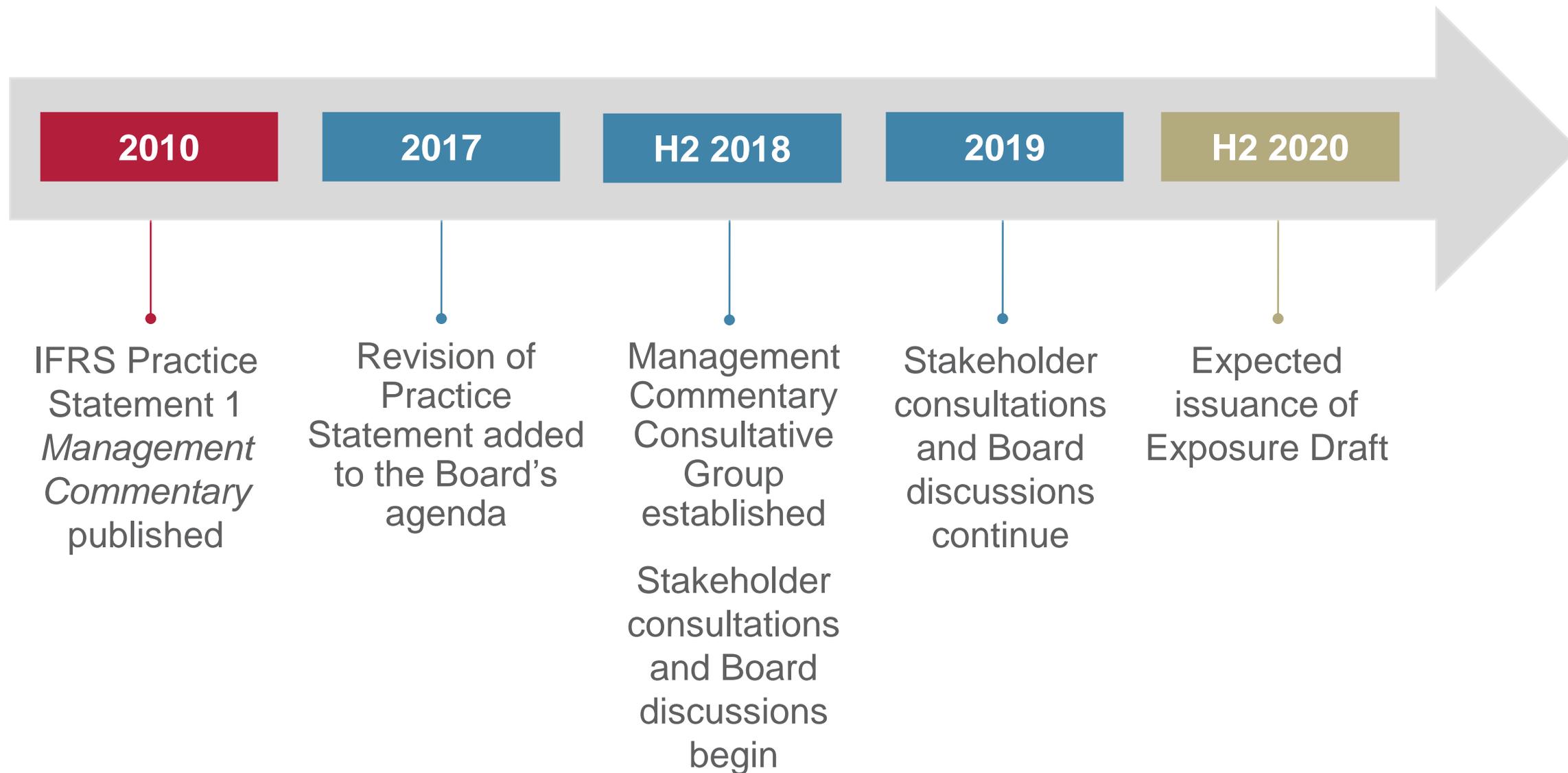
**Throughout: References to 'users' are to 'primary users' as defined in the Conceptual Framework.*



Terms used for 'Management Commentary' around the world



Management Commentary project timeline



Rationale for project

Why is guidance needed?



Note: Guidance on management commentary is not a mandated part of IFRS Standards.

Why revise?

Gaps in current reporting practice



Developments in narrative reporting



Increasing need for additional information



Focus of revision

Meet primary users' information needs

Retain a principles-based approach but expand the guidance to:

- consolidate innovations
- address gaps in reporting
- support rigorous application

Particular emphasis on:

- company-specific matters
- intangibles and environmental, social and governance (ESG) matters
- matters that underpin long-term success
- coherent discussion linked to strategy

Gaps in current reporting practice

Area	Challenge
Focus of discussion	Typically short-term focused, with insufficient discussion of matters that would help users understand the entity's long-term prospects and what underpins its long-term success
	Insufficient discussion of intangibles that are not recognised in the financial statements
Level of detail	Incomplete or fragmented information about a matter that fails to 'tell the story'
	Too wide a scope of matters discussed – failure to identify what is material and focusing on matters specific to the entity
Selection and presentation of information	Lack of neutrality in the selection of information included in management commentary and in discussing a matter – users often notice a positive bias which leads to an incomplete picture of the entity's performance, position and prospects
	Limited comparability between entities as well as with other information provided by the entity in other reports and over time because of lack of consistency

- In deciding to take on the project to revise the Practice Statement, the Board discussed a number of topics and themes which have regularly featured in recent debates on wider corporate reporting, and acknowledged that these may need to be considered in this project.
- The staff think that some of these themes have a pervasive influence in determining the desirable features of the revised Practice Statement. In some cases they may best be included explicitly while in other cases they may best be used to inform the guidance on particular areas of content. Sometimes, a combination of the two approaches may be most appropriate.
- The following slides set out the staff's considerations for how these topics and themes may be reflected in the revised Practice Statement.



Long-term value creation

Why it matters

There is a widespread concern that corporate reporting does not address the full range of matters related to an entity's long-term prospects

Resources & relationships

Users need information about an entity's key resources and relationships irrespective of whether it is appropriate to discuss those resources and relationships in the financial statements

Business model focus

The specific issues and opportunities faced by an entity will be unique to each entity's business model and strategy, even across the same sector

How the staff plan to address it

- Link the objective of management commentary to assessment of the prospects for future net cash inflows and to providing insight into the entity's strategy, including over long term*
- Emphasise that information on resources and relationships, including intangible ones and those not recognised in the financial statements, is a key area of content of a management commentary, addressed as part of the business model discussion
- Emphasise the role that reporting on business impacts can play in providing insight into the ongoing health of the entity's resources and relationships
- Retain a principles-based approach to business model reporting, with onus on management to identify what is important in the entity's circumstances

*This approach was discussed by the Board – see slide 23

Why it matters

How the staff plan to address it

Coherence

The management commentary needs to tell a coherent story of the business across the content elements

- Provide guidance on the notion of ‘narrative coherence’, identifying interrelationships between different pieces of information and guidance on how to provide information on a matter across different content elements of a management commentary

Application of materiality

Preparers struggle with the application of materiality to narrative and operational performance information

- Provide guidance on making materiality judgements eg by making the link to assessing the entity’s future net cash inflows and management’s stewardship, and build on the four-step approach of the Materiality Practice Statement*

Operational information

Users need operational information to support their assessments of the entity’s prospects for future net cash inflows and of stewardship

- Include guidance on reporting operational performance in management commentary, and not only reporting financial performance when discussing the entity’s performance, position and progress

*This approach was discussed by the Board – see slide 23

Sustainability reporting

Why it matters

Users need relevant ESG information to support their assessment of the prospects for an entity's future cash flows

How the staff plan to address it

- Explain that relevant ESG information may need to be addressed in different content elements of management commentary, and will be subject to same materiality considerations as financial information
- Explain how reporting on 'resources and relationships' and business impacts provides useful inputs for assessments of business sustainability

Stewardship & culture

Users use information about management's stewardship of an entity's economic resources in assessing the relationship between the risks being taken and expected returns

- Provide a link to stewardship in the objective of management commentary*
- Link discussion of impacts of the entity's activities to the discussion of its resources and relationships
- Recognise the potential linkages between management commentary and governance reporting

**This approach was discussed by the Board – see slide 23*

Staff's proposed approach

Key points behind the staff's proposed approach

Information in management commentary must be relevant to users

- Users may need information on matters for their assessments of prospects for future cash flows* irrespective of whether those matters are recognised in the financial statements (eg intangibles and ESG matters).

Information in management commentary must address the entity's specific circumstances

- The guidance on management commentary should not make assumptions about what is important to an entity's future success because this could lead to boilerplate disclosure and important matters not being addressed.

() Note: The staff do not expect that guidance on management commentary would require management to provide forecasts or include predictions of future outcomes.*

Content of management commentary

The staff expect that guidance on management commentary will cover topics ('content elements') that are expected to be discussed in management commentary to meet users' information needs:

- The guidance for each content element provides a basis for determining **what** to include. Management decides **how** best to structure this information.
- Providing information 'through eyes of management' means that information on each content element is derived from the information used to manage the business.

BUSINESS MODEL
(including key resources and relationships)

STRATEGY

**OPERATING
ENVIRONMENT AND RISKS**

**PERFORMANCE,
POSITION, PROGRESS**

Matters (including those related to sustainability issues) are rarely managed in isolation from the rest of the business. The staff expect that information about different matters will need to be provided across the content of management commentary in a coherent manner.

A closer look at: Long-term value creation

Value across time horizons:

Long-term value

Can the business be sustained in the long run?

Medium-term value

How is the business being enhanced?

Short-term value

What's the earnings capability of the business today?

- Users' decisions depend on all three aspects of value.
- Long-term value depends on the key resources and relationships that underpin the business model. These resources and relationships are unique to every business; they have 'value', but cannot always be 'valued'.
- The staff propose to address long-term value creation in the *business model* content element.

A closer look at: Intangibles (including resources and relationships)

The staff are proposing a principles-based approach to providing information about intangibles and do not expect to propose a list of intangibles to be addressed in management commentary because:

- The range of intangibles that may need to be addressed is very wide.
- Users need information on the specific intangibles that the entity depends on, rather than on broad categories of intangibles.
- Information users need about an intangible also depends on the entity's strategy for managing it.

Examples of intangibles that might feature in management commentary:

know-how

customer base

reputation

A closer look at: ESG matters in management commentary

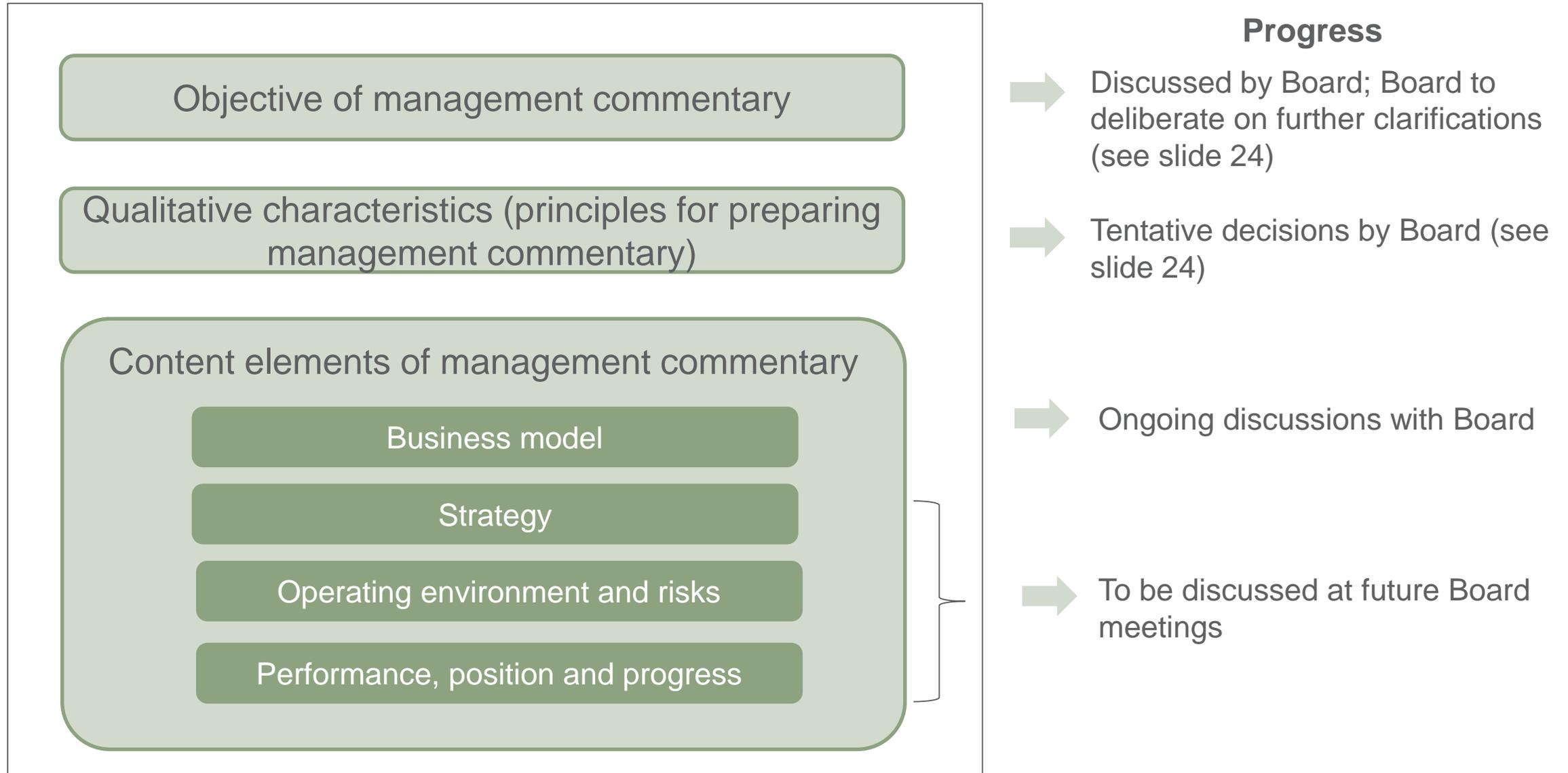
- The staff do not expect to propose a list of ESG matters to be discussed in management commentary since what is material will be specific to the entity and depend on its circumstances.
- Although various information about ESG matters may be of interest to a broader audience, the staff think it is important that management commentaries focus on information needs of primary users in order to ensure that disclosures in management commentary retain a clear purpose. Additional information to meet others' needs may be provided through other channels.
- The principles-based approach of the revised guidance on management commentary focuses on what management needs to consider to identify and report on ESG matters that **could affect the entity's future success**.



ESG matters are discussed in management commentary *if* they could affect the amount, timing, or uncertainty of the entity's prospects for future cash flows or otherwise affect users' economic decisions

Board decisions to date

Revision of the existing Practice Statement



Summary of board decisions to date

Topic	Board decision
Objective of management commentary	Broadly agreed (but no formal decision) that the objective of management commentary is 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
Qualitative characteristics	Confirmed that the qualitative characteristics in the <i>Conceptual Framework</i> apply to management commentary and the revised Practice Statement should include a brief explanation of the qualitative characteristics and provide more guidance to promote provision of useful information in management commentary. The Board decided to focus on explaining: <ul data-bbox="529 906 2356 1282" style="list-style-type: none">• relevance, in particular how to make materiality judgements in preparing management commentary• completeness• neutrality• comparability• understandability• verifiability

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