

Overview of the staff's approach to revision (Agenda Paper)

In November 2017 the Board added a project to its agenda to revise *Management Commentary*.

In revising the Practice Statement, the Board will focus on the role of management commentary as part of 'broader financial reporting'. Broader financial reporting focuses on the information needs of primary users, but unlike financial statements it is not limited to providing useful information about the reporting entity's assets, liabilities, equity, income and expenses. It includes:

- Information about the reporting entity's business model, strategy, risks and operating environment
- Non-financial information
- Non-financial performance metrics
- Forward-looking information

Wider corporate reporting includes the management commentary, but is much broader than that. Since the Practice Statement was issued, many developments have taken place in wider corporate reporting:

- Many national or supranational requirements for preparing management commentary or a similar report have been issued
- Innovative narrative reporting initiatives have been developed both nationally and internationally
- Specialised subject-matter or industry-specific frameworks have been developed by various organisations
- Public policy reporting regulations have evolved

These developments may need to be reflected in the revised Practice Statement.

In addition, there are widely acknowledged gaps in narrative reporting that may need to be patched, such as short-term focus in reporting, lack of focus on matters that are important to the future of a business and fragmented discussion that fails to 'tell a story'.

The current Practice Statement will be used as a starting point and then fill the gaps where it is incomplete, update it to reflect innovations and clarify where it is unclear. The staff expect to retain the existing approach of providing guidance based on principles rather than rules.

Based on the research to date, the staff recommend that the Board provide additional guidance on:

- The objective of management commentary
- Considering qualitative characteristics of useful financial information in providing management commentary

Content elements of management commentary

Staff recommendation

The staff did not recommend any decisions at that point. They asked the Board whether they have any comments or suggestions on the staff's proposed approach to the revision.

Board discussion

The Board was generally satisfied with the staff's summary of the project. There was some concern amongst Board members that the staff would be too focused on the German Accounting Standard No. 20 *Group Management Report* as that standard was mentioned several times in the paper. The staff confirmed, however, that this standard was only one example of a standard on management commentary and that all existing guidance around the world would be taken into account when drafting a new Practice Statement.

Some Board members mentioned that the Practice Statement should also give guidance on what to report about intangible assets, given the feedback from practice that the information provided by the financial statements is insufficient. One Board member suggested to provide some guidance on how the management commentary should be closed out (for example by way of a conclusion). It was also suggested to revisit the objective of the management commentary as it was very similar to that of financial statements and that could raise the question why information in the management commentary was not provided in the financial statements if the objective is the same. As regards the content elements, the staff confirmed that those should not be distinctive parts of the management commentary, but instead consider those content elements comprehensively in any part of the management commentary, so that all elements are covered.

No decisions were made.

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Projects

- Management Commentary (<https://www.iasplus.com/en/projects/major/management-commentary>)

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