

IFRS Briefing Sheet

Exposure Draft *Management Commentary*

June 2009, **Issue 141**

This IFRS Briefing Sheet summarises the International Accounting Standard Board's (IASB, or Board) Exposure Draft (ED) *Management Commentary*, which was published on 23 June 2009. Comments are due by 1 March 2010.

The ED proposes a framework to assist in the preparation of management commentary that accompanies financial statements prepared in accordance with IFRSs.

The framework proposes three principles that should be followed in order to have decision-useful management commentary.

The ED proposes certain elements that should be included in order to have decision-useful management commentary.

The proposals in the ED will not result in an IFRS.

The Board has proposed in the ED a framework for the preparation and presentation of such management commentary. The proposals are drafted considering the work currently under way by the IASB in the conceptual framework project, in that the Board believes management commentary is within the boundaries of financial reporting and therefore is within the scope of the conceptual framework for financial reporting. The proposals in the ED do not specify which entities would be required to publish management commentary nor do they state a frequency in which management commentary would be provided or any level of assurance that would be applied to management commentary.

The proposals in the ED will not result in an IFRS; accordingly, once finalised an entity will not be required to comply with the framework for the preparation and presentation of management commentary in order to assert compliance with IFRSs.

Executive Summary

Often financial statements prepared in accordance with IFRSs are accompanied by additional information labelled "management commentary". Accompanying information may be provided voluntarily or because of jurisdiction / regulatory requirements.

Summary of Proposals

IFRSs are not based on a particular legal or listing framework; they also currently do not contain any requirements for management discussion and analysis, either as part of or outside of the financial statements. However, an entity applying IFRSs may be subject to national, regional or securities

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exchange requirements or recommendations regarding the presentation of financial and / or non-financial information. The proposals in the ED are intended to provide a *basis* for the development of “good management commentary” by providing a framework for such information. The proposals in the ED have an overall objective that accompanies the proposed framework along with “content elements” that the Board would expect in management commentary in order for it to be considered decision-useful information.

Overall Objective

The ED proposes an overall objective: *This guidance prescribes a framework for the preparation and presentation of management commentary to assist management in preparing decision-useful management commentary to accompany financial statements prepared in accordance with IFRSs.*

In the ED the Board links the concept of “decision-useful” management commentary used in the overall objective to its final chapter on Phase A of the Conceptual Framework project, due for issuance in the third quarter of 2009. The Board proposes that, given its view that management commentary is within the scope of the conceptual framework for financial reporting, it would not be appropriate to develop qualitative characteristics in the ED different from those already proposed in Phase A of the Conceptual Framework project.

The Framework

The proposed framework for preparation and presentation of management commentary focuses on the following:

User Needs

Management commentary normally will be of interest to a wide range of users, but often is aimed at the needs

of investors. The proposals in the ED stress the importance of understanding the needs of existing and potential capital providers when developing the information to be provided in management commentary.

Time Frame and Purpose

The ED proposes that management commentary would address not just information that helps users place the related financial statements in context but also would provide main trends and factors that “are likely to affect the entity’s future performance, position or development.” As a result, the ED proposes that management commentary should provide users with an opportunity to look through the eyes of management for an understanding of the financial condition, changes in financial condition, and results of operations for not just what has happened but also for what is likely to happen.

Principles

When developing management commentary the ED proposes that, in order to have decision-useful management commentary, management align its commentary so that it:

- provides management’s perspective on the entity’s performance, position and development, i.e., through the eyes of management
- supplements and complements the financial statement information so that it either assists in the interpretation of the financial statements and / or improves a user’s ability to make economic decisions
- includes forward-looking information, for example, through information on projections and forecasts if allowed in the respective jurisdiction or through providing management objectives and its strategies for achieving those objectives.

Presentation

The ED proposes that management commentary be consistent with the disclosures in the financial statements, but not duplicate them. If segment information is provided in the financial statements, then the ED proposes that management commentary information would reflect such segmentation. In addition, if management commentary is provided to accompany IFRS financial statements, then the ED proposes that it always be made available with those IFRS financial statements and never on a stand-alone basis.

Content Elements of a Decision-useful Management Commentary

While the Board acknowledges in the ED that management commentary will depend on the facts and circumstances of a particular entity, there are some elements that the Board would expect in management commentary in order for it to be considered decision-useful information. Such elements are proposed as follows:

- the nature of the business, which might include discussion on relative industry / industries, products and services, overall structure, and the markets in which the entity operates
- management’s objectives and its strategies for meeting those objectives, for example through discussion on how an entity intends to address market trends and the related impact on the entity’s future performance
- the entity’s most significant resources, which might include an analysis of liquidity, cash flows, financing arrangements, and capital structure (and any inadequacies in the capital structure and plans to address such inadequacies)
- the entity’s principal risks, e.g., strategic, commercial, operational and financial risks, but not all possible risks

- the entity's most significant relationships, in particular those with stakeholders
- the results of operations and prospects, including whether current or historical performance may be indicative of future performance
- the critical performance measures and indicators that management

uses to evaluate the entity's performance against stated objectives, and whether those used in the past continue to be relevant.

Response to the IASB

The IASB has invited comments by 1 March 2010.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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