

IFRS in Focus

IASB issues Practice Statement on management commentary

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The Bottom Line

- The Practice Statement is not an IFRS but provides a non-binding framework for the presentation of management commentary to accompany IFRS financial statements.
- Although the Practice Statement has been developed for listed entities, it may also be applied by other entities that prepare IFRS financial statements that include management commentary.
- The Practice Statement sets out the principles, qualitative characteristics and elements that are necessary to provide users of financial statements with decision-useful information.
- Management commentary should provide management's view of the entity's performance, position and development in a way that supplements and complements the information presented in the financial statements.
- The Practice Statement can be applied prospectively from 8 December 2010.

Introduction

On 8 December 2010, the International Accounting Standards Board (IASB) issued Practice Statement *Management Commentary*. The Practice Statement is not an IFRS and therefore an entity does not need to comply with it in order to comply with International Financial Reporting Standards (IFRSs). However, management should explain the extent to which the Practice Statement has been followed. The Practice Statement provides a framework for the presentation of management commentary to accompany financial statements prepared in accordance with IFRSs. Entities are permitted to adapt the information provided to their particular circumstances, such as the legal and economic circumstances of individual jurisdictions.

Scope and identification of management commentary

Although the IASB developed the guidance with listed entities in mind, the Practice Statement does not mandate which entities should be required to prepare and publish management commentary nor does it prescribe how frequently management commentary should be prepared or the level of assurance to which it should be subjected.

When an entity provides management commentary to supplement its financial statements, it should either make the financial statements available with the commentary or identify the financial statements to which the commentary relates. Management commentary should be clearly identified and distinguished from other information and should incorporate a statement on the extent to which management has complied with the Practice Statement.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Users of management commentary

When preparing its commentary, management should consider the needs of the primary users of financial reports to determine what information is necessary for them to put the financial statements into context. The primary users are existing and potential investors, lenders and other creditors.

A framework for the presentation of management commentary

Purpose and principles

For the information in the management commentary to be decision-useful, management should not only report on what has happened during the reporting period, but also include an explanation as to why it has happened and the potential future impact. Information should be provided about the entity's resources, the claims thereon, and transactions, events and other circumstances that may affect those resources and claims. Management commentary should:

- discuss and analyse the entity's performance, position and development through the eyes of management – disclosing information that is important for management in steering the entity;
- supplement and complement information contained in the financial statements – providing additional explanations of amounts presented in the financial statements and including information that is not presented in the financial statements;
- have an orientation to the future – communicating, from management's perspective, the direction the entity is taking. Management should include forward-looking information if it is aware of any factors that could impact the entity's financial position or performance, and should discuss the extent to which forward-looking disclosures made in prior periods have been borne out; and
- possess the qualitative characteristics described in the *Conceptual Framework for Financial Reporting*.

The management commentary should contain information that is material to the entity and targeted to enable users to understand, amongst others:

- a) the entity's risk exposures, its strategies for managing risks and the effectiveness of those strategies;
- b) how resources that are not presented in the financial statements could affect the entity's operations; and
- c) how non-financial factors have influenced the information presented in the financial statements.

Presentation

The form and content of management commentary should be clear and straightforward, reflecting the nature of the business, the strategies employed, and the legal and regulatory environment in which the entity operates. It should focus on the most important information, and should avoid generic ('boilerplate') information that does not relate to the practices or circumstances of the entity or duplicating disclosures made in the financial statements.

Elements of management commentary

Although the particular focus of management commentary depends on the facts and circumstances of the entity, it should include information that is essential to an understanding of:

- the nature of the business, which usually includes a macro-level (e.g., industry, socio-economic and legal environment) as well as a micro-level discussion (e.g., business model, product portfolio etc.);
- management's objectives and strategies for meeting those objectives, including priorities for action and addressing threats and opportunities of market trends;
- the entity's most significant financial and non-financial resources (e.g., personnel); its principal strategic, commercial, operational and financial risks and uncertainties; and those relationships that are likely to have an impact on the entity's performance and value (e.g., a discussion of the structure of its customer base);
- the results of operations, the extent to which those results may be indicative of future performance, and management's assessment of the entity's prospects (including targets for financial and non-financial measures and, if quantified, the risks and assumptions used); and
- the critical performance measures and indicators used by management to steer the entity and assess its performance against stated objectives.

Implementation guidelines

The Practice Statement may be applied to management commentary prospectively from 8 December 2010.

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