Management Commentary
An IFRS Practice Statement

December 2010
At a glance

We, the International Accounting Standards Board (IASB), issued the IFRS Practice Statement Management Commentary in December 2010.

The Practice Statement provides a broad, non-binding framework for the presentation of management commentary. The Practice Statement is designed to promote good practice in financial reporting. It is also designed to promote comparability across entities that present management commentary.

Management commentary is a narrative report that provides a context for the financial statements. Many jurisdictions describe similar narrative reports as management’s discussion and analysis (MD&A), operating and financial review (OFR), business review or management’s report.
The management commentary project

Financial reporting

Financial reporting encompasses the financial statements. However, it also includes information provided outside the financial statements, such as management commentary. Management commentary supplements and complements an entity’s financial statements. For many entities, management commentary is already an important tool in their communications with the capital markets.

Some respondents thought that the management commentary project was beyond our remit. However, this is an essential part of financial reporting and the scope of the IASB’s work.

Comparability across entities

Many jurisdictions have existing requirements for management commentary-type reporting, but some do not. Our objective in undertaking this project is to provide guidance for all jurisdictions, to promote comparability across entities that present management commentary and to improve entities’ communications with their stakeholders.

The Practice Statement may be used by any entity to present management commentary that relates to financial statements prepared in accordance with International Financial Reporting Standards (IFRSs).

Not an IFRS

The Practice Statement is non-binding and is not an IFRS. Our decision to issue the Practice Statement rather than an IFRS, was supported by respondents.
Our consultation process

In 2005, we published a discussion paper prepared for the IASB by staff from the national standard-setters in Germany, New Zealand and the United Kingdom and from the Canadian Institute of Chartered Accountants. We are grateful for their contribution to this project. We received 116 comment letters on the discussion paper.

In December 2007, after consulting our Standards Advisory Council (now the IFRS Advisory Council), we added the project to our agenda. An exposure draft was published in June 2009, on which we received 103 comment letters. We considered all the points raised when we developed the Practice Statement.
We received broad support for the management commentary project and for issuing non-binding guidance for this topic. Many respondents welcomed our effort to provide international guidance that provides many jurisdictions with a framework for the presentation of management commentary.

Some respondents suggested that we should focus our efforts on other, more urgent, projects. We considered this suggestion but we decided that the benefits of providing international guidance for management commentary far outweighed the small effort to complete the project.

In the pages that follow we outline the most significant matters raised with us and how we responded.
Management commentary should include forward-looking information that communicates management’s perspective of the entity’s direction. Such information does not predict the future, but instead sets out management’s objectives for the entity and its strategies for achieving those objectives.

Respondents’ comments

Many respondents thought that the exposure draft placed too much emphasis on forward-looking information.

Additionally, some respondents thought that the proposal would require management commentary to include forecasts and projections.

Our response

We understand the points raised, but we believe forward-looking information is important for users in understanding the entity. Furthermore, entities are allowed flexibility in applying the framework. An entity may therefore adapt the information in management commentary depending upon what is relevant for the entity’s business, as well as the legal environment of its jurisdiction.

We made it clear that forecasts and projections are not required. We have also provided an example in the Basis for Conclusions that may be helpful for entities when they are applying the principle of looking to the future.
Qualitative characteristics

Information provided in management commentary should possess the qualitative characteristics of general purpose financial reporting as described in the Conceptual Framework for Financial Reporting.

Respondents’ comments

Some respondents had difficulty seeing how the qualitative characteristics could be applied to information in management commentary, and in particular, how entities would be to apply the qualitative characteristics of neutrality and verifiability.

Other respondents requested clarification on the application of the qualitative characteristics. Some suggested that different qualitative characteristics should be defined for management commentary.

Our response

When the discussion paper and exposure draft were developed we considered whether it was appropriate to use the existing qualitative characteristics or whether we needed to adapt them for management commentary—or develop new ones.

Since management commentary lies within the boundaries of financial reporting, we believe that it is important to apply the same qualitative characteristics applicable to general purpose financial reports to information provided in management commentary.

However, we understand why some respondents raised these concerns because we found this one of the more challenging parts of the project. The Basis for Conclusions explains how the qualitative characteristics of neutrality and verifiability apply to management commentary.
Essential elements

The Practice Statement identifies the elements that are essential to understanding an entity and, therefore, should be included in management commentary.

Respondents’ comments

Many respondents supported the elements that were included in the exposure draft and the flexible approach for entities in applying the elements. However, some respondents thought that the elements should be more detailed and specific.

Our response

We believe that a broad, flexible approach to defining the elements of management commentary will elicit more meaningful information for users. Furthermore, the broad approach does not prevent entities from providing specific and detailed information related to those elements.