

Heads Up

In This Issue:

- Introduction
- Key Aspects
- Scope and Identification of Management Commentary
- Users of Management Commentary
- A Framework for the Presentation of Management Commentary
- Elements of Management Commentary
- Implementation Guidelines

IASB Issues Practice Statement on Management Commentary

Introduction

Earlier this month, the IASB issued a Practice Statement, *Management Commentary*, that provides a “framework for the presentation of management commentary” to accompany financial statements prepared in accordance with IFRSs. The Practice Statement is not an IFRS and therefore an entity does not need to comply with it in order to comply with IFRSs. However, management should explain the extent to which the Practice Statement has been followed. Entities are permitted to adapt the information provided to their particular circumstances, such as “the legal and economic circumstances of individual jurisdictions.”

Key Aspects

- The Practice Statement is not an IFRS but “provides a broad, 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 of management commentary that are necessary to provide users of financial [statements] with 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 beginning December 8, 2010.

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 (1) be clearly identified and distinguished from other information and (2) incorporate a statement on the extent to which management has complied with the Practice Statement.

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 such users 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 information, 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 analyze 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.
- 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 items such as:

- (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 “[m]anagement 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. Management commentary should focus on the most important information and avoid incorporating 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:

- “[T]he 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).
- “[M]anagement’s objectives and its strategies for meeting those objectives,” including priorities for action and addressing threats and opportunities of market trends.
- “[T]he entity’s most significant [financial and nonfinancial] 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).
- “[T]he 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 nonfinancial measures and, if quantified, the risks and assumptions used).
- “[T]he 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 presented prospectively beginning after December 8, 2010.

Subscriptions

If you wish to receive *Heads Up* and other accounting publications issued by Deloitte's Accounting Standards and Communications Group, please [register](http://www.deloitte.com/us/subscriptions) at www.deloitte.com/us/subscriptions.

Dbriefs for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy & tax.
- Corporate governance.
- Driving enterprise value.
- Financial reporting.
- Financial reporting for taxes.
- Risk intelligence.
- Sustainability.
- Technology.
- Transactions & business events.

Dbriefs also provides a convenient and flexible way to earn CPE credit — right at your desk. Join *Dbriefs* to receive notifications about future webcasts at www.deloitte.com/us/dbriefs.

Registration is available for this upcoming *Dbriefs* webcast. Use the link below to register:

- [Year-End Reporting: An Update on Current Issues and Items on the Horizon](#) (January 10, 2 p.m. (EST)).

Technical Library: The Deloitte Accounting Research Tool

Deloitte makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, the EITF, the AICPA, the PCAOB, the IASB, and the SEC, in addition to Deloitte's own accounting and SEC manuals and other interpretive accounting and SEC guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. In addition, Technical Library subscribers receive *Technically Speaking*, the weekly publication that highlights recent additions to the library.

For more information, including subscription details and an online demonstration, visit www.deloitte.com/us/techlibrary.

Heads Up is prepared by the National Office Accounting Standards and Communications Group of Deloitte as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Copyright © 2010 Deloitte Development LLC. All rights reserved.