

# IASB Disclosure Initiative and Management Commentary Practice Statement

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## Better Communication in Financial Reporting

Financial statements

Outside the  
financial statements

**Content**

Primary  
Financial  
Statements

Disclosure  
Initiative

Management  
Commentary

**Delivery**

IFRS Taxonomy



# Disclosure Initiative

# Overview

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- Disclosure problem
- Completed projects
- Definition of material
- Principles of disclosure
- Targeted level review of disclosures

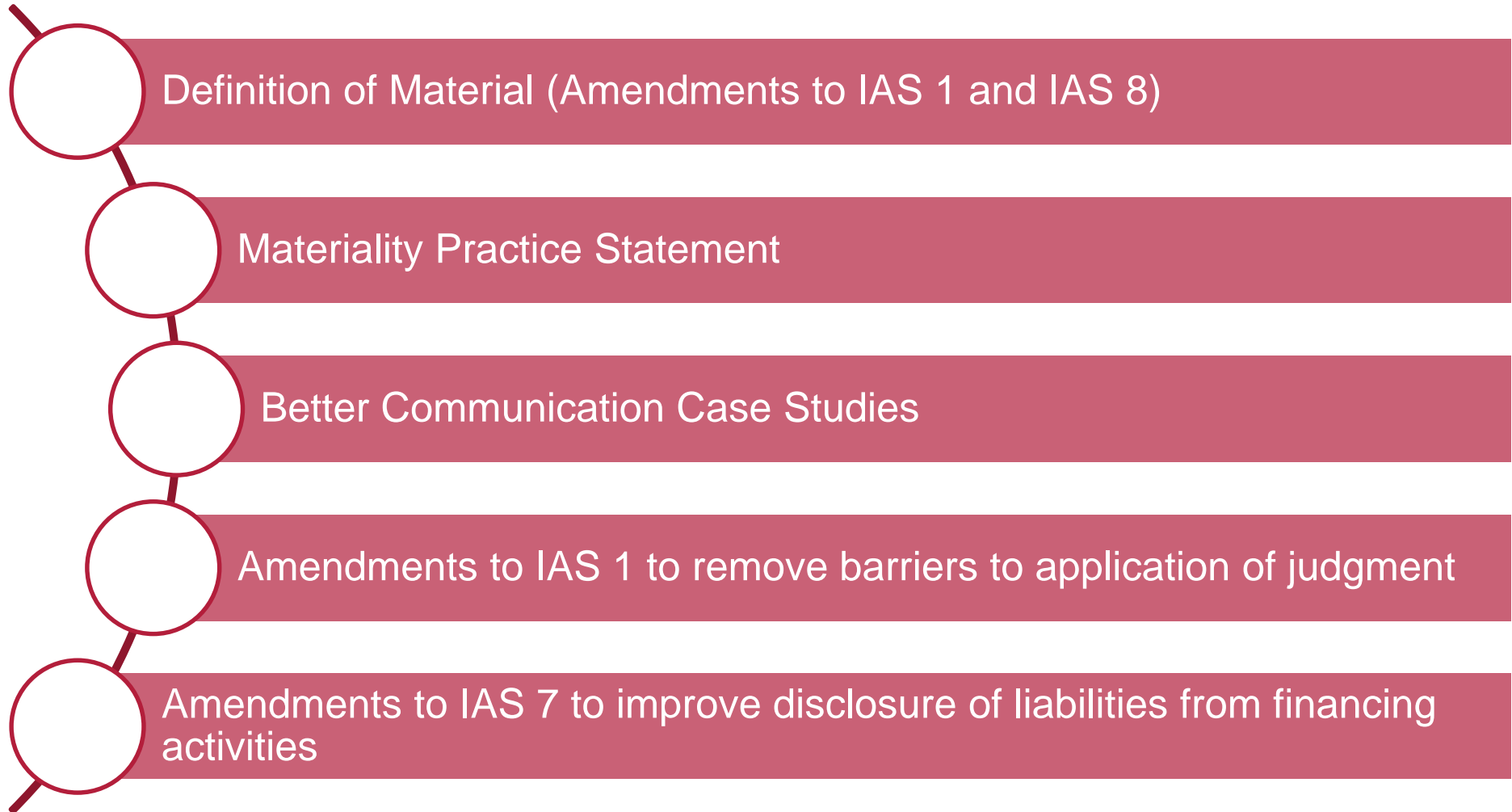
# Disclosure Initiative— the disclosure problem

- The Board has identified three main concerns about disclosures in financial statements:
  - not enough relevant information
  - too much irrelevant information
  - ineffective communication



# Disclosure Initiative—completed projects

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# Definition of Material

## New definition

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity



Some think the threshold 'could influence' is too low and could be applied too broadly

Replaces with 'could reasonably be expected to influence'\*

Focused only on information that cannot be omitted (material information)

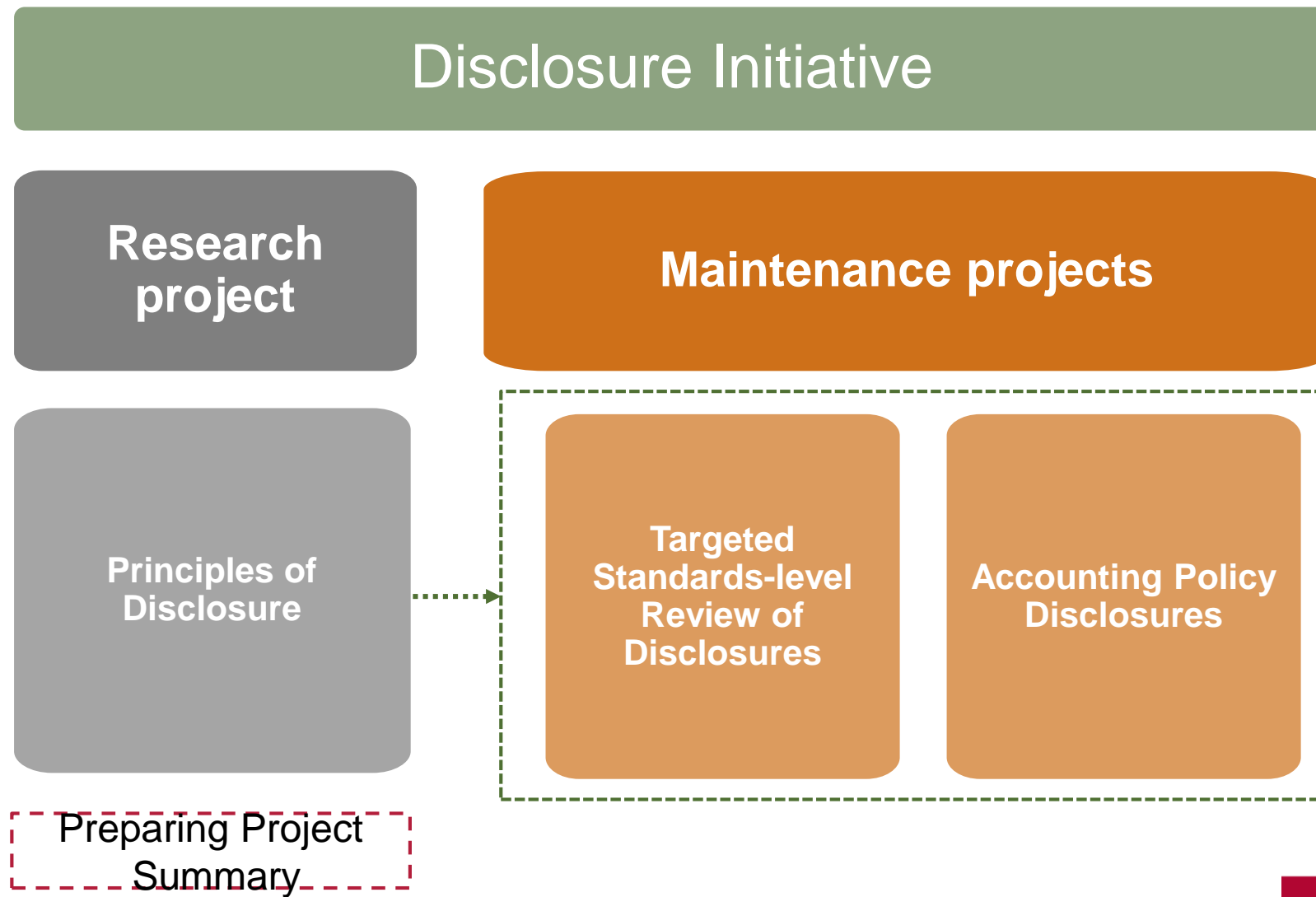
Includes 'obscuring' to clarify that the effect of including immaterial information should also be considered\*

Referred to 'users' but does not specify their characteristics

Uses the wording of the definition in the *Conceptual Framework*

\*Consistent with existing requirements in IAS 1 *Presentation of Financial Statements*

# Disclosure Initiative—active projects





# Principles of Disclosure

March 2017 *Disclosure Initiative—Principles of Disclosure* Discussion Paper



Board's response

1

To help address the main disclosure problem, added a project to **undertake a targeted Standards-level review of disclosure requirements**

2

To help entities apply materiality judgments to accounting policy disclosure, added a project to develop guidance and examples

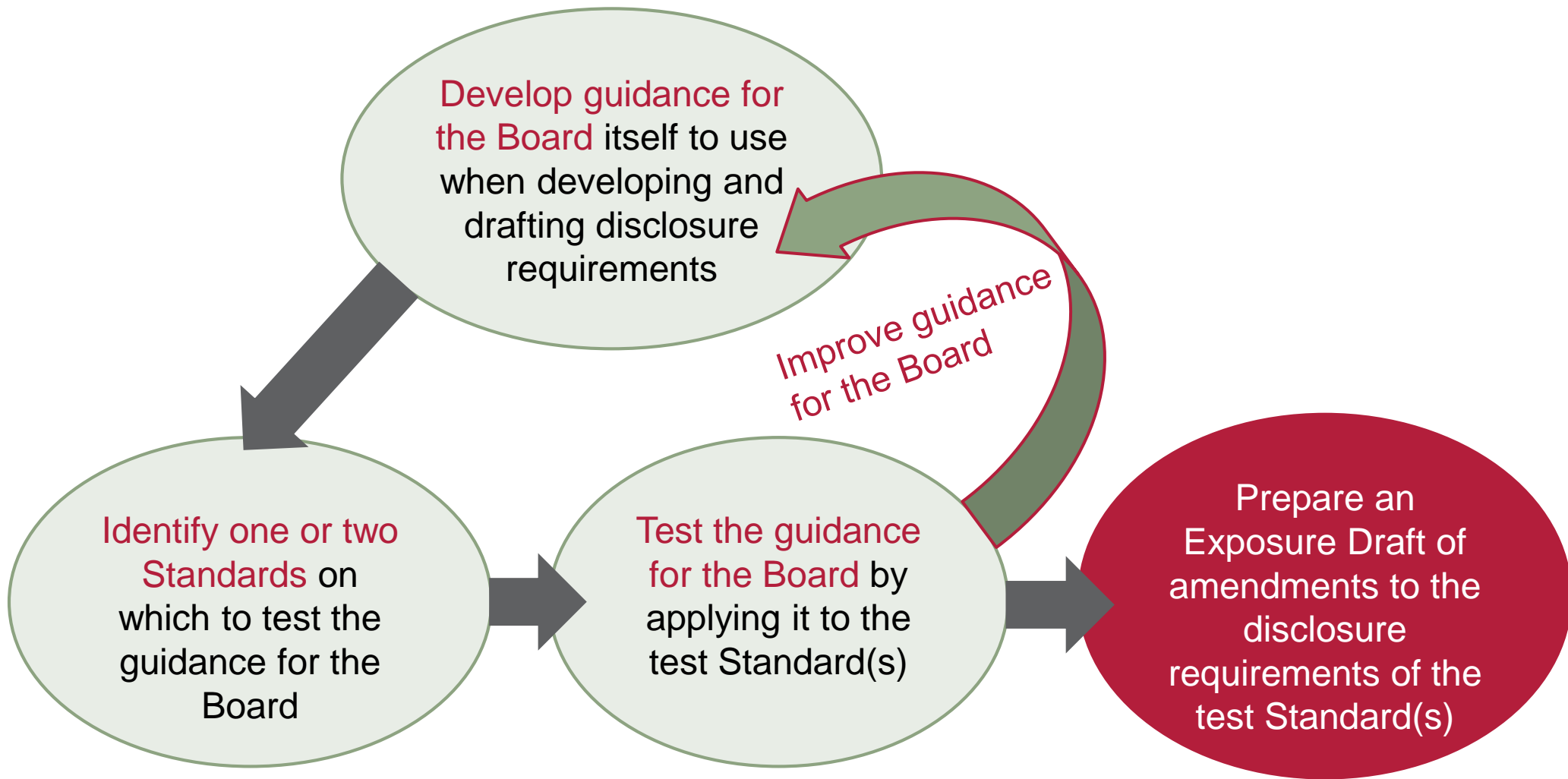
3

To respond to feedback received about electronic reporting, incorporate considerations about technology neutral disclosure requirements as part of its targeted Standards-level review of disclosure requirements project.

4

Consider issues relating to the broader implications of technology on financial reporting within the IFRS Foundation's Technology Initiative

# Targeted Standards-level Review of Disclosures



# Targeted Standards-level Review of Disclosures—**Guidance for the Board**

## **Step 1:** How the Board will use disclosure objectives in future

- Base all disclosure requirements on one or more specific disclosure objectives
- Objectives explain **why** the information is useful to primary users and **what** the primary users are expected to do with the information
- Continue to use ‘catch-all’ disclosure objectives within individual IFRS Standards

## **Step 2:** What process will the Board use to develop the content of the disclosure objectives and requirements

- Better involvement of stakeholders—in particular, primary users and preparers
- Consider disclosure objectives and requirements at all stages of the project
- Leverage the expertise of the IFRS Taxonomy team in the process

## **Step 3:** How the Board will draft disclosure objectives and requirements

- Use prescriptive language to require entities to comply with disclosure objectives in the Standards
- Use *less* prescriptive language when referring to specific items of information for disclosure
- Maximise the use of consistent language across the disclosure requirements in IFRS Standards
- Leverage existing requirements and guidance, for example avoiding duplication and inconsistency within IFRS Standards
- Rely on IAS 1 description of materiality as pervasive rather than refer to materiality in the disclosure sections of individual IFRS Standards

# Targeted Standards-level Review of Disclosures—**Testing Standards**

- The Board is testing the draft Guidance for the Board on:

**IAS 19**  
*Employee Benefits*

**IFRS 13**  
*Fair Value Measurement*

- Stakeholders provided feedback that both Standards have all of the following problems:

1 Lack of, or insufficient disclosure objectives

2 Disclosure requirements that are:

Duplicative

Lengthy

Incomplete

Not useful

Costly to produce

Difficult to understand

Overly prescriptive

3 Disclosure requirements that often result in insufficient or boilerplate information in the financial statements



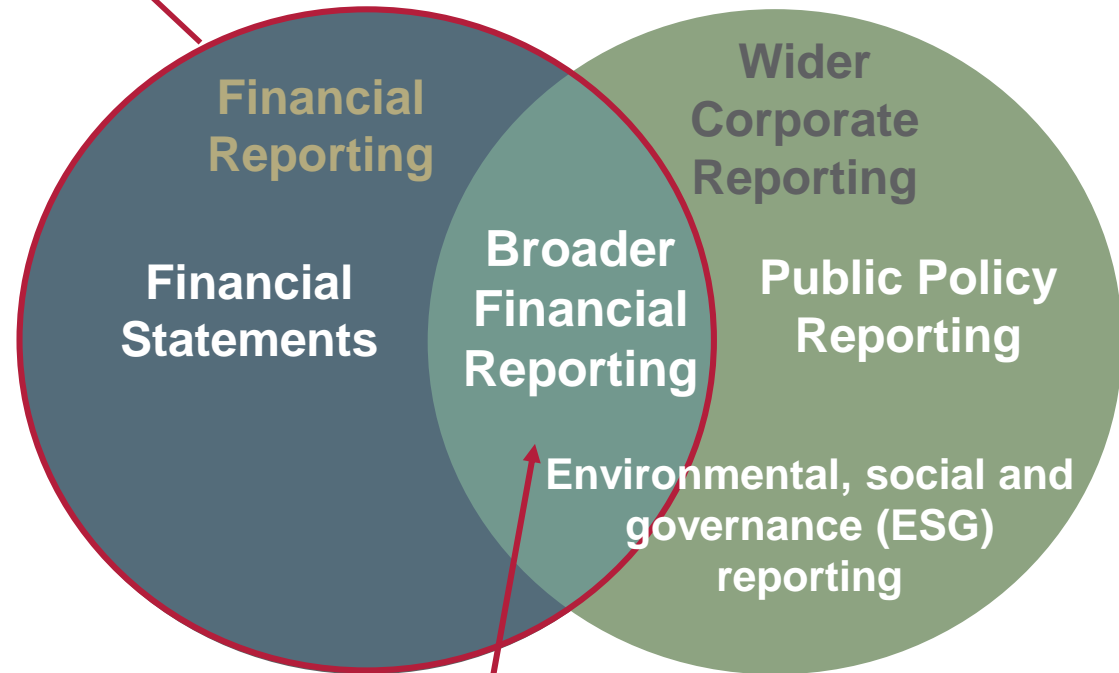
# Management Commentary

- Scope of the Board's interest
- Project timeline
- What is management commentary?
- Reasons for updating the Management Commentary Practice Statement
- Staff's proposed approach to an update
- What could a revised Management Commentary Practice Statement cover?

# Scope of the Board's interest

The Board's interest lies in financial reporting

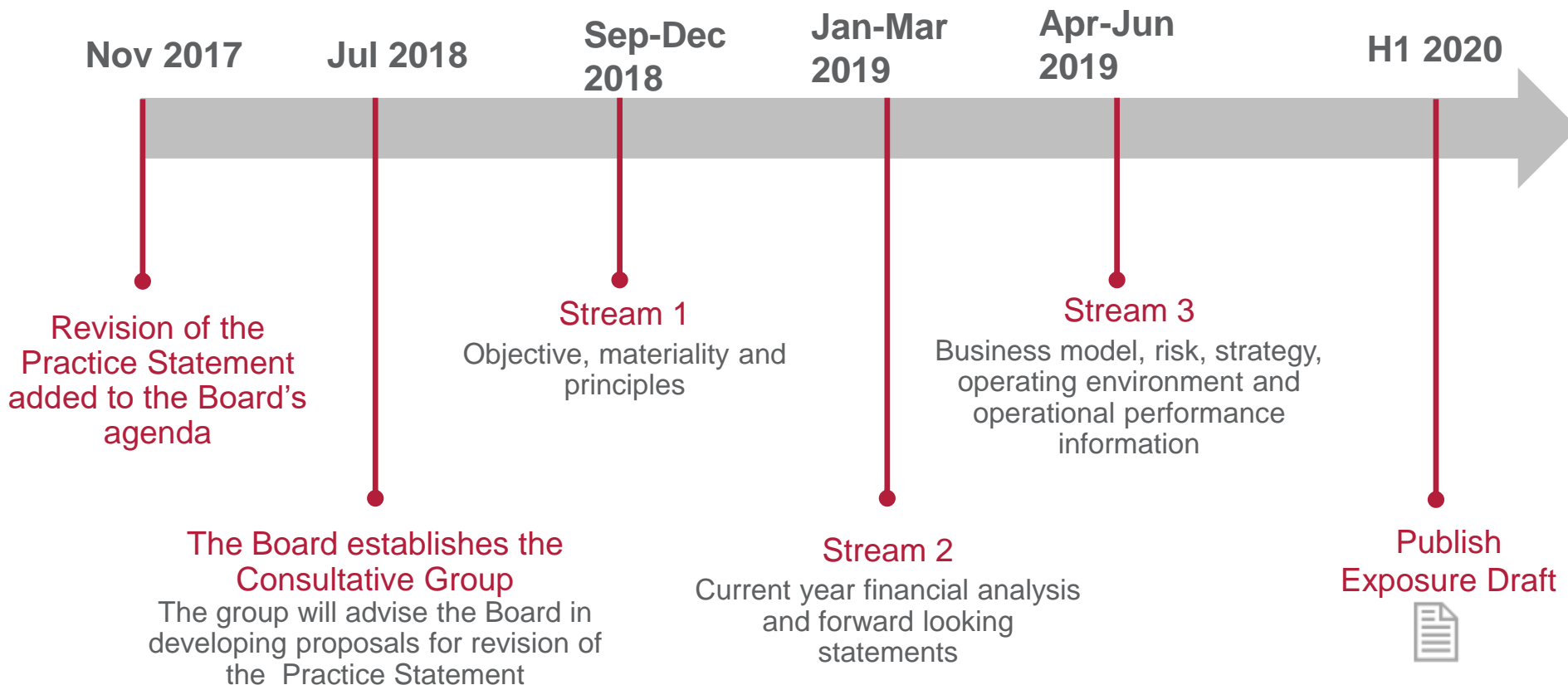
The Board's interest remains within the boundaries of financial reporting and is focused on the primary users of financial reports. The **primary users** of financial reports are defined in the *Conceptual Framework for Financial Reporting* as **existing and potential investors, lenders and other creditors**.



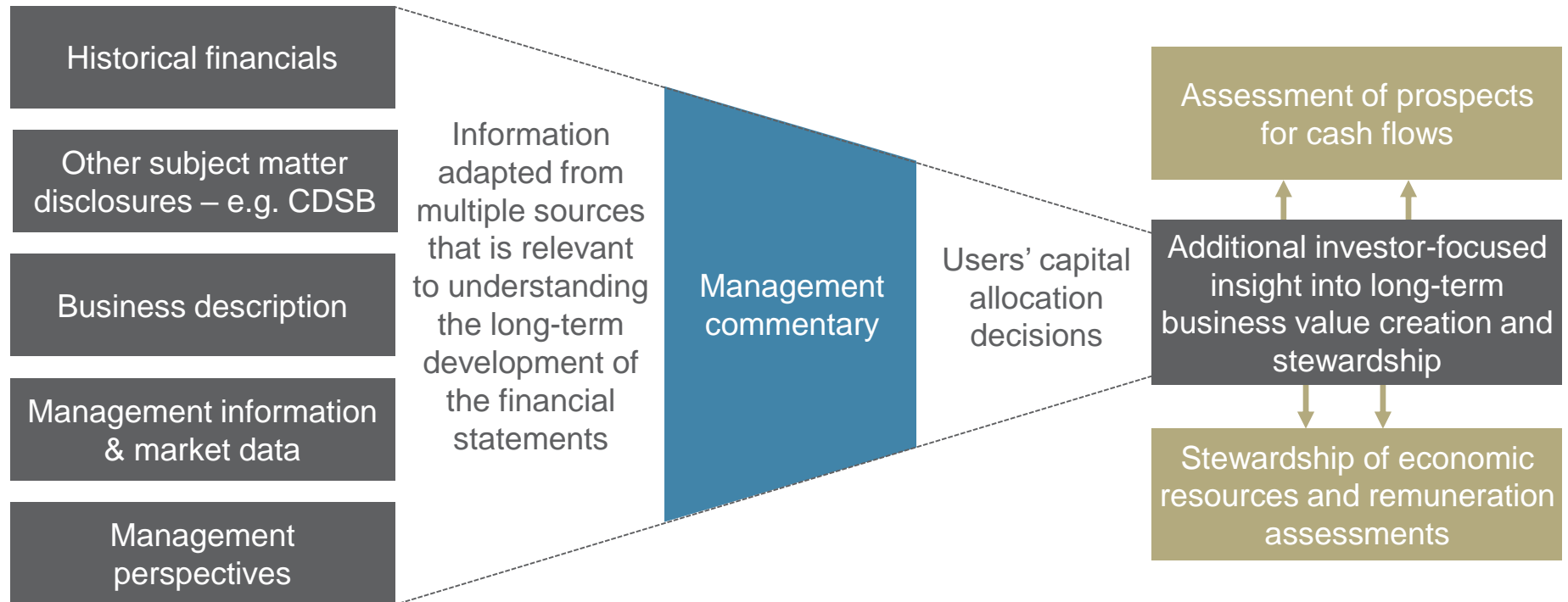
Management commentary is a narrative report aimed at primary users of financial reports that provides context for and additional insight into an entity's financial statements.



# Project timeline

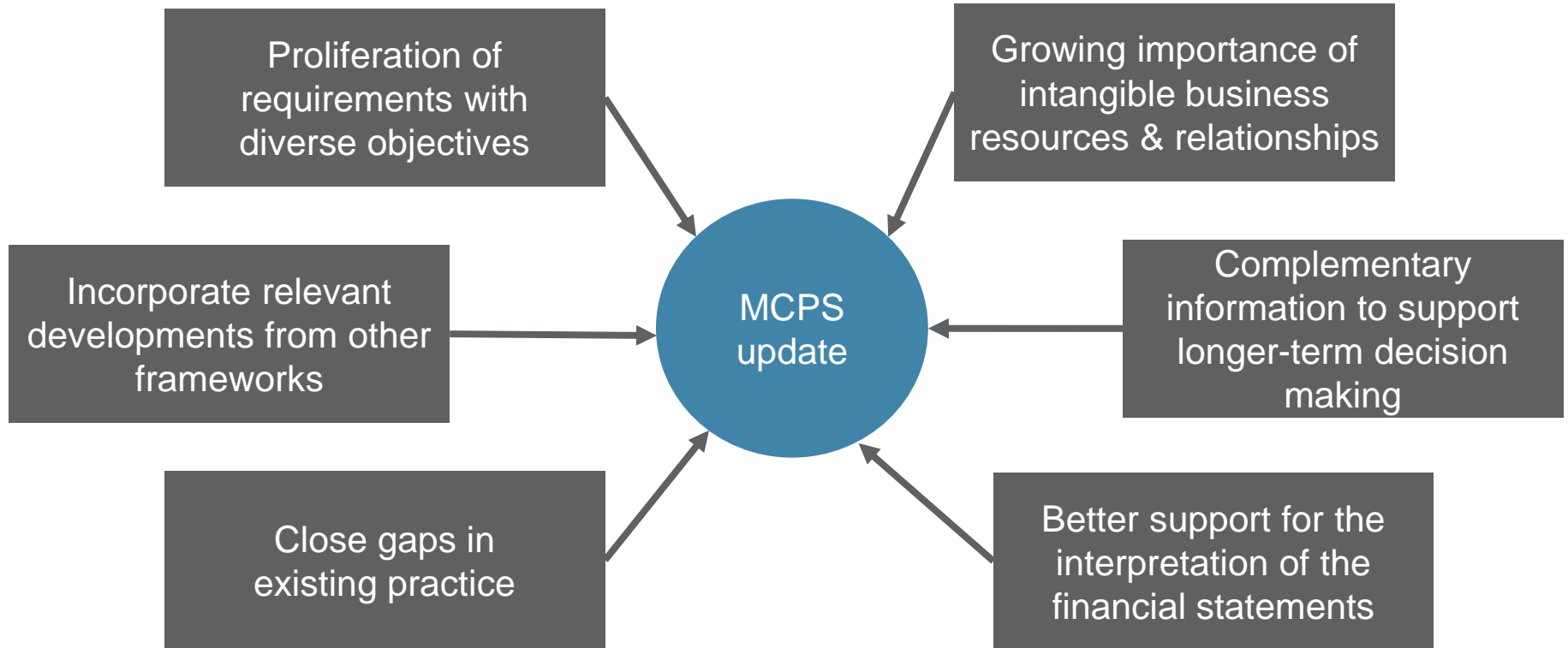


# What is management commentary?



The **Management Commentary Practice Statement (MCPS)** provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements prepared applying IFRS Standards. The MCPS focuses on what's relevant to the unique circumstances of the business. It does not prescribe detailed industry or issue-specific disclosures.

# Reasons for updating the MCPS



In November 2017 the Board added to its agenda a project to update the Management Commentary Practice Statement.

# Staff's proposed approach to an update

## The current Management Commentary Practice Statement:

A principles based non-binding framework for presenting investor-relevant narrative content based on the specific circumstances of the business

*This is not expected to change, but the update could support a more rigorous approach to determining which matters to address and the information to provide in the management commentary*



## Recent developments:

- Innovations from International Integrated Reporting Framework and national narrative reporting frameworks build on MCPS
- Acknowledged gaps in practice, including:
  - inconsistent business model reporting
  - short-term strategic focus
  - continuing challenges in reporting pre-financial indicators
- Growing frustration with investment and management short-termism



## Key concepts expected to drive the update:

Value creation puts more emphasis on long term prospects

Business model and strategy provide a focus for building the report

Integration and linkage ensure key issues are followed across the report

Key resources and intangibles further support a long-term focus

Materiality—when to report a matter and the information to provide

*It is not envisaged that the update will prescribe detailed industry or subject-matter specific measures*

# What could a revised MCPS cover?

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## Management commentary

Information relevant to understanding the future development of the financial statements

### Business model, risk, strategy and operating environment

Qualitative and quantitative information on:

- the operational position of the business
- the factors affecting its future development

foundation for a performance discussion focused on long-term business success

### Current year financial analysis

- Explanation of current year financial performance and position
- Additional / non-GAAP financial analysis

### Pre-financial Information

Pre-financial information and explanations that provide insight into:

- business progress
  - implications for future financial performance
- Covers resources and relationships key to value creation

### Forward-looking statements

Explaining statements of forecast and target financial and non-financial expectations (*where made*)

+ Linkage to governance and remuneration disclosures

**Insight** into the company's **strategy** for creating shareholder value over time, its **progress** in implementing it, and the **potential impact** on future financial performance **not yet captured** by the financial statements

## Business model, risk, strategy and operating environment

Qualitative and quantitative information on:

- the operational position of the business
- the factors affecting its future development

### *Illustrations:*

- ‘80% of our sales derive from existing relationships with lead contractors...’
- ‘...to build on this, we plan to sell red widgets to all our blue widget customers’
- ‘Our competitive strength is in engineers’ know-how. Their retention is a priority’

## Current year financial analysis

- Explanation of current year financial performance and position
- Additional / non-GAAP financial analysis

### *Illustrations:*

- ‘Total capex includes \$m to enhance existing stores’
- ‘Organic earnings growth was % after allowing for...’
- ‘Gross margin fell due to operational issues at...’

An explanation of how the business generates value and the factors expected to materially affect this in the short and longer term

Interpretation and analysis of historical financial information

# Illustrations (continued)

## Non-financial information

Pre-financial information and explanations that provide insight into:

- business progress
- implications for future financial performance

Covers resources and relationships key to value creation

### *Illustrations:*

- Shorter-term:
  - Sales order-book
  - Headcount reductions
- Longer term:
  - Customer wins and retention
  - Store upgrade progress
  - Product quality measures
  - R&D staff retention

## Forward-looking statements

Explaining statements of forecast and target financial and non-financial expectations (*where made*)

### *Illustrations:*

- Shorter-term:
  - Forecast sales growth %
- Longer term:
  - ‘target 20% penetration of the red widget market by 2020’
  - ‘targeting a 50% reduction in carbon emissions to meet potential regulatory change’

Historical non-financial information relevant to an understanding of future financial performance and position in both the short and longer term

Management’s view of future outcomes including the factors expected to drive them

# Get involved

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