

IFRS Briefing Sheet

IASB issues Discussion Paper on *Management Commentary*

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This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB's) publication of the Discussion Paper on *Management Commentary*.

The Discussion Paper was prepared for the IASB by staff of its partner standard-setters and others. The paper considers the role of the IASB in improving the quality of the Management Commentary (MC) that accompanies financial statements and includes proposals for the main components of a standard.

Background

In October 2002, the IASB and its partner national standard-setters agreed to examine the potential for an IASB standard(s) or guidance covering the MC. They believed that guidance on this topic was needed and that

preparers of financial statements were looking to the IASB and the International Organisation of Securities Commissions (IOSCO) to provide it. The paper acknowledges that requirements for some form of MC exist in many jurisdictions (though it is given different names) and that any IASB standard or guidance would need to sit alongside those requirements. The paper analyses existing requirements in several jurisdictions to find common principles.

Key Conclusions and Proposals

The paper proposes that the IASB develop a principle-based standard on the presentation of an MC. In the short-term the standard should be voluntary or mandatory only when required by a local regulator. Ultimately, compliance with the standard should be a prerequisite for compliance with IFRSs (Discussion Paper, paragraph 228).

The paper concludes that the MC should:

- accompany the financial statements, but not form part of them (paragraph 23)
- focus on the information needs of investors, not be expanded to fulfil the needs of an extended range of users and not replace other forms of reporting (e.g., corporate social reporting) that is aimed at a wider stakeholder group (paragraph 30)

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- supplement and complement financial statements and have an orientation to the future, for example, including forward looking information on strategies and prospects (paragraph 39)
- be prepared through the eyes of management (paragraph 39) with the onus on management to decide the content of the MC and its presentation, though the paper identifies the following key areas on which information should be provided (paragraph 100):
 - the nature of the business
 - its objectives and strategies
 - its key resources, risks and relationships
 - its results and prospects
 - its performance measures and indicators
- include only information that meets the following qualitative characteristics, similar but not the same as those in the IASB's framework: understandability, relevance, supportability, balance and comparability over time (paragraph 61)

- include both financial and non-financial information about the business and its performance that is not reported in the financial statements (paragraph 43).

The paper proposes that the IASB should use placement criteria to determine whether information should be required to be disclosed in the financial statements or included in the MC (paragraph 169). The criteria are described as:

- information should be disclosed in the MC if it provides information that places the financial statements into the context of the entity and its operating environment
- information should be disclosed in the financial statements themselves if it is necessary in understanding the primary financial statements and its elements (paragraph 169).

The paper acknowledges that the placement of information either in the notes to the financial statements or in the MC may impact upon the

assurance provided over that information (paragraph 186-194).

The paper concludes that some standardisation of non-IFRS performance measures (financial and non-financial) is likely to be needed to enhance consistency (paragraphs 144-150). It may be appropriate for such standardisation to be pursued by industry groups (or others) rather than the IASB (paragraph 150).

The paper sets out in an appendix the core components of an IASB standard on MC (appendix A).

Response to the IASB

The IASB has invited comments on the discussion paper by 28 April 2006.

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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