IFRS Practice Statement 1

Management Commentary
A framework for presentation

IFRS Practice Statement 1 *Management Commentary* was issued in December 2010 for application from 8 December 2010. The text of the Basis for Conclusions is contained in Part C of this edition.

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FOR THE BASIS FOR CONCLUSIONS, SEE PART C OF THIS EDITION

IFRS Practice Statement 1 *Management Commentary* is set out in paragraphs 1–41 and the Appendix. Terms defined in the Appendix are in *italics* the first time they appear in the Practice Statement. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. The Practice Statement should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*.

Introduction

Purpose of the Practice Statement

IN1 The IFRS Practice Statement *Management Commentary* provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements that have been prepared in accordance with International Financial Reporting Standards (IFRSs).

IN2 The Practice Statement is not an IFRS. Consequently, entities applying IFRSs are not required to comply with the Practice Statement, unless specifically required by their jurisdiction. Furthermore, non-compliance with the Practice Statement will not prevent an entity's financial statements from complying with IFRSs, if they otherwise do so.

What is management commentary?

IN3 Management commentary is a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity. It also provides management with an opportunity to explain its objectives and its strategies for achieving those objectives. Users routinely use the type of information provided in management commentary to help them evaluate an entity's prospects and its general risks, as well as the success of management's strategies for achieving its stated objectives. For many entities, management commentary is already an important element of their communication with the capital markets, supplementing as well as complementing the financial statements.

How to apply the Practice Statement

IN4 The Practice Statement is prepared on the basis that management commentary lies within the boundaries of financial reporting because it meets the definition of other financial reporting in paragraph 7 of the *Preface to International Financial Reporting Standards*. Therefore management commentary is within the scope of the *Conceptual Framework for Financial Reporting*. Consequently, the Statement should be read in the context of the *Conceptual Framework*.

IN5 The Practice Statement sets out the principles, qualitative characteristics and elements of management commentary that are necessary to provide users of financial reports with useful information. However, the form and content of management commentary may vary by entity. Thus, the Statement also provides principles to enable entities to adapt the information they provide to the particular circumstances of their business, including the legal and economic circumstances of individual jurisdictions. This flexible approach will generate more meaningful disclosure by encouraging entities that choose to present management commentary to discuss those matters that are most relevant to their individual circumstances.

IN6 The Practice Statement refers to 'management' as the persons responsible for the decision-making and oversight of the entity. They may include executive employees, key management personnel and members of a governing body.[1]

1 See paragraphs BC31 and BC32 for additional information.

IFRS Practice Statement *Management Commentary*

Objective

1 The objective of the Practice Statement is to assist management in presenting useful *management commentary* that relates to financial statements that have been prepared in accordance with International Financial Reporting Standards (IFRSs).

Scope

2 The Practice Statement applies only to management commentary and not to other information presented in either the financial statements or the broader financial reports.

3 The Practice Statement should be applied by entities that present management commentary that relates to financial statements prepared in accordance with IFRSs.

4 The Practice Statement does not mandate which entities should be required to publish management commentary, how frequently an entity should do so or the level of assurance to which management commentary should be subjected.

Identification of management commentary

5 When management commentary relates to financial statements, an entity should either make the financial statements available with the commentary or identify in the commentary the financial statements to which it relates.

6 Management should identify clearly what it is presenting as management commentary and distinguish it from other information.

7 When management commentary is presented, management should explain the extent to which the Practice Statement has been followed. An assertion that management commentary complies with the Practice Statement can be made only if it complies with the Statement in its entirety.

Users of management commentary

8 Management should determine the information to include in management commentary considering the needs of the primary users of financial reports. Those users are existing and potential investors, lenders and other creditors.

Framework for the presentation of management commentary

Purpose

9 Management commentary should provide users of financial statements with integrated information that provides a context for the related financial statements. Such information explains management's view not only about what

has happened, including both positive and negative circumstances, but also why it has happened and what the implications are for the entity's future.

10 Management commentary complements and supplements the financial statements by communicating integrated information about the entity's resources and the claims against the entity and its resources, and the transactions and other events that change them.

11 Management commentary should also explain the main trends and factors that are likely to affect the entity's future performance, position and *progress*. Consequently, management commentary looks not only at the present, but also at the past and the future.

Principles

12 Management should present commentary that is consistent with the following principles:

(a) to provide management's view of the entity's performance, position and progress; and

(b) to supplement and complement information presented in the financial statements.

13 In aligning with those principles, management commentary should include:

(a) *forward-looking information*; and

(b) information that possesses the qualitative characteristics described in the *Conceptual Framework for Financial Reporting*.

14 Management commentary should provide information to help users of the financial reports to assess the performance of the entity and the actions of its management relative to stated strategies and plans for progress. That type of commentary will help users of the financial reports to understand, for example:

(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.

Management's view

15 Management commentary should provide management's perspective of the entity's performance, position and progress. Management commentary should derive from the information that is important to management in managing the business.

Supplement and complement the financial statement information

16 Management commentary should supplement and complement the financial statements with explanations of the amounts presented in the financial statements and the conditions and events that shaped that information. Management commentary should also include information about the entity and

its performance that is not presented in the financial statements but is important to the management of the entity.

Forward-looking information

17 Management commentary should communicate 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. The extent to which management commentary looks forward will be influenced by the regulatory and legal environment within which the entity operates.

18 Management should include forward-looking information when it is aware of trends, uncertainties or other factors that could affect the entity's liquidity, capital resources, revenues and the results of its operations. Such information should focus on the extent to which the entity's financial position, liquidity and performance may change in the future and why, and include management's assessment of the entity's prospects in the light of current period results. Management should provide forward-looking information through narrative explanations or through quantified data, which may—but are not required to—include projections or forecasts. Management should disclose the assumptions used in providing forward-looking information.

19 Management should explain how and why the performance of the entity is short of, meets or exceeds forward-looking disclosures made in the prior period management commentary. For example, if management stated targets for future performance in previous reporting periods, it should report the entity's actual performance in the current reporting period and analyse and explain significant variances from its previously stated targets as well as the implications of those variances for management's expectations for the entity's future performance.

Qualitative characteristics of useful information

20 Information in management commentary should possess the fundamental qualitative characteristics of *relevance* and *faithful representation*. Information in management commentary should also maximise the enhancing qualitative characteristics of *comparability*, *verifiability*, *timeliness* and *understandability*.

Materiality

21 Management should include information that is material to the entity in management commentary. *Materiality* will be different for each entity. Materiality is an 'entity-specific aspect of relevance'; thus information that is relevant for an entity will also be material.

Presentation

22 Management commentary should be clear and straightforward. The form and content of management commentary will vary between entities, reflecting the nature of their business, the strategies adopted by management and the regulatory environment in which they operate.

23 Management commentary should be presented with a focus on the most important information in a manner intended to address the principles described in this Practice Statement. Specifically:

(a) Management commentary should be consistent with its related financial statements. If the financial statements include segment information, the information presented in the management commentary should reflect that segmentation.

(b) When practicable, management should avoid duplicating in its management commentary the disclosures made in the notes to its financial statements. Reciting financial statement information without analysis, or presenting boilerplate discussions that do not provide insight into the entity's past performance or prospects, is unlikely to provide information that is useful to users of the financial reports and may create an obstacle for users to identify and understand the most significant matters facing the entity.

(c) Management should also avoid generic disclosures that do not relate to the practices and circumstances of the entity and immaterial disclosures that make the more important information difficult to find.

Elements of management commentary

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

(a) the nature of the business;

(b) management's objectives and its strategies for meeting those objectives;

(c) the entity's most significant resources, risks and relationships;

(d) the results of operations and prospects; and

(e) the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.

25 The elements are not listed in a specific order. They are, however, related and should not be presented in isolation. Management should provide its perspective on the business and its analysis of the interaction of the elements to help users to understand the entity's financial statements and to understand management's objectives and strategies for achieving those objectives.

Nature of the business

26 Management should provide a description of the business to help users of the financial reports to gain an understanding of the entity and of the external environment in which it operates. That information serves as a starting point for assessing and understanding an entity's performance, strategic options and prospects. Depending on the nature of the business, management commentary may include an integrated discussion of the following types of information:

(a) the industries in which the entity operates;

(b) the entity's main markets and competitive position within those markets;

(c) significant features of the legal, regulatory and macro-economic environments that influence the entity and the markets in which the entity operates;

(d) the entity's main products, services, business processes and distribution methods; and

(e) the entity's structure and how it creates value.

Objectives and strategies

27 Management should disclose its objectives and strategies in a way that enables users of the financial reports to understand the priorities for action as well as to identify the resources that must be managed to deliver results. For example, information about how management intends to address market trends and the threats and opportunities those market trends represent provides users of the financial reports with insight that may shape their expectations about the entity's future performance. Management should also explain how success will be measured and over what period of time it should be assessed.

28 Management should discuss significant changes in an entity's objectives and strategies from the previous period or periods. Discussion of the relationship between objectives, strategy, management actions and executive remuneration is also helpful.

Resources, risks and relationships

29 Management commentary should include a clear description of the most important resources, risks and relationships that management believes can affect the entity's value and how those resources, risks and relationships are managed.

Resources

30 Management commentary should set out the critical financial and non-financial resources available to the entity and how those resources are used in meeting management's stated objectives for the entity. Disclosure about resources depends on the nature of the entity and on the industries in which the entity operates. Analysis of the adequacy of the entity's capital structure, financial arrangements (whether or not recognised in the statement of financial position), liquidity and cash flows, and human and intellectual capital resources, as well as plans to address any surplus resources or identified and expected inadequacies, are examples of disclosures that can provide useful information.

Risks

31 Management should disclose an entity's principal risk exposures and changes in those risks, together with its plans and strategies for bearing or mitigating those risks, as well as disclosure of the effectiveness of its risk management strategies. This disclosure helps users to evaluate the entity's risks as well as its expected outcomes. Management should distinguish the principal risks and uncertainties facing the entity, rather than listing all possible risks and uncertainties.

32 Management should disclose its principal strategic, commercial, operational and financial risks, which are those that may significantly affect the entity's strategies and progress of the entity's value. The description of the principal risks facing the entity should cover both exposures to negative consequences and potential opportunities. Management commentary provides useful information when it discusses the principal risks and uncertainties necessary to understand management's objectives and strategies for the entity. The principal risks and uncertainties can constitute either a significant external or internal risk to the entity.

Relationships

33 Management should identify the significant relationships that the entity has with stakeholders, how those relationships are likely to affect the performance and value of the entity, and how those relationships are managed. This type of disclosure helps users of the financial reports to understand how an entity's relationships influence the nature of its business and whether an entity's relationships expose the business to substantial risk.

Results and prospects

34 Management commentary should include a clear description of the entity's financial and non-financial performance, the extent to which that performance may be indicative of future performance and management's assessment of the entity's prospects. Useful disclosure on those matters can help users to make their own assessments about the entity's performance, position, progress and prospects.

Results

35 Management commentary should include explanations of the performance and progress of the entity during the period and its position at the end of that period. Those explanations provide users of the financial reports with insight into the main trends and factors affecting the business. In providing those explanations, management should describe the relationship between the entity's results, management's objectives and management's strategies for achieving those objectives. In addition, management should provide discussion and analysis of significant changes in financial position, liquidity and performance compared with those of the previous period or periods, as this can help users to understand the extent to which past performance may be indicative of future performance.

Prospects

36 Management should provide an analysis of the prospects of the entity, which may include targets for financial and non-financial measures. This information can help users of the financial reports to understand how management intends to implement its strategies for the entity over the long term. When targets are quantified, management should explain the risks and assumptions necessary for users to assess the likelihood of achieving those targets.

Performance measures and indicators

37 Performance measures are quantified measurements that reflect the critical success factors of an entity. Indicators can be narrative evidence describing how the business is managed or quantified measures that provide indirect evidence of performance. Management should disclose performance measures and indicators (both financial and non-financial) that are used by management to assess progress against its stated objectives. Management should explain why the results from performance measures have changed over the period or how the indicators have changed. This disclosure can help users of the financial reports assess the extent to which goals and objectives are being achieved.

38 The performance measures and indicators that are most important to understanding an entity are those that management uses to manage that entity. The performance measures and indicators will usually reflect the industry in which the entity operates. Comparability is enhanced if the performance measures and indicators are accepted and used widely, either within an industry or more generally. Management should explain why the performance measures and indicators used are relevant.

39 Consistent reporting of performance measures and indicators increases the comparability of management commentary over time. However, management should consider whether the performance measures and indicators used in the previous period continue to be relevant. As strategies and objectives change, management might decide that the performance measures and indicators presented in the previous period's management commentary are no longer relevant. When management changes the performance measures and indicators used, the changes should be identified and explained.

40 If information from the financial statements has been adjusted for inclusion in management commentary, that fact should be disclosed. If financial performance measures that are not required or defined by IFRSs are included within management commentary, those measures should be defined and explained, including an explanation of the relevance of the measure to users. When financial performance measures are derived or drawn from the financial statements, those measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IFRSs.

Application date

41 An entity may apply this Practice Statement to management commentary presented prospectively from **8 December 2010**.

Appendix
Defined terms

This appendix is an integral part of the Practice Statement.

forward-looking information	Information about the future. It includes information about the future (for example, information about prospects and plans) that may later be presented as historical information (ie results). It is subjective and its preparation requires the exercise of professional judgement.
management commentary	A narrative report that relates to financial statements that have been prepared in accordance with IFRSs. Management commentary provides users with historical explanations of the amounts presented in the financial statements, specifically the entity's financial position, financial performance and cash flows. It also provides commentary on an entity's prospects and other information not presented in the financial statements. Management commentary also serves as a basis for understanding management's objectives and its strategies for achieving those objectives.
progress	Reflects how the entity has grown or changed in the current year, as well as how it expects to grow or change in the future.

The following terms are used in the Practice Statement with the meanings specified in the *Conceptual Framework for Financial Reporting*:

(a) comparability

(b) faithful representation

(c) materiality

(d) relevance

(e) timeliness

(f) understandability

(g) verifiability.