

# Disclosure initiative and Management commentary 揭露倡議及管理階層評論

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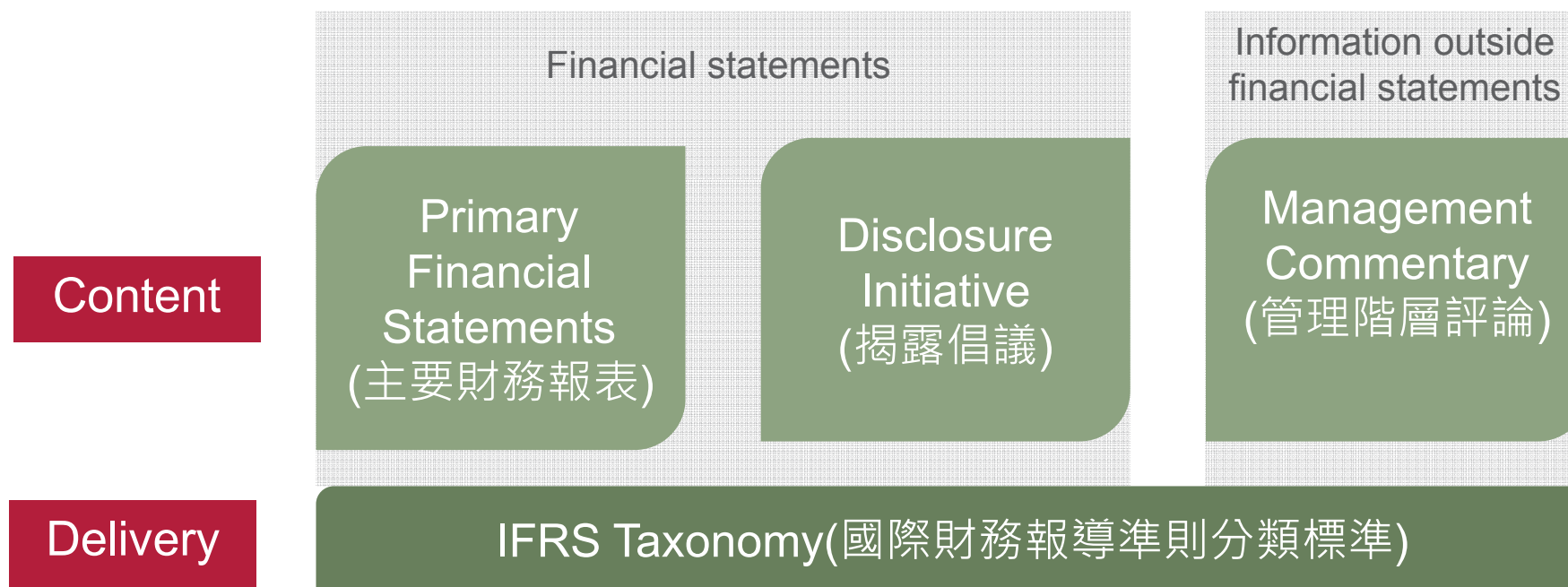


*Better Communication in  
Financial Reporting*  
財務報導之更佳溝通

# Central theme of the Board's work

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## Better Communication in Financial Reporting(財務報導之更佳溝通)





# Disclosure Initiative

揭露倡議

# Disclosure Initiative—the disclosure problem

- The Board has identified three main concerns about disclosures in financial statements:
  - not enough relevant information(攸關之資訊不夠)
  - too much irrelevant information(過多非攸關資訊)
  - ineffective communication(無效之溝通)



# Disclosure Initiative—completed projects

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Amendments to IAS 1 and IAS 8—Definition of Material(對IAS 1及IAS 8之修正—重大之定義)

Materiality Practice Statement(重大性實務聲明書)

Better Communication Case Studies(更佳溝通之個案研究)

Amendments to IAS 1 to remove barriers to application of judgment(修正IAS1以消除運用判斷之障礙)

Amendments to IAS 7 to improve disclosure of changes in liabilities (including non-cash flows) in financing activities(修正IAS7以改善對籌資活動中負債之變動之揭露)

# Disclosure Initiative—Definition of Material(重大之定義) (Amendments to IAS 1 and IAS 8)

## New definition

Information is material if omitting(遺漏), misstating(誤述) or obscuring(模糊) it could reasonably be expected to influence(可被合理預期影響) 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— Materiality Practice Statement(重大性實務聲明書)

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## IFRS Practice Statement 2 *Making Materiality Judgements*

國際財務報導準則實務聲明書第2號「重大性之判斷」



**Gathers in one place all the requirements on materiality from IFRS Standards and adds practical guidance and examples**

### Objective

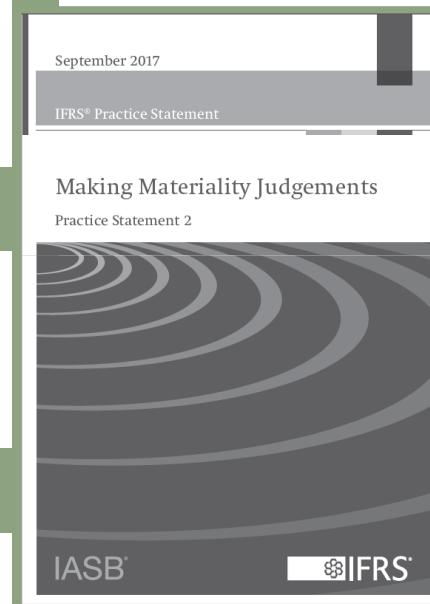


**Provides reporting entities with guidance on making materiality judgements when preparing financial statements in accordance with IFRS Standards**

### Form of the guidance



**The Practice Statement does not change any existing requirements nor introduce any new requirements; it is a non-mandatory document developed by the Board**





# Disclosure Initiative— Better Communication case studies(更佳溝通之個案研究)

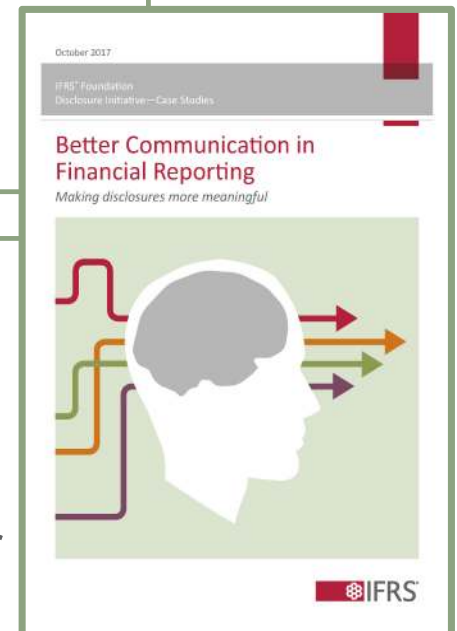
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## Objective

- demonstrate that **better communication is already possible** (更佳之溝通已經是可能的)
- inspire others to improve communication

## Content

- focuses on the **seven principles of effective communication** (有效溝通之七項原則) from the Principles of Disclosure Discussion Paper
- shows how companies disclosed information before and after enhancing communication in their financial statements.
- **describes** how companies improved the way they communicate (**the process**)



# Disclosure Initiative—active projects(現行計畫)

## Disclosure Initiative(揭露倡議)

Research project(研究計畫)

Maintenance projects(維護計畫)

Principles of Disclosure  
(揭露原則)

Targeted Standards-level Review of Disclosures  
(針對性之準則層級揭露規定檢討)

Accounting Policy Disclosures  
(會計政策揭露)

Preparing Project Summary(計畫摘要)

# Disclosure Initiative—Principles of Disclosure(揭露原則)

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## Objective

- identify disclosure issues

## Main outcomes

- added a project on **targeted standards-level review of disclosures**(針對性之準則層級揭露規定檢討)
- added a project to help entities apply materiality judgments to **accounting policy disclosure**(會計政策揭露)
- consider broader implications of technology for financial communication in the Board's Technology Initiative
- consider performance measures topic in the Board's Primary Financial Statements project



# Disclosure Initiative—Targeted Standards-level Review of Disclosures(針對性之準則層級揭露規定檢討)

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## Objective

- help stakeholders improve the usefulness of disclosures for the primary users of financial statements
- develop guidance for the Board to use when developing and drafting disclosure objectives and requirements (as a set of Board decisions)
- **not to change the volume of disclosure requirements(不改變揭露規定之數量)**, although this may be a consequence

## Next steps

- test the draft guidance for the Board by applying it to **IAS 19 Employee Benefits** and **IFRS 13 Fair Value Measurement**
- publish an exposure draft of amendments to the disclosure requirements in IAS 19 and IFRS 13, where formal stakeholder feedback on the draft guidance for the Board will be obtained

# Disclosure Initiative—Accounting Policy Disclosures(會計政策揭露)

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Users say that accounting policy disclosures today are often not useful

Stakeholders' views differ about 'significant' accounting policies required by IAS 1

## Board's tentative decisions

Clarify that not all accounting policies that relate to material transactions, other events or conditions are themselves material to the financial statements.

Amend IAS 1 *Presentation of Financial Statements* to require entities to disclose their **material accounting policies**(重大會計政策) rather than their significant accounting policies(重要會計政策).

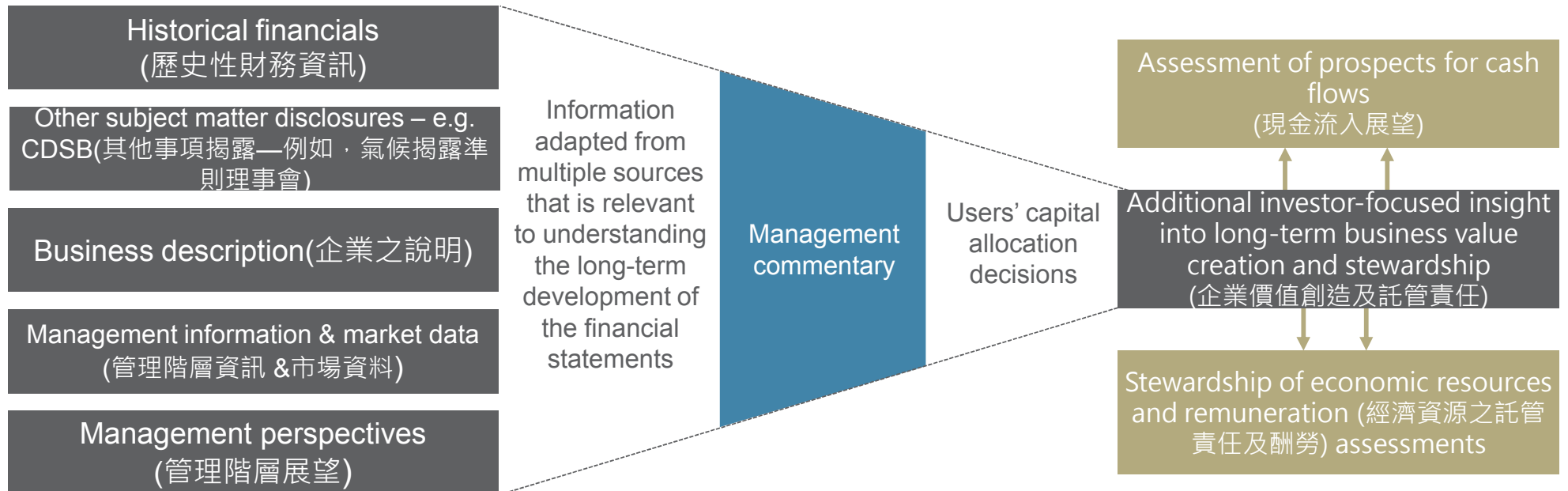
Develop guidance and examples for the Materiality Practice Statement. These will explain how to apply the four-step materiality process(四步驟之重大性流程) to accounting policies.



# Management Commentary

## 管理階層評論

# What is management commentary?

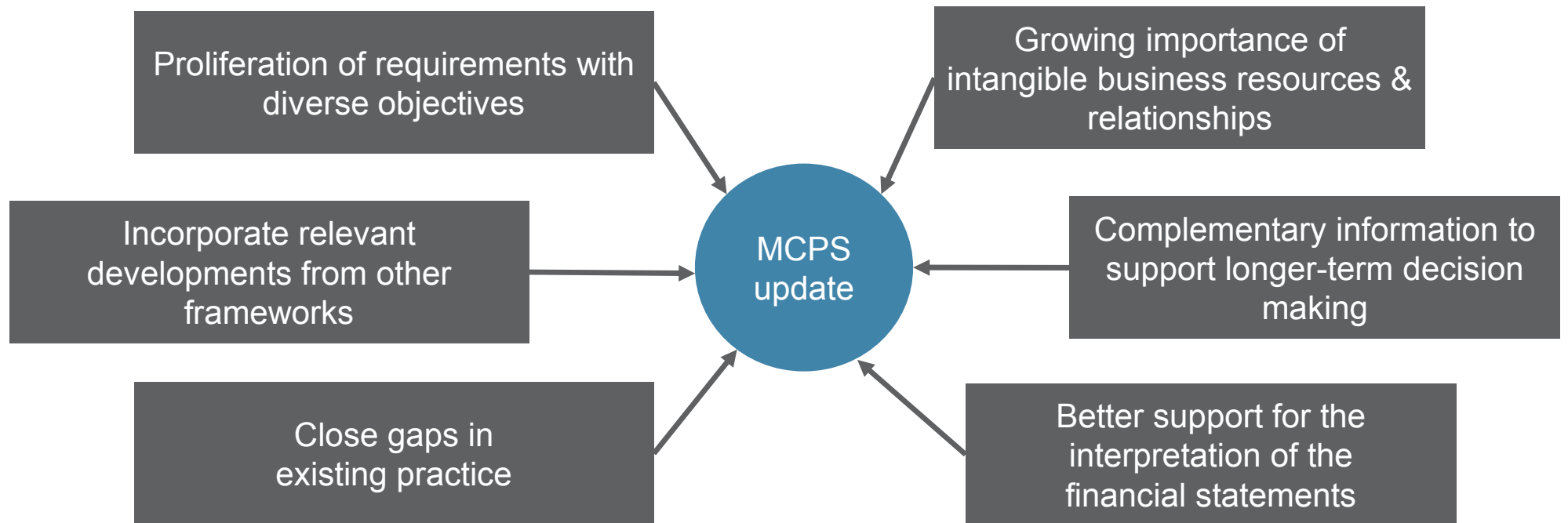


The **Management Commentary Practice Statement (MCPS)** (管理階層評論實務聲明書) provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements prepared applying IFRS Standards. The MCPS focuses on what's relevant to the unique circumstances of the business.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



# Reasons for updating the Management Commentary Practice Statement(更新管理階層評論實務聲明書之理由)

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# Management Commentary Practice Statement— Staff’s proposed approach to an update(幕僚對更新所提議之作法)

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## The current Management Commentary Practice Statement(現行管理階層評論聲明書):

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(近期之發展):

- 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 (長期之展望)

Business model and strategy(經營模式及策略) provide a focus for building the report

Integration and linkage (整合及連結) ensure key issues are followed across the report

Key resources(主要資源) and intangibles(無形資產) further support a long-term focus

Materiality—when to report a matter and the information to provide(何時報導事項及提供之資訊)

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

# What could a revised Management Commentary Practice Statement 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(經營模式、風險、策略及營運環境)

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(當年度財務分析)

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

### Pre-financial Information(非財務資訊)

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(前瞻性聲明書)

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

# Management Commentary Practice Statement— Illustrative examples(釋例)

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## Business model, risk, strategy and operating environment (經營模式、風險、策略及營運環境)

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’

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

## Current year financial analysis (當年度財務分析)

- 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....’

Interpretation and analysis of historical financial information

# Management Commentary Practice Statement— Illustrative examples(釋例) (continued)

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## Non-financial information(非財務資訊)

Pre-financial information  
and explanations that  
provide insight into:

- business progress
- implications for future  
financial performance

Covers resources and  
relationships key to value

### *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(前瞻性聲明 書)

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

### *Illustrations:*

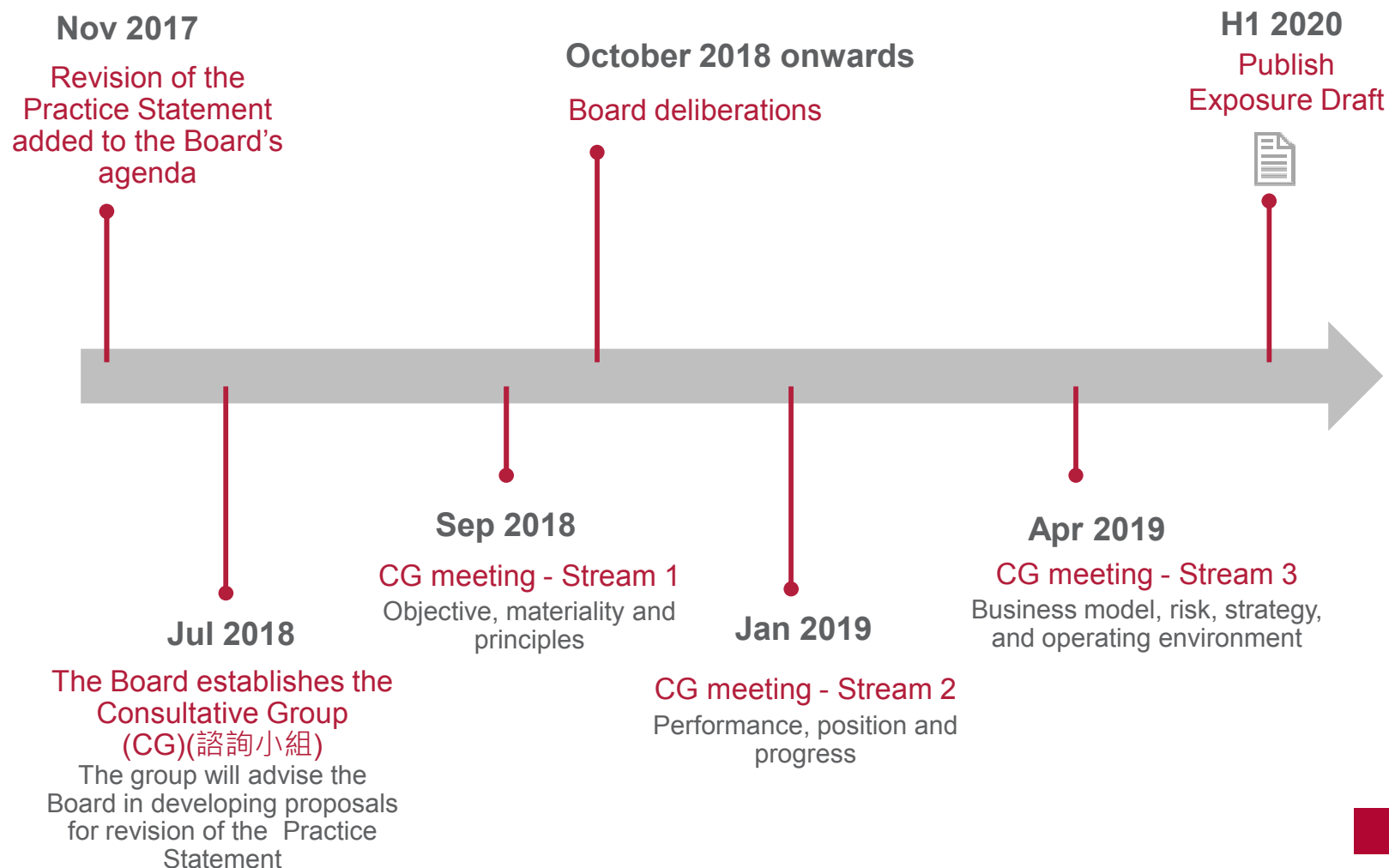
- Shorter-term:
  - Forecast sales growth %
- Longer term:
  - ‘target 20% penetration of  
the red widget market by  
2020’
  - ‘targeting a 50% reduction  
in carbon emissions to  
meet potential regulatory  
change’

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

# Management Commentary Practice Statement— Project timeline(計畫時程表)

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