



Australian Government

Australian Accounting Standards Board

Management Commentary Project Plan

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Commented [FH1]: Note to the Board: Approval of the project plan to be recorded subject to Board's decision.

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1 PROJECT PROPOSAL/EXECUTIVE SUMMARY

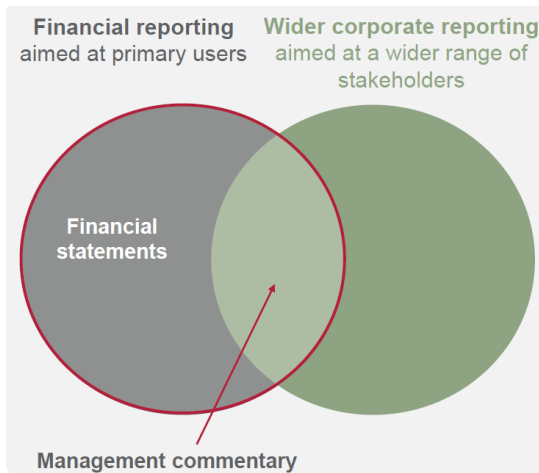
IASB currently have a project on management commentary with the aim of updating their Practice Statement 1 (Management Commentary) published in 2010 and hence, will be publishing an exposure draft (ED) in the second half of 2020.

The proposal for a domestic project on Management Commentary is outlined below:

Commented [FH2]: Question to Board 1: Does the Board agree with undertaking this project and if so, does the Board agree with outline scope in this section? If Board disagree, which part(s) of the project does the Board consider are not needed in this project?

- initially conduct benchmarking exercise to identify best practices of Operating and Financial Review overseas and to understand whether it is mandatory and audited
- do a comparison of ASIC RG 247 *Effective disclosure in an operating and financial review* with the forthcoming IASB Exposure Draft (ED) on Management Commentary to determine if the IASB's proposals would provide better information to users than RG 247
- do a comparison of the forthcoming ED with NZ service performance reporting standard (NZ PBE FRS 48) and IPSASB RPG 3 to determine how much overlap there is with the proposals and assess whether service performance reporting objectives can be achieved using management commentary as a base
- conduct outreach on IASB's forthcoming ED, including roundtables and targeted outreach; and provide feedback to the IASB in the form of an AASB submission on the IASB's forthcoming ED

Overview on management commentary:



Source: www.ifrs.org



2 OBJECTIVES & PROJECT OUTCOMES

2.1 WHAT ARE THE OBJECTIVES OF THIS PROJECT?

What is overall objective?

IASB:

To update the current IFRS Practice Statement 1 *Management Commentary* to include consideration of:

- developments from other narrative reporting initiatives—for example, the principle of focusing on business-critical resources and long-term value creation; and
- acknowledged gaps in narrative reporting practice indicating that the goals of the *Management Commentary* and other narrative reporting regimes are unmet. For example, the International Integrated Reporting Council in its recent review has acknowledged the need to revisit its guidance on reporting on the 'resources and relationships' that companies use to 'create value'. Other narrative reporting gaps include challenges in reporting forward-looking information, inconsistent reporting on business models, and short-term reporting on strategies. Stronger guidance, while still maintaining the principle-based approach of the original *Management Commentary* Practice Statement should help to close the gaps in narrative reporting practices.

AASB:

As outlined in [Section 1](#) above.

What is the issue and its extent?

IASB has identified the following reasons to update the Management Commentary Practice Statement¹:

- (i) Proliferation of requirements with diverse objectives
- (ii) Incorporate relevant developments from other frameworks
- (iii) Close gaps in existing practice
- (iv) Growing importance of intangible business resources & relationships
- (v) Complementary information to support longer-term decision making
- (vi) Better support for the interpretation of the financial statements

AASB will need to determine the status of any revised Management Commentary Practice Statement (MCPS) in Australia. AASB published the IFRS Practice Statement 1 *Management Commentary* on the AASB's website making it available for all entities but noting that ASIC's RG 247 might take precedence as RG 247 was issued just prior to Practice Statement 1 and with no substantive difference to the Practice Statement. While RG 247 has been updated in August 2019 for specific disclosures such as climate risk, IASB's project to update MCPS provides opportunity to consider whether the update is needed.

At the same time, in absence of specific guidance or standard on service performance reporting in the NFP sector, there is opportunity to assess whether service performance reporting objectives can be achieved using management commentary as a base.

¹ See <https://www.ifrs.org/-/media/project/management-commentary/supporting-material/introduction-to-the-management-commentary.pdf>



This is in line with Recommendation 9 of Independent Review of Public Governance, Performance and Accountability Act 2013 and Rule which recommended the Department of Finance to encourage the AASB to develop a standard for performance reporting to assist Commonwealth entities as well as suggestions on further work to be undertaken to assess potential reporting in relation to service/social performance referred in ACNC Legislation Review 2018.

What evidence is available to define the issue?

- In November 2017 the IASB Staff presented a proposal to revise and update the Management Commentary Practice Statement identifying the issues listed above.
- In July 2018, the IASB staff reached out to National Standard-setters with a request to provide information about the requirements and commonly applied non-mandatory guidance on management commentary that apply to listed companies in their respective jurisdictions.²
- In addition, the IASB staff also reviewed other frameworks, guidance and reports on wider corporate reporting, including management commentary, and analysed the principles and objectives included in those frameworks, guidance and reports. The findings from the review are also included in this paper.

The review covered:

- the European Union Directive on disclosure of non-financial information and diversity information (2014/95/EU) that entities listed in the EU must apply and the non-mandatory European Commission Guidelines on nonfinancial reporting (2017/C 215/01);
 - independent frameworks or guidance, including the International Integrated Reporting Framework issued by the International Integrated Reporting Council and the GRI Sustainability Reporting Standards issued by the Global Sustainability Standards Board;
 - guidelines, recommendations or reports of other bodies, including those of professionals in the area of corporate governance (e.g. the International Corporate Governance Network), investors and the accounting profession; and
 - (d) additional national guidance referred to in the responses to the survey or in other materials the staff have researched.
- AASB survey of national practice and reporting requirements in Australia as response to the IASB's outreach in 2018 as mentioned above.



MCPS_NSS_survey_AA
SB_response.pdf

What additional evidence is needed, and why?

- (i) International benchmarking to understand what practices currently exists as mandated by regulators in key economies, e.g. Canada, Germany, South Africa, UK and US to understand the international best practice so that reporting guidelines can be developed to improve the quality and consistency of disclosure for FP private, NFP private and public sector in Australia.

² See <https://www.ifrs.org/-/media/feature/meetings/2018/november/iasb/ap15b-mc.pdf>



This will also form a basis for outreach seeking feedback on IASB’s proposals as well as in determining whether such guidance in Australia should be made mandatory as well as whether it should be subject to an audit.

- (ii) Comparison of ASIC’s RG 247 with IASB’s forthcoming ED on Management Commentary to determine if the IASB’s proposed guidance would be more helpful than RG 247 to users. This will also form a basis for seeking feedback on IASB’s ED.
- (iii) Comparison of the forthcoming ED with NZ service performance reporting standard (NZ PBE FRS 48) and IPSASB RPG 3 to determine how much overlap there is with the proposals and assess whether service performance reporting objectives can be achieved using management commentary as a base.
- (iv) In addition, AASB is seeking some evidence from academics on service performance reporting in the not-for-profit sector to ensure the management commentary is appropriately tailored for the specifics of the NFP sector. For example, forthcoming Research Forum 2019 paper 2 (*Standardising the reporting of service performance information in Australia: An in-depth study of the not-for-profit user and preparer communities*).

Which stakeholders will be impacted?

- (i) Preparers and users of financial statements (all three sectors)
- (ii) Regulators – AUASB, ASIC, ASX, ACNC
- (iii) Industry Bodies including AICD, CPA, CAANZ and IPA
- (iv) Advisory firms
- (v) AUASB and Auditors

What are the expected changes and benefits of the project?

Issue (in brief)	Expected change	Expected benefits
<p>Acknowledged gaps in practice, including:</p> <ul style="list-style-type: none"> • inconsistent business model reporting • short-term focus • continuing challenges in reporting pre-financial indicators <p>Growing frustration with investment and management short-termism</p>	<p>Development of principles-based disclosure guidance following key concepts:</p> <ul style="list-style-type: none"> • Value creation puts more emphasis on long term prospects and purpose of the entity • 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 <p>Reflect the above in:</p>	<p>Better insight for users into the company’s strategy for creating shareholder value over time, meeting its purpose, its progress in implementing its purpose, and the potential impact on future financial and service performance not yet captured by the financial statements for both public and private FP and NFP entities.</p>



	<ul style="list-style-type: none"> • RG 247 (in collaboration with ASIC); or • Issue revised Practice Statement 1 on Management Commentary or a separate Standard in Australia including determining whether to make it mandatory to give it more credence • Service reporting requirements for NFP sector (as disclosure requirements in AAS or as a separate reporting standard or as part of management commentary) 	
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How urgent/important is the project?

- (i) The project is important based on the feedback from the users of the financial statements as without “other financial information” that Management commentary provides investors cannot gauge whether management teams prioritise short-term financial targets over long-term value creation not recognised in the financial statements; and investment capital may be diverted from companies pursuing a long-term strategy in favour of those prioritising short-term earnings.
- (ii) This project would also be important in the AASB developing guidance on service performance reporting in the NFP sector.
- (iii) The level of urgency is **medium** given IASB is expected to issue an ED in 2020.

Commented [FH3]: Question to Board 2: Does the Board agree with Staff assessment of urgency/importance and reasons provided?

What are the project deliverables?

- (i) **Report on international requirements** in other jurisdictions on *Other financial information/Management Commentary* compared to the local requirements such as RG 247, which will form a basis for outreach seeking feedback on IASB’s proposals as well as in determining whether such guidance in Australia should be made mandatory or not as well as whether it should be subject to an audit.
- (ii) **Report on comparison of RG 247 with IASB’s proposals in forthcoming ED**, which would help provide the basis for outreach seeking feedback on IASB’s ED as well as conduct consultations with ASIC on updating RG 247 or replacing it with and AASB Standard, when the IASB’s proposals are finalised.
- (iii) **Report on comparison of the forthcoming ED with NZ service performance reporting standard (NZ PBE FRS 48) and IPSASB RPG 3** to determine how much overlap there is with the proposals and assess whether service performance reporting objectives can be achieved using management commentary as a base.
- (iv) **AASB submission to the IASB** on its ED on management Commentary.

Commented [FH4]: Question to Board 3: Does the Board agree with the Project Deliverables as defined in this section including Benchmarking Report on International Requirements?

Subject to leveraging from work already done by the IASB staff, **the benchmarking report on international requirements** on Management Commentary will be based on the three sectors and would include:



- (i) source of authority i.e.: legislation, licensing obligations, self-regulation such as industry codes, listing requirements
- (ii) whether the Management Commentary is subject to oversight, by whom and is it enforced
- (iii) who established/updates requirements/guidance
- (iv) whether any thresholds apply: i.e. reporting requirements linked to the size of the entities
- (v) the specificity of the reporting requirements (framework, principle-based, rules-based, capable of audit)
- (vi) comparison of key reporting elements (e.g. purpose, strategy, linkage with performance (both financial and service))
- (vii) whether Management Commentary forms part of the financial statements
- (viii) whether Management Commentary is subject to audit and/or assurance
- (ix) whether there are any identified users in each of the jurisdictions and if so, for what purpose is the information used, and
- (x) whether there have been any reviews of Management Commentary and has Management Commentary been considered effective.

Link to the AASB's strategic objectives

#	Strategic Objective	Link to this project
1	Develop, issue and maintain principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced. For 'publicly accountable' entities maintain IFRS compliance; for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian- specific standards and guidance.	Directly addressing through: (i) adoption of IASB's updated Practice Statement (ii) developing Australian-specific guidance on Management commentary that satisfy underlying objectives and address sector-specific information needs (such as inclusion of Service Performance Reporting for NFP sectors)
2	With the AUASB, play a leading role in reshaping the Australian external reporting framework by working with the regulators to develop objective criteria on: • who prepares external reports (including financial reports) • the nature and extent of assurance required on these external reports.	Directly addressing extent and content of disclosures (whether mandatory or not) in collaboration with AUASB to be capable of being assured and enforced.
3	Actively influence IASB, IPSASB standards and other international accounting and external reporting standards and guidance by demonstrating thought leadership and enhancing key international relationships.	Indirectly influencing IPSASB to develop a standard for global use.
4	Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.	Directly addressing - project is undertaken in response to stakeholder feedback and will encourage active stakeholder participation throughout the project via Disclosure initiative Advisory Panel.



5	Influence initiatives to develop standards and guidance that meet user needs for external reporting integral to financial reporting.	Directly addressing – potentially expanding scope of mandatory external reporting if a guidance on management commentary is introduced mandatorily in Australia either for FP and/or NFP sectors.
6	Monitor and respond to, or lead on, emerging issues impacting the development of accounting and external reporting standards, including changing technologies.	Directly addressing through research on the best practice Other Financial Information reporting and benchmarking to local requirements beyond accounting standards.
7	Develop guidance and education initiatives, or promote development by others, to enhance the consistent application of accounting and external reporting standards and guidance.	Indirectly addressing through development of educational material to enhance consistent application.
8	Build a high performing team that operates efficiently, effectively and within budget, complying with all relevant legislation and Commonwealth Government requirements	Indirectly addressing. Project will require high levels of cross-team engagement, including engaging external experts & researchers, given magnitude and subject matter knowledge required for sub-projects.

2.2 CROSS-CUTTING PROJECTS

Service Performance Reporting

The Board's Service Performance Reporting (SPR) project is a cross-cutting project linked to this project because stakeholder feedback indicates that a key missing piece of reporting in the NFP space is service performance reporting and principles applied in Management Commentary are the same or very similar to those for SPR. As noted above, the ACNC Legislative Review also recommended its development.

The Board's SPR project has been ongoing for several years. In 2015, the Board issued ED 270 Service Performance Reporting, which proposed a service performance reporting framework based off the International Public Sector Accounting Standards Board's non-mandatory guidance RPG 3 *Reporting Service Performance Reporting*. Feedback to that ED was supportive of the initiative, however identified concerns with the proposed framework, including concern that it may not be commensurate to other legislative reporting frameworks, such as the PGPA Act in the public sector.

In December 2016, the Board lowered the priority of the SPR project and deferred its redeliberation until an independent literature review was completed. That literature review is now in completion stages, expected publication in Q1 2020.

The outcome of the IASB's Management Commentary project is likely be an appropriate base for the way forward on Service Performance Reporting guidance in the NFP sector. This project will also review the NZ standard on service performance reporting to check if the management commentary requirements are appropriate as a base. Therefore, at least in initial stages (benchmarking), SPR will be part of this project and depending on the outcome of the initial stages (whether Management Commentary will be considered as appropriate base), it will be assessed whether SPR is follow-on/continuation of Management Commentary project.



3 PROJECT REPORTING REQUIREMENTS

3.1 WHAT ARE THE PROJECT REPORTING REQUIREMENTS?

Staff will provide fortnightly internal reporting on the project to the portfolio management team and report to the Board as part of the priorities and work program reporting.

4 ASSUMPTIONS, RISKS & OTHER CONSIDERATIONS

4.1 ASSUMPTIONS

- (i) That there will be sufficient resources including funding for engagement of external consultants and experts to complete this project.
- (ii) Other significant projects running concurrently (SPFS removal for for-profit entities project, NFP private financial reporting framework project, public sector financial reporting framework project and Simplified Disclosures) will run to plan and not require additional resources than planned.
- (iii) No other unexpected high-priority projects will arise
- (iv) Board will largely agree with staff recommendations on submission/feedback to IASB
- (v) IASB's research on benchmarking with other jurisdictions available to complete AASB staff's benchmarking report
- (vi) Regulators are generally supportive of updating or replacing RG 247 with IASB's finalised guidance on Management Commentary (for for-profit sector) if users find it more informative and helpful
- (vii) If (at a later stage) the guidance considered suitable to be made mandatory, a reporting Standard or accounting Standard to that effect is issued
- (viii) Not-for-profit private and public sectors regulators are supportive of adopting of the Service Reporting requirements based of guidance on Management Commentary as appropriately tailored for the specifics of the sectors



4.2 WHAT ARE THE KEY PROJECT DELIVERY RISKS?

Risk (brief description of risk, including if it is an internal, or external risk, or both.)	Risk assessment (eg low, moderate, high)	Potential impacts (Indicate how the risk could impact the budget, timeline, scope or deliverables and the consequence and probability (likelihood) of the risk occurring)	Mitigation strategy (Outline action that could be taken to treat the risk, and a contingency approach where appropriate)	Residual risk (If the mitigation strategy was to be applied, what is the residual risk rating?)
Internal – right skills of SME, change in internal agenda	Moderate	Budget issues related to the time of the technical staff and SME.	Change in the team or engagement of an external consultant.	Low
Not able to get other regulators' buy-in (e.g. ASIC for RG247)	High	Budget issues related to the time of the technical staff and SME. Where involving legislative changes – could be the political issue of getting through approving body.	Seek consultation and feedback early and in stages	High
Regulators may query AASB's credibility and involvement, as not directly financial reporting issue	Medium	Regulators may not accept AASB developed requirements	Engage early and explain project objectives and benefits based on the benchmarking report(s) before moving to next step	Medium
Other high-priority projects overrun on time and unexpected new high priority projects added	High	Resources may have to be re-allocated to finish more important projects	Plan and secure sufficient resources (external if needed) on high-priority projects to accommodate delays. This is however subject to budget constraints	Medium
Additional substantial changes in the actual ED than communicated by IASB	Low	Could require additional outreach	Monitor closely the project.	Low

4.3 SPECIFIC SECTOR CONSIDERATIONS (FP/NFP/PUBLIC OR INDUSTRY-SPECIFIC)

- Benchmarking project report and guideline for all three sectors separately: For-profit private, not-for-profit private and not-for-profit public sectors.
- Service performance reporting guidance will be developed separately for NFP and public sector using the IASB's Management Commentary guidance as a starting base.

4.4 RELEVANT STANDARDS, LEGISLATION AND REGULATIONS

There are a number of regulators or other bodies issuing requirements or providing guidance in the area of management commentary for a broad range of entities in Australia. These include:

- (i) Australian Government – *Corporations Act 2001*
- (ii) Australian Securities and Investments Commission (ASIC) – Regulatory Guides
- (iii) Australian Stock Exchange (ASX) – Listing Rules, Guidance Notes, and ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*



- (iv) Group of 100 (CFOs of top 200 ASX listed companies, international companies, mutual organisations, large private companies, government, and education) – *Guide to Review of Operations and Financial Condition*
- (v) Auditing and Assurance Standards Board (AUASB) – Guidance Statements
- (vi) Board of Taxation – Tax Transparency Code
- (vii) In the public sector, the requirements are included in the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* for Commonwealth entities, and in various state-based regulations.
- (viii) For NFP private sector, there are various requirements to provide performance-related measures, such as ACNC AIS statement. There are reporting requirements for incorporated associations that vary across states and territories in Australia. Fundraising regulation also varies by Australian states and territories.³ Research commissioned by AASB expected to be published in Q1 2020 and will provide overview of the applicable legislation across Australia's jurisdictions.

4.5 INTERACTION WITH IASB

This project relates to the IASB's work as mentioned in [Section 2.1](#) above.

4.6 INTERACTION WITH AUSTRALIAN AUDITING STANDARDS

- (i) AASB will have to have consultations with AUASB to ensure that any guidance developed or adopted in Australia is capable of being audited/assured.

4.7 CONSIDERATION OF NEW ZEALAND ACCOUNTING STANDARDS

- (i) Staff expect the NZASB will also conduct outreach on the IASB's Management Commentary project. The AASB and NZASB Staff will discuss this topic in their liaison meeting to identify whether any issues identified in the respective countries would be cross-cutting.
- (ii) AASB staff will also discuss with NZASB staff when developing guidance for the NFP sector including getting feedback on implementation and application of NZASB PBE FRS 48 *Service Performance Reporting* which establishes requirements for Tier 1 and Tier 2 public benefit entities to select and present service performance information⁴.

4.8 CONSIDERATION OF GFS (PUBLIC SECTOR ENTITY PROJECTS)

- (i) Staff do not consider that there will be GFS implications as a result of this project. However staff will consult with ABS staff to confirm this.

4.9 CONSIDERATION OF IPSASB (PUBLIC SECTOR ENTITY PROJECTS)

- (i) AASB will engage with IPSASB when developing Service Performance Reporting guidance for NFP sector, including reconsidering the requirements in IPSASB Recommended Practice Guideline 3 (RPG 3), *Reporting Service Performance Information*.⁵

³ In New South Wales, Charitable Fundraising Regulation 2015 require financial information to enable comparison of the total costs of services provided by the authority holder to the total income received. However, in Northern Territory there is no regulation on fundraising activities.

⁴ [PBE FRS 48 Service Performance Reporting](#)

⁵ [Reporting Service Performance Information](#)



5 PROJECT TIMELINE AND RESOURCES

Commented [FH5]: Question to Board 4: Does the Board agree with the proposed timeline?

5.1 WHEN ARE THE DELIVERABLES DUE?

5.1.1 Major milestones

Stage	Description	Requirement(s) and/or objectives of each stage	Timeline	Time in hours
1	Project plan submitted to the Board to seek approval	Seek AASB Board's approval	November 2019 Board meeting	40
2	Notify other regulators that AASB intend to start the benchmarking study to keep them informed and seek their potential input		December 2019	5
3	Seek information from IASB on the information they have gathered on management commentary (including international benchmarking)	After the Board's approval	Within one month after the Board's approval	2
4	Subject to evidence obtained from IASB, develop a report international benchmarking to identify practices and differences across the three sectors. Compare the information from international benchmarking and IASB with those in RG 247, NZ PBE FRS 48 and IPSASB RPG 3 to determine the gap in reporting and suitability for Service Performance Reporting.	After the Board's approval	three months after the board's approval	600
5	Benchmarking report discussed with AASB Board and provide recommendation to the board on next steps for each sector.	Seek feedback and approval from Board	April 2020 Board	6
6	Benchmarking of RG 247 against IASB tentative decisions and discussion with the findings with the Board and recommendations on next steps.	Seek feedback and approval from Board	May-June 2020	400
7	Local issuance of IASB's ED	Seek AASB Board's approval	H2 2020	20
8	Outreach on ED including feedback on Benchmarking Reports to form the view on implementation for each of the sectors		H2 2020/H1 2021 (depending on the issuance of IASB's ED)	100
9	Comment letter to IASB on ED	Seek AASB Board's approval	H2 2020/H1 2021 (depending on the issuance of IASB's ED)	100
Total hours (estimate only)				1,237