

March 2012

Exposure Draft Summary

Financial Statement Discussion and Analysis

This summary provides an overview of Exposure Draft (ED) 47, *Financial Statement Discussion and Analysis*

Project objectives:

The objective of this Standard is to prescribe the manner in which financial statement discussion and analysis should be prepared and presented to assist users to understand an entity's general purpose financial statements ("financial statements").

To achieve this objective, this Standard sets out overall considerations for the guidance for the structure and minimum requirements for the content and presentation of financial statement discussion and analysis to allow entities to prepare and present financial statement discussion and analysis for their specific circumstances.

The project and stage:

The IPSASB issued ED 47 in March 2012.

Next steps:

The IPSASB seeks feedback to guide it in developing the principles for preparation of financial statement discussion and analysis.

Comment deadline:

The Exposure Draft is open for public comment until July 31, 2012.

Why is the IPSASB undertaking this project?

The purpose of the IPSASB's project on financial statement discussion and analysis is to provide useful information to users for accountability and decision-making purposes.

This project is intended to provide a framework for the consistent and comparable preparation and presentation of financial statement discussion and analysis in public sector entities' financial statements.

Many jurisdictions require financial statement discussion and analysis to be published. Although not all jurisdictions require or encourage public sector entities to prepare their financial statement discussion and analysis in an identical manner, there are similarities in the nature of the information that is currently reported. Consideration of these similarities has provided the basis for the required content proposed in the ED.

The IPSASB believes that financial statement discussion and analysis is necessary to achieving the objectives of financial reporting by public sector entities because it enhances the usefulness of information presented in an entity's financial statements.

Financial statement discussion and analysis helps achieve the objectives of financial reporting by providing stakeholders with narrative descriptions and analyses of various matters that can assist in placing aspects of the financial statements in context. It can also enhance the value of financial information for decision making and for making assessments of the entity's discharge of accountability.

What is financial statement discussion and analysis?

Financial statement discussion and analysis assists users of public sector entities' financial statements by complementing and supplementing the financial statement explanations with insights and perspectives thereon.

The term “financial statement discussion and analysis” clearly defines the scope of applicability of the proposed Standard and its close linkage to the financial statements. It also distinguishes type of report it from other public sector financial reports.

Financial statement discussion and analysis is an explanation of the significant items, transactions, and events presented in an entity's financial statements and the trends, conditions, and factors that influenced them.

Financial statement discussion and analysis is intended to address similar matters to reports that may be termed “management discussion and analysis” and “management commentary” in various jurisdictions.

Financial statement discussion and analysis is not intended to apply to other potential types of reports in the public sector (e.g., service performance information, long-term sustainability of government finances).

Financial statement discussion and analysis explains information contained in the financial statements and is published in conjunction with an entity's financial statements. It therefore has a closer link to the financial statements than such other reports. Nevertheless, financial statement discussion and analysis is not a component of the financial statements as defined in IPSAS 1, *Presentation of Financial Statements*.

What does the Exposure Draft propose?

ED 47 requires financial statement discussion and analysis to be prepared and presented in conjunction with a public sector entity's financial statements.

The Exposure Draft proposes the guidance will be issued as an IPSAS.

All entities that prepare and present their financial statements in accordance with IPSAS 1 should prepare and present financial statement discussion and analysis in accordance with this proposed Standard.

IPSASs 1–32 address matters related to the preparation and presentation of accrual-based financial statements. Financial statement discussion and analysis is important to meeting users' information needs. Therefore, financial statement discussion and analysis is addressed in a pronouncement with the same authority as the financial statements to which it relates.

Entities are required to explicitly state their compliance with the proposed Standard.

Because of the close link between financial statement discussion and analysis and the financial statements:

- The reporting entity covered in an entity's financial statement discussion and analysis should be the same as that for the financial statements.
- Financial statement discussion and analysis should be issued in conjunction with an entity's annual financial statements.
- The qualitative characteristics (QCs) set out in IPSAS 1 for financial statements apply to financial statement discussion and analysis.
- Financial statement discussion and analysis needs to be consistent with the financial statements.
- Financial statement discussion and analysis should be based on currently-known facts and supportable assumptions.

What is the minimum required content of financial statement discussion and analysis?

Financial statement discussion is required to include specified minimum content to promote comparability among entities and consistency within an entity over time.

Entities determine the matters and level of detail to present—specific detailed disclosure and presentation requirements are not provided.

When information that is required to be included in financial statement discussion and analysis is presented or disclosed in the financial statements, it is not required to be reproduced in the financial statement discussion and analysis.

Financial statement discussion and analysis is required to include the following minimum content, while allowing entities to report on specific information most relevant to the entity:

- *An overview of the entity* helps users to understand the entity and how the environment in which it operates affect its financial statements.
- *Information about the entity's objectives and strategies* enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve its objectives.
- *An analysis of the entity's financial statements* including:

– A description of the significant events, trends, conditions, and factors that affected the current period financial statements to enhance users' understanding of the financial statements.

– Analyses of variances and trends for those financial statement items which are important and significant to enhancing users' understanding of an entity's financial position and performance and changes in financial position and performance over a period of time.

- *Information about the entity's risks and uncertainties* helps users to evaluate the impact of risks in the current period as well as expected outcomes.

Is forward-looking information required?

Financial statement discussion and analysis enhances the predictive ability of an entity's financial statements.

Entities are not required to disclose forward-looking information, such as forecasts or projections.

However, certain information required in financial statement discussion and analysis enhances the predictive ability of the financial statements. Such information needs to be fact-based and take into account currently-known conditions. In addition, underlying assumptions need to be disclosed.

For example information about the entity's intended actions in relation to events, trends, and factors that affect the current period financial may be based on the entity's informed expectations regarding its future operations or on its detailed knowledge of the entity's current operations.

In addition, information about an entity's risks and uncertainties may highlight not only an entity's main exposures to risk and changes in those risks, and the entity's opportunities, but it may also include the entity's policies and strategies for mitigating the risks and capitalizing on opportunities.

Guidance on how to apply the Standard

ED 47 includes implementation guidance and an illustrative example to assist in the preparation and presentation of financial statement discussion and analysis that complies with its requirements.

Implementation Guidance

The following guidance is provided:

- Explanations of how each of the QCs is applied in preparing and presenting financial statement discussion and analysis.
- Examples of the type of information an entity may provide that is most relevant to enhancing users' understanding of the financial statements.
- Examples of variance and trend analyses that may be provided.

Illustrative Example

An illustrative example is provided for a national government to illustrate the information that an entity may include in its financial statement discussion and analysis. It is one illustration of the format and content of information an entity could disclose in order to meet the requirements set out in this Standard.

This illustration is not intended to be a template for financial statement discussion and analysis. For example, other information may be appropriate to the circumstances of departments, agencies, and other public sector entities.

All entities are encouraged to report financial statement discussion and analysis in a way that best informs readers about significant matters related to their specific circumstances, including the use of diagrams, charts, and graphs.

Next Steps:

The deadline for comments is July 31, 2012.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.

How can I comment on the proposals?

The Exposure Draft includes specific matters on which the IPSASB is seeking views.

Respondents may choose to answer all questions or just a selected few. The IPSASB welcomes comments on any other matters respondents think we should consider in forming our views.

Comment letters will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and, as usual, discuss responses to the proposals at its public meetings after the comment period is done.

The IPSASB plans to issue a final pronouncement on financial statement discussion and analysis, reflecting its actions to address respondents' comments, in late 2012.

Stay informed

The IPSASB will announce on its website the dates and location of meetings to discuss feedback on this Exposure Draft.

To stay up to date about the project please visit: <http://www.ifac.org/public-sector/projects/financial-statement-discussion-and-analysis-formerly-narrative-reporting>