



Australian Government

Australian Accounting
Standards Board

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Sir David Tweedie
Chairman
International Accounting Standards Board
1st Floor
30 Cannon Street
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UNITED KINGDOM

Dear David

IASB Exposure Draft ED/2009/6 Management Commentary

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on the abovenamed Exposure Draft. In formulating these comments, the AASB sought and considered the views of Australian constituents. The comment letters received are published on the AASB's website.

The AASB supports the issuance of *Management Commentary* as non-mandatory guidance. From an Australian viewpoint, such guidance, whilst consistent with user needs, would overlap significantly with commentary currently residing outside of financial reports. To achieve a mandate for it would require rationalisation of requirements over which the AASB does not have purview. Nevertheless, the AASB sees merit in management commentary being conditioned by global guidance in due course and would work to promote the IASB's finalised document. The AASB thinks there is also merit in considering the application of the ED principles to entities in the public sector or not-for-profit private sector.

The AASB believes that one pre-requisite for any rationalisation in Australia would be clarity in the Conceptual Framework as to the definition of financial reporting. Part of any debate for inclusion of management commentary within financial reporting would be the principles that set the borders of that reporting, auditing requirements and the exposure of directors to lawsuits. The AASB, whilst supportive of management commentary, expects any rationalisation of existing requirements would take some time and, at the present, would not be of such benefit in Australia as to warrant a high priority. The taking of time will, in part, be due to preparers and auditors being reluctant to give up the protections (safe harbour provisions) currently provided to forward-looking and other information provided outside of the financial reports.

The AASB's specific comments on the questions in the Invitation to Comment are in the attached submission, as is an Appendix explaining the Australian environment.

If you require further information regarding any matters in this submission, please contact Siva Sivanantham (ssivanantham@aasb.gov.au) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K M Stevenson', with a long, sweeping flourish extending to the right.

Kevin M. Stevenson
Chairman

AASB's Specific Comments on IASB Exposure Draft ED/2009/6 *Management Commentary*

The AASB's specific responses to the questions in the Invitation to Comment are as follows:

Question 1

Do you agree with the Board's decision to develop a guidance document for the preparation and presentation of management commentary instead of an IFRS? If not, why?

As noted in the covering letter, the AASB is of the view that issues relating to the boundary of financial reporting should be resolved as part of the IASB's Conceptual Framework project. Until these issues are addressed, the AASB can accept the IASB proceeding with this project with a relatively low priority and the issuance of the final document in the form of guidance only. This would enable each jurisdiction to make its own decision as to whether, and to what extent, to adopt the final Guidance depending on its jurisdictional circumstances. Any thoughts of issuing a Standard should also await the outcomes of the Conceptual Framework project.

A background on the Australian environment is provided in the attached Appendix to inform the IASB of factors relevant to determining the extent to which, and ease with which, the proposed Guidance could be adopted in Australia and similar jurisdictions.

Question 2

Do you agree that the content elements described in paragraphs 24–39 are necessary for the preparation of a decision-useful management commentary? If not, how should those content elements be changed to provide decision-useful information to users of financial reports?

Subject to the AASB's comments in the covering letter, the AASB agrees with the content elements of decision-useful management commentary described in paragraphs 24–39 of the ED. AASB's comments on some related specific issues follow.

Information vs. Analysis

The ED indicates (for example, paragraph 22) that the provision of information without accompanying analysis is not in-keeping with the spirit of the proposed Guidance, but the ED does not clarify the extent and nature of analysis that would be expected. As a result, some preparers may be unclear about the boundary between providing information and providing commentary and/or analysis to accompany that information.

AASB believes that, in determining the extent to which management commentary should include management analysis (as distinct from information for users to enable them to perform their own analysis), judgement is needed.

Meaning of the term 'Management'

The ED does not specifically identify (within the body of the proposed Guidance) who should prepare and approve management commentary. Currently this is only referenced to in

paragraph BC25. There could potentially be confusion as to whether the term ‘management’ means the ‘governing body’ or the ‘executive management’.

The AASB suggests the IASB clarify, but not define, that the term ‘management’ for the purposes of management commentary means those who are responsible for the financial statements.

Users

The AASB thinks that, to the extent the proposed Guidance refers to users of management commentary, those references should be consistent with the references to users in the Conceptual Framework.

Question 3

Do you agree with the Board’s decision not to include detailed application guidance and illustrative examples in the final management commentary guidance document? If not, what specific guidance would you include and why?

The AASB agrees with the decision to not include detailed application guidance and illustrative examples on the basis that the Guidance should be kept at a principle level and that it is better to allow practice to evolve.

APPENDIX

THE AUSTRALIAN ENVIRONMENT

The AASB, like many other accounting standard setters, does not have jurisdiction over information outside financial statements and notes to the financial statements. Matters covered within the ED fall outside of conventional financial reports in Australia, although they do form part of annual reports. The elements of the annual report outside financial statements and notes are under the jurisdiction of the Corporations Law and other laws regulated by authorities other than the AASB.

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

- Australian Government (*Corporations Act 2001*)
- Australian Stock Exchange Limited (Listing Rules and Guidance Note)
- Group of 100 (Guide to Review of Operations and Financial Condition) (non-authoritative)
- Department of Prime Minister and Cabinet (Requirements for Annual Reports – For Government Departments, Executive Agencies and Financial Management and Accountability Act Bodies).

Section 295 of the Corporations Act deals with the contents of annual financial reports. In particular, subsections 295(1), (2) & (3) state:

- (1) *The financial report for a financial year consists of:*
 - (a) *the financial statements for the year; and*
 - (b) *the notes to the financial statements; and*
 - (c) *the directors' declaration about the statements and notes.*
- (2) *The financial statements for the year are:*
 - (a) *the financial statements in relation to the entity reported on that are required by the accounting standards; and*
 - (b) *if required by the accounting standards – the financial statements in relation to the consolidated entity that are required by the accounting standards.*
- (3) *The notes to the financial statements are:*
 - (a) *disclosures required by the regulations; and*
 - (b) *notes required by the accounting standards; and*
 - (c) *any other information necessary to give a true and fair view (see section 297).*

Also, sections 299 and 299A of the Corporations Act contain requirements to disclose general information (including information about operations and activities) in the Directors' Report. The Australian Government has recently issued an Exposure Draft entitled *Corporations Amendment (Corporate Reporting Reform) Bill 2010* that includes proposals to amend section 299A. Currently, section 299A requires a listed public company to provide all information reasonably required to allow an informed assessment of its operations, financial position and business strategies and prospects for future financial years. Under the proposed amendments, all listed entities (i.e. both listed registered schemes and listed companies) would be required to report under section 299A.

In addition, there are specific ASX Listing Requirements in relation to management commentary. In particular, section 4.10.17 contains the following text:

*4.10.17 A review of operations and activities for the reporting period.
Introduced 1/9/99.*

Note: Listing rule 4.10.17 is based on section 299 of the Corporations Act. ASX does not require the review of operations and activities to follow any particular format. Nor does ASX specify its contents. However, ASX supports the Group 100 Incorporated publication Guide to the Review of Operations and Financial Condition. This publication is reproduced in Guidance Note 10 – Review of Operations and Activities: Listing Rule 4.10.17.

The principles in G100 Guidance are broadly similar to the proposals in the IASB ED/2009/6. There are no major differences, except that the G100 Guidance:

- (1) makes explicit reference to balancing disclosure and commercial sensitivity;
- (2) provides detailed coverage of areas such as shareholder returns, investment for future performance, cash flows, liquidity and funding; and
- (3) makes reference to corporate governance matters.

Furthermore, when the AASB issued AASB 1039 *Concise Financial Reports* it decided not to require listed companies to include a discussion and analysis to accompany financial statements prepared in accordance with that Standard on the basis that listed companies are already subject to the requirements of the Corporations Act.

Moreover, information contained within the financial statements and notes to the financial statements that is required to be prepared using accounting standards is subject to audit in Australia (in particular, section 301 of the Corporations Act states that ‘a company, registered scheme or disclosing entity must have the financial report for a financial year audited in accordance with Division 3 and obtain an auditor’s report’). Management commentary that supplements and complements information presented in the financial statements could arguably be considered to be part of the ‘financial report’ under section 295(3)(c) of the Corporations Act and, as a result, subject to audit.