

List of Submissions to ED 183 *Management Commentary*

- 1 HoTARAC
- 2 Grant Thornton
- 3 Australian Institute of Company Directors
- 4 The Institute of Chartered Accountants in Australia

Department of Treasury and Finance



The Treasury Building
21 Murray Street, HOBART, Tas 7000
GPO Box 147, HOBART, Tas 7001 Australia
Telephone: (03) 6233 3100 Facsimile: (03) 6223 2755
Email: secretary@treasury.tas.gov.au Web: www.treasury.tas.gov.au

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

Dear Mr Stevenson *Kevin*

EXPOSURE DRAFT 183 – MANAGEMENT COMMENTARY

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to comment on the Australian Accounting Standards Board's Exposure Draft 183 *Management Commentary*.

Should the IASB issue a guidance document on management commentary, HoTARAC would not support a similar non-binding document in Australian GAAP, because management commentary is already quite advanced in Australia. There are many guidance documents available prepared by government and professional organisations on management commentary. HoTARAC believes that the AASB's time would be better spent on other more high-priority projects. HoTARAC does appreciate that there could be a place for such a document in developing countries where there is currently no guidance available, and in such cases IASB guidance on management commentary may be justified.

Notwithstanding the above, HoTARAC is not yet convinced that the information that accompanies and supplements an entity's financial statements is within the boundaries of financial reporting and therefore within the scope of the Conceptual Framework. Until Phase E of the Framework has been finalised (and this Phase is currently inactive), the issue of the boundaries of financial reporting is still open to debate and an Exposure Draft on management commentary may be premature.

HoTARAC agrees with the content elements necessary for the preparation of decision-useful management commentary. HoTARAC does not agree with the Board's decision not to include detailed application guidance and examples in the final document. HoTARAC believes that application guidance and examples such as those provided in the October 2005 IASB Discussion Paper would be helpful to any jurisdictions not familiar with the concept of management commentary.

HoTARAC's responses to the specific questions raised in the Exposure Draft are set out in Attachment 1.

If you have any queries regarding HoTARAC's comments, please contact Robert Williams from the New South Wales Treasury on (02) 9228 3019.

Yours sincerely



D W Challen

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

18 December 2009

Encl

COMMENTS – EXPOSURE DRAFT 183 - MANAGEMENT COMMENTARY

Overall Comment:

HoTARAC is not yet persuaded that management commentary is currently within the scope of the Conceptual Framework. HoTARAC notes that Phase E of the Conceptual Framework - Presentation and Disclosure, including Financial Reporting Boundaries, is currently inactive.

Therefore, HoTARAC agrees with the alternative views from three of the 14 members of the IASB that:

- if not mandatory, the proposal is unlikely to result in significant improvements;
- if it represents management's view of the entity, the proposal would not satisfy the requirement of neutrality;
- it is not an effective use of the Board's time or that of its constituents; and
- application guidance should be included.

AASB Specific Matters for Comment

- (a) **If the IASB issues a guidance document on management commentary, would a similar non-binding document have a place in Australian GAAP?**

No. The AASB's time would be better spent on other more high-priority projects. Management commentary is already quite advanced in Australia. There are many documents available prepared by government and professional organisations covering management commentary.

- (b) **Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

- (i) **not-for-profit entities; and**
- (ii) **public sector entities?**

There may be jurisdictions that could be affected, for example, if the proposals were implemented by the public sector, given the proposals were developed for publicly traded entities. Consideration would need to be given as to how this would interact with reporting requirements issued by the Australian Department of the Prime Minister and Cabinet.

- (c) **Overall, would the proposals result in financial statements that would be useful to users?**

The proposals should result in useful information in the body of the entity's annual report and could indirectly affect the usefulness of the statements by providing additional relevant information.

- (d) **Are the proposals in the best interests of the Australian economy?**

No comment.

IASB Specific Matters for Comment

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?

HoTARAC is not yet convinced that management commentary is within the scope of the Conceptual Framework. HoTARAC notes that Phase E of the Conceptual Framework - Presentation and Disclosure, including Financial Reporting Boundaries, is currently inactive.

HoTARAC also disagrees with the Board's decision for the reasons expressed in the alternative views of three of the IASB members (referred to above in our overall comment). Moreover, HoTARAC feels that considerable guidance is already publicly available.

Finally, if a document is to be issued by the IASB, HoTARAC agrees that it would not be appropriate to be issued as a Standard because it relates totally to guidance, not mandatory requirements.

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?

If the Board does develop a guidance document, yes. For the uninitiated, it may be prudent to include a caveat that some risk disclosure information could be commercially sensitive.

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?

No, because HoTARAC believes that application guidance and illustrative examples such as those provided in the IASB discussion paper issued in October 2005 would be helpful to any jurisdictions not familiar with the concept of management commentary. Paragraphs 110 and 111 of the October 2005 Discussion Paper provided a disclaimer to the effect that the guidance/examples were illustrative only and were included to help readers see the type of disclosures consistent with the principles. HoTARAC also believes that any guidance/examples would be most appropriately located at the end of the document, rather than within one of the sections as was done in the 2005 Discussion Paper.

HoTARAC notes the Board's reasons (at Basis for Conclusions Paragraph BC48) for not including application guidance in the Exposure Draft. However, HoTARAC think the advantages of including such guidance would outweigh any disadvantages.

Additional Comment

Scope (Exposure Draft Paragraphs 4-5): the document applies to publicly traded entities. HoTARAC queries why the guidance should be restricted to publicly traded entities? Why not apply it to all entities?



Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204,
Collins Street
WEST VICTORIA 8007
By Email: standard@asb.gov.au

23 December 2009

Dear Kevin

ED 183/ED/2009/6: Management Commentary

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 183 which is a re-badged copy of the International Accounting Standards Board's Exposure Draft ED/2009/6 (the ED). We have considered the ED and set out our comments below.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International which is working on a global submission to the IASB, and discussions with key constituents.

The views expressed here are preliminary in nature, and a more detailed Grant Thornton's global submission will be finalised by the IASB's due date of 1 March 2010.

In principle support

We broadly support the provision of management commentary guidance as proposed in ED 183, and note that such guidance in part is already provided within the Australian reporting framework via the Directors Report in the Corporations Act, the ASX's Corporate Governance Principles and Recommendations, the AICD's various publications including Underlying Profits, and the Group of 100 publications. Grant Thornton believes that in some areas the Australian guidance goes further or provides clarification on some of the ED 183 proposals, and therefore recommends that the AASB in responding to the IASB's ED, provides some background on current Australian guidance.

Specific Questions

- 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?**

Yes, we support the decision to provide guidance rather than an IFRS as it is consistent with Australian experience.

- (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?**

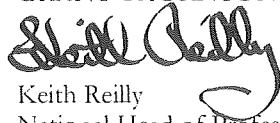
Yes, although we note that there are many similarities with existing Australian guidance.

- (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?**

Yes, as details will depend upon the particular circumstances of the individual entity.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly
National Head of Professional Standards

NATIONAL OFFICE

Level 2, 255 George Street
Sydney NSW 2000 Australia
TELEPHONE 02 8248 6600
FACSIMILE 02 8248 6633
aicd@companydirectors.com.au
www.companydirectors.com.au

23 December 2009

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA

Email: standard@asb.gov.au

Dear Mr Stevenson,

ED 183 - Management Commentary

We are pleased to provide comments on the AASB's *Exposure Draft 183 – Management Commentary*. Although we appreciate that the *Management Commentary* is still at an exposure draft stage our comments address key threshold issues relating to the practicalities of adopting the guidance in Australia.

AICD is the second largest member-based director association worldwide, with over 25,000 individual members from a wide range of corporations: publicly-listed companies, private companies, not-for-profit organisations, charities, and government and semi-government bodies. As the principal professional body representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

1 Summary

AICD has long been supportive of guidance that assists directors to include clear and shareholder useful information in company annual reports. As examples, in addition to the statutory information required in annual reports, AICD has released guidance on how to produce a shareholder friendly report and how to report on underlying profit information. Despite this, AICD questions whether it is necessary to adopt guidance in the form of *ED 183 Management Commentary* given the comprehensive information already required by the Directors' Report in the Corporations Act 2001 (C'th)(the Act).

As we discuss in greater detail below, much of the content of the proposed *Management Commentary* framework must be included by Australian listed companies in their annual reports pursuant to the Act or is already covered in guidance to the ASX Listing Rules. Issuing additional guidance such as *ED 183 Management Commentary* in circumstances where that content is already mandated or comprehensively set out elsewhere, is likely to lead to confusion or to the guidance being given little weight.

Further, one of the problems faced by business which continues to be a concern for AICD is the plethora of regulation faced by companies which leads to higher transaction and compliance costs. These compliance costs increase when regulation and guidance originating from different government bodies takes a myopic approach and duplicates existing requirements. As such, AICD questions whether the AASB is the appropriate body to provide guidance on the non financial information to be included in annual reports.

In summary, our comments in respect of *ED 183 Management Commentary* are as follows:

- AICD understands that the *Management Commentary* will not become an IFRS and agrees with this approach;
- AICD has strong reservations, however, about adopting the *Management Commentary* even as guidance, given the current Australian regulatory framework; and
- in the event that, despite these concerns, the AASB decides to adopt the final form of the *Management Commentary* as guidance, AICD recommends that the AASB make clear whether the commentary is intended to apply to the Directors' Report, the review of operations and activities or to a CEO/Managing Directors' report, noting the key difference between the board and management.

A review of the existing regulatory framework in Australia provides support for AICD's views as set out above.

2 Application of Management Commentary to Not-for-Profit entities

Given that ED 183 *Management Commentary* states that it has been designed for publicly traded companies, we intend to confine our comments to the application of the *Management Commentary* to ASX listed companies. Before doing so, however, we note that the application of international standards and guidance specifically designed for listed entities but applied in Australia to public sector entities and to all reporting entities including not-for-profits and charities, will continue to be problematic.

AICD is concerned that adopting the *Management Commentary* as guidance for not-for-profit entities in particular, may add to the complexity of the reporting of non financial information for these entities. Such a move would appear to be contrary to attempts by the government to reduce the compliance and reporting burden for not-for-profit entities. In this regard we note the recent Productivity Commission review into the Contribution of the Not-for-Profit Sector and the release of the Corporations Amendment (Corporate Reporting Reform) Bill 2010. We note that the Bill proposes a new framework for, amongst other things, the preparation of Directors' Reports by companies limited by guarantee.

Unless reporting guidance fits with the requirements of the existing regulatory framework it is likely to create complexity and unwanted and unnecessary costs for not-for-profits. We now turn to the difficulties in applying the *Management Commentary* guidance to ASX listed companies.

3 Existing Requirements under the Corporations Act 2001 (C'th)

Unlike jurisdictions such as the United States where the inclusion of a 'management discussion and analysis of financial condition and results of operations' is a requirement in a listed company's annual filing, the annual report of a listed entity in Australia must include a Directors' Report. All disclosing entities, all public companies, all large proprietary companies and all registered schemes must prepare a Directors' Report.¹ The Act sets out a range of general² and specific³ information that must be included in the Directors' Report.

¹ Section 299(1) of the Act

² Section 299 of the Act and in addition, section 299A of the Act for listed companies.

³ Section 300 of the Act and in addition, section 300A of the Act for listed companies.

In addition, the Directors' Report for a financial year of a company or disclosing entity that is a listed public company, must also contain information that members of the company would reasonably require to make an informed assessment of:

- the operations of the entity reported on;
- the financial position of the entity; and
- the entity's business strategies and its prospects for future financial years.⁴

AICD notes that many of the principles and content elements of the *Management Commentary* guidance are similar to the information required by law to be included in the Directors' Report. Some examples of the information suggested by the *Management Commentary* but which are required by law to be included in an ASX listed company's annual report, are set out below.

Orientation to the future

One of the principles in the *Management Commentary* is that the commentary should have an orientation to the future. The Directors' report *must* include details of any matters since the end of the year that have significantly affected or may significantly affect, the entity's operations, the results of those operations, or the state of affairs of the entity in *future financial years*.⁵ Further, the Directors' Report must also include information that allows members to make an informed assessment of the company's *prospects for future financial years*.⁶

Strategy and Objectives

The *Management Commentary* states that the commentary should set out the entity's objectives and strategies for meeting those objectives (including a discussion of the relationship between objectives, strategy, management actions and executive remuneration). The Directors' Report *must* contain information about the entity's business strategies and its prospects for future financial years.⁷ Listed companies must also include a remuneration report as part of their Directors' report.⁸ The remuneration report requires entities to set out extensive information relating to the remuneration of key management personnel and certain executives, including any performance conditions attached to the remuneration.

Nature of business

The *Management Commentary* states that the content of the commentary should explain the nature of the business (for example, the entity's structure, industries, markets, competitive position, external environment, regulatory, legal and macro-economic environment etc.). The Directors' Report, however, requires entities to discuss their

⁴ Section 299A of the Act.

⁵ Section 299(1)(d) of the Act

⁶ Section 299A of the Act. We note that the *Management Commentary* states "the extent to which management commentary is oriented towards the future either through the use of narrative explanations or quantified data (for example, projections or forecasts) will be influenced by the regulatory and legal environment within which the entity operates." In Australia the Act does not require directors to provide financial forecasts in the annual report. The Group of 100's *Guide to the Review of Operations and Financial Condition* states that: "Overseas experience indicates that a company can provide a comprehensive and informative Review without needing to disclose financial forecasts or make other disclosures of a commercially prejudicial or sensitive nature. There is no reason to believe that Australian experience will differ from that overseas." A factor likely to foster caution in the provision of financial forecasts is the lack of a specific "safe harbour" defence in Australia for discussions of forward looking information.

⁷ Section 299A(1) of the Act

⁸ Section 300A of the Act

principal activities during the year and any significant changes in the nature of those activities during the year.⁹ Further, if the entity's operations are subject to particular and significant environmental regulation under a law of the Commonwealth, State or Territory, details of the entity's performance in relation to environmental regulation must be provided.¹⁰ As set out above, the Directors' report must also contain information that members of the company would reasonably require to make an informed assessment of the operations of the entity.¹¹

Numerous other examples could be cited of information suggested to be included by the *Management Commentary* which are already mandated by the Act. In AICD's view, issuing the IASB *Management Commentary* in an Australian context may blur the distinction between information that is suggested to be included in a company's annual report and information that is required to be included.

4 Existing Requirements under the ASX Listing Rules

In addition to the requirements of the Act, elements of the *Management Commentary* overlap with existing ASX Listing Rule guidance.

For example, ASX Listing Rule 4.10.7 provides that a listed entity must include a 'review of operations and activities for the reporting period' in its annual report.¹² The ASX does not require the review of operations and activities to follow any particular format nor does it specify its contents.¹³ ASX Guidance Note 10, however, sets out information that could be included in the 'review of operations and activities.' This Guidance Note reproduces the Group of 100 publication entitled a *Guide to the Review of Operations and Financial Condition* and by doing so incorporates this publication into its Listing rule Guidance. Elements of the *Management Commentary* overlap with, or are similar to, ASX Guidance Note 10.

The overlap continues when regard is had to the ASX Corporate Governance Council (ASXCGC), *Corporate Governance Principles and Recommendations*. ASX Listing Rule 4.10.3 provides that companies are required to provide a statement in their annual report disclosing the extent to which they have followed the Recommendations. For example, Principle 7 relates to the establishment of a sound system of risk oversight and management and internal control. This information is similar to the information suggested by the *Management Commentary* in relation to risk. However, the ASXCGC recommendations set out that the specified information must be disclosed in the company's corporate governance statement under the "if not why not" regime. If the information is not disclosed the company must explain why not. If the *Management Commentary* is reviewed in isolation entities could choose not to include information about risk and mistakenly fail to comply with the ASXCGC Corporate Governance Principles and Recommendations.

We re-iterate that the overlap between guidance that is non binding and guidance that is necessary to ensure compliance with the ASX Listing Rules may lead to confusion. Adopting another layer of guidance without alerting users to the fact that the same or similar information is mandated by law or is similar to a Listing Rule requirement, hinders rather than helps, the preparation of the annual report. Further, it may lead to the duplication of the information in different sections of the annual report.

⁹ Section 299(1)(c) of the Act

¹⁰ Section 299(1)(f) of the Act.

¹¹ Section 299A, of the Act.

¹² The notes to this Listing Rule state that it is based on section 299 of the Corporations Act.

¹³ See the Note to ASX Listing Rule 4.10.7.

For these reasons, AICD anticipates that if the final form of the *Management Commentary* guidance is adopted in Australia it will lead to confusion or to the commentary being given little weight. It is anticipated that listed companies will continue to follow the *ASXCGC Corporate Governance Principles and Recommendations* and to defer to the guidance notes accompanying the ASX Listing Rules rather than referring to the proposed IASB guidance.

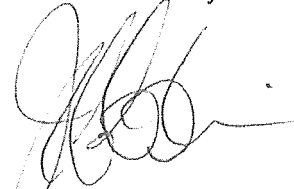
4 Management Commentary should not become an IFRS

On the basis of the existing regulatory framework AICD is strongly of the view that the *Management Commentary* should not become an IFRS and therefore supports the approach taken by the IASB that the commentary not be mandatory. However, AICD still has strong reservations about adopting the *Management Commentary* as guidance given the existing laws and regulatory guidance available in Australia.

In the event the AASB, despite AICD's concerns, decides to adopt the final form of *ED 183 Management Commentary* as guidance, AICD recommends that at the very least the application of the guidance be made clear. In other words, the AASB should specify whether the *Management Commentary* guidance is intended to assist companies in the preparation of the Directors' Report, review of operations and activities or a CEO or Managing Directors' report. This clarity is critical, given the need to avoid the duplication of information in the annual report and to ensure that the distinction between the board and management remains clear.

We hope that our comments will be of assistance to you. If you are interested in any of our views please do not hesitate to contact Leah Watterson or me on (02) 8248 6600.

Yours sincerely



John H C Colvin
Chief Executive Officer



8 January 2010

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO BOX 204
Collins Street West VIC 8007

Email: standard@asb.gov.au

Dear Kevin

ED 183 Management Commentary

The Institute of Chartered Accountants in Australia (the Institute) is pleased to respond to the Exposure Draft ED 183 *Management Commentary*. The Institute recommends that the AASB do not adopt this guidance for use in Australia due to the existing regulations covering the content of the directors' report and existing guidance for listed companies to prepare their review of operations and activities.

The Institute represents over 50,000 chartered accountants in Australia and overseas. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

Our response to matters on which specific comment is requested is included in the attached Appendix A. Also attached for your consideration is our submission to the International Accounting Standards Board.

The Institute notes that guidance for management commentary currently exists for listed companies in Australia in the form of Guidance Note 10 published by the Australian Securities Exchange Limited (ASX) and relevant sections in the Corporations Act 2001, as outlined in Appendix B. Guidance Note 10 replicates the Australian Group of 100 Incorporated (G100) publication *Guide to the Review of Operations and Financial Condition*.

Given the availability of such guidance for listed companies, we do not consider the publication of the management commentary as additional guidance in Australia would add any value to the Australian market place. We are also concerned that the introduction of voluntary guidance might confuse the preparers of financial statements such that the mandatory requirements within the ASX Listing Rules and the Corporations Act may get overlooked.

Customer Service Centre
1300 137 322

NSW
33 Erskine Street
Sydney NSW 2000
GPO Box 9985
Sydney NSW 2001
Phone 61 2 9290 1344
Fax 61 2 9262 1512

ACT
L10, 60 Marcus Clarke Street
Canberra ACT 2601
GPO Box 9985
Canberra ACT 2601
Phone 61 2 6122 6100
Fax 61 2 6122 6122

Qld
L32, 345 Queen Street,
Brisbane Qld 4000
GPO Box 9985
Brisbane Qld 4001
Phone 61 7 3233 6500
Fax 61 7 3233 6555

SA / NT
L11, 1 King William Street
Adelaide SA 5000
GPO Box 9985
Adelaide SA 5001
Phone 61 8 8113 5500
Fax 61 8 8231 1982

Vic / Tas
L3, 600 Bourke Street
Melbourne Vic 3000
GPO Box 9985
Melbourne Vic 3001
Phone 61 3 9641 7400
Fax 61 3 9670 3143

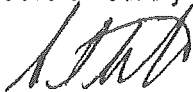
WA
Ground, 28 The Esplanade
Perth WA 6000
GPO Box 9985
Perth WA 6848
Phone 61 8 9420 0400
Fax 61 8 9321 5141

However, we recommend the AASB encourage the ASX to reissue their Guidance Note 10 with the IASB's *Management Commentary* as its basis instead of the existing G100 guidance. We consider this to be the best fit for *Management Commentary* in the Australian market place since these proposals are intended for use by listed companies. Further, the existing ASX guidance is nearly seven years old and it may be appropriate to replace it with internationally recognised guidance that will likely be subject to regular review and update. Additionally, this would avoid the potential complications and possible confusion arising from the AASB issuing non-mandatory guidance.

Should the AASB still decide to issue the guidance, we recommend that it is clear when entities should use be encouraged to use the guidance and how it should be applied in conjunction with the existing regulations and guidance.

If you require further information on any of our views, please contact Kerry Hicks, the Institute via email kerry.hicks@charteredaccountants.com.au

Yours sincerely



Lee White
General Manager Leadership and Quality

Appendix A- Matters on Which Specific Comment Requested

(a) If the IASB issues a guidance document on management commentary, would a similar non-binding document have a place in Australian GAAP?

No. The Institute considers that the Australian Corporations Law (relevant sections are identified in Appendix B) and ASX Listing rules currently provide sufficient requirements and guidance to entities on this matter and therefore additional guidance from AASB could create confusion. This is of a particular concern as the additional document would be non-binding whereas the Corporations Law and ASX Listing rules requirements are mandatory. We therefore believe that a similar non-binding document does not have a place within Australian GAAP.

However, we recommend that the AASB encourage the ASX reissue their Guidance Note 10 with the IASB *Management Commentary* as its basis instead of the existing G100 guidance. We consider this to be the best fit for *Management Commentary* in the Australian market place since these proposals are intended for use by listed companies. Further, the existing ASX guidance is nearly seven years old and it may be appropriate to replace it with internationally recognised guidance that will likely be subject to regular review and update. Additionally, this would avoid the potential complications and possible confusion arising from the AASB issuing non-mandatory guidance.

(b) Whether there are any regulatory issues or other issues arising in the Australian Environment that may affect the implementation of the proposals, particularly any issues relating to:

- i) not for profit entities; and
- ii) public sector entities?

The Institute notes the other regulatory issues in our response to matter a) above.

- i) We note that there are currently a number of activities underway in respect of not for profit reporting, as detailed below. Therefore, introducing this ED, which is aimed at listed entities, to this sector would not be helpful in the short term, although it could inform some of the current projects. Current relevant activities underway include:
 - a. the *Corporations Amendment (Corporate Reporting Reform) Bill 2009* released in December 2009 which includes proposals to enhance non-financial reporting for not for profit entities;
 - b. the recent Productivity Commission review into the Contribution of the not-for-profit sector; and
 - c. the AASB's current project entitled *Disclosures by Private Sector Not for Profit Entities Project*.
- ii) We note that the International Public Sector Accounting Standards Board (IPSASB) has recently released a discussion paper entitled *Reporting on the long-term fiscal sustainability of public finances*. The paper seeks views on how information on long-term fiscal programs can complement traditional financial statements, in order to increase transparency and enhance accountability and decision making. We feel that this document would be more suited to improving the narrative reporting of public sector entities as the focus of the *Management Commentary* ED is on listed entities.

(c) Whether overall, the proposals would result in financial statements that would be useful to users?

The Institute feels that overall the IASB's proposals would result in decision useful financial statements for users. As noted in response to the IASB question 2, the content elements of the management commentary ED are very similar to those in the ASX Guidance Note 10 and the mandatory *Corporations Act 2001* s299 and s299A.

(d) Whether the proposals are in the best interests of the Australian economy?

The Institute concludes that whilst the proposals represent good practice, this is already present in the Australian economy in existing guidance and duplicating this, through means of guidance issued by the Australian standard setter, would not be in the best interests of the Australian economy.

299 Annual directors' report—general information

General information about operations and activities

- (1) The directors' report for a financial year must:
 - (a) contain a review of operations during the year of the entity reported on and the results of those operations; and
 - (b) give details of any significant changes in the entity's state of affairs during the year; and
 - (c) state the entity's principal activities during the year and any significant changes in the nature of those activities during the year; and
 - (d) give details of any matter or circumstance that has arisen since the end of the year that has significantly affected, or may significantly affect:
 - (i) the entity's operations in future financial years; or
 - (ii) the results of those operations in future financial years; or
 - (iii) the entity's state of affairs in future financial years; and
 - (e) refer to likely developments in the entity's operations in future financial years and the expected results of those operations; and
 - (f) if the entity's operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory—give details of the entity's performance in relation to environmental regulation.
- (2) The entity reported on is:
 - (a) the company, registered scheme or disclosing entity (if consolidated financial statements are not required); or
 - (b) the consolidated entity (if consolidated financial statements are required).

Prejudicial information need not be disclosed

- (3) The report may omit material that would otherwise be included under paragraph (1)(e) if it is likely to result in unreasonable prejudice to:
 - (a) the company, registered scheme or disclosing entity; or
 - (b) if consolidated financial statements are required—the consolidated entity or any entity (including the company, registered scheme or disclosing entity) that is part of the consolidated entity.

If material is omitted, the report must say so.

299A Annual directors' report—additional general requirements for listed public companies

- (1) The directors' report for a financial year for a company or disclosing entity that is a listed public company must also contain information that members of the company would reasonably require to make an informed assessment of:
 - (a) the operations of the entity reported on; and
 - (b) the financial position of the entity; and
 - (c) the entity's business strategies and its prospects for future financial years.
- (2) The entity reported on is:
 - (a) the company or disclosing entity that is a listed public company (if consolidated financial statements are not required); or
 - (b) the consolidated entity (if consolidated financial statements are required).
- (3) The report may omit material that would otherwise be included under paragraph (1)(c) if it is likely to result in unreasonable prejudice to:
 - (a) the company or disclosing entity; or
 - (b) if consolidated financial statements are required—the consolidated entity or any entity (including the company or disclosing entity) that is part of the consolidated entity.

If material is omitted, the report must say so.



The Institute of
Chartered Accountants
in Australia

8 January 2010

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
UNITED KINGDOM

Via iasb website: www.iasb.org

Dear Sir David

Management Commentary

The Institute of Chartered Accountants in Australia (the Institute) is pleased to respond to the Exposure Draft *Management Commentary*.

The Institute represents over 50,000 chartered accountants in Australia and overseas. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

Our response to matters on which specific comment is requested is included in the attached Appendix A. The Institute considers that provision of internationally recognised guidance to listed companies on the preparation and presentation of management commentary is a positive step. The Institute notes that adequate guidance exists for the Australian market, however we can see benefit in this for other jurisdictions where guidance either doesn't exist or is of a lower quality.

The Institute notes that in comparing the suggested content elements of *Management Commentary* to the existing guidance in Australia, the content elements are very similar as Appendix B demonstrates. However, we note that guidance provided by our Australian Securities Exchange also covers matters such as shareholder returns, investments for future performance, review of financial condition, cash, liquidity & funding, impacts of legislation. The IASB may wish to consider whether these matters should also have a place within the management commentary for completeness.

If you require further information on any of our views, please contact Kerry Hicks, the Institute via email kerry.hicks@charteredaccountants.com.au

Yours sincerely

Lee White
General Manager Leadership and Quality

Customer Service Centre
1300 137 322

NSW
33 Erskine Street
Sydney NSW 2000
GPO Box 9985
Sydney NSW 2001
Phone 61 2 9290 1344
Fax 61 2 9262 1512

ACT
L10, 60 Marcus Clarke Street
Canberra ACT 2601
GPO Box 9985
Canberra ACT 2601
Phone 61 2 6122 6100
Fax 61 2 6122 6122

Qld
L32, 345 Queen Street,
Brisbane Qld 4000
GPO Box 9985
Brisbane Qld 4001
Phone 61 7 3233 6500
Fax 61 7 3233 6555

SA / NT
L11, 1 King William Street
Adelaide SA 5000
GPO Box 9985
Adelaide SA 5001
Phone 61 8 8113 5500
Fax 61 8 8231 1982

Vic / Tas
L3, 600 Bourke Street
Melbourne Vic 3000
GPO Box 9985
Melbourne Vic 3001
Phone 61 3 9641 7400
Fax 61 3 9670 3143

WA
Ground, 28 The Esplanade
Perth WA 6000
GPO Box 9985
Perth WA 6848
Phone 61 8 9420 0400
Fax 61 8 9321 5141

- 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?**

Yes, the Institute considers that provision of guidance to listed companies on the preparation and presentation of management commentary is a positive step. The Institute notes that adequate guidance exists within the Australian market. However, we can see benefit in this guidance for other jurisdictions where guidance either doesn't exist or is of a lower quality.

- (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?**

The Institute notes that in comparing paragraph 24 to the existing guidance in Australia, the content elements are very similar as Appendix B demonstrates. Existing guidance in Australia includes Guidance Note 10 issued by the Australian Securities Exchange (ASX) and Sections 299 and 299A of the *Corporations Act 2001* covering general information to be included in an annual report. Guidance Note 10 replicates the Australian Group of 100 Incorporated (G100) publication *Guide to the Review of Operations and Financial Condition*.

ASX Guidance Note 10 also covers matters such as shareholder returns, investments for future performance, review of financial condition, cash, liquidity & funding, impacts of legislation. The IASB may wish to consider whether these matters should also have a place within the management commentary for completeness.

- (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?**

Yes, the Institute agrees with the Board's decision not to include detailed application guidance and illustrative examples. Management commentary will be specific to each entity and detailed application guidance might prevent organisations preparing commentary that is most appropriate to their operations. Additionally, illustrative examples can be used by entities in a checklist manner resulting in 'boiler plate' disclosures and omitting key issues specific to their organisation.

Appendix B – Comparison of ED with Existing Australian Guidance

Management Commentary ED	ASX Guidance Note 10	Corporations Act 2001 s299 and s299 A
a) the nature of the business;		S299 1 (c) state the entity's principal activities during the year and any significant changes in the nature of those activities during the year;
b) management's objectives and strategies for meeting those objectives;	7. The review should explain the objectives of the company and how they are to be achieved.	S299A (1) The directors' report for a financial year for a company or disclosing entity that is a listed public company must also contain information that members of the company would reasonably require to make an informed assessment of: (a) the operations of the entity reported on; and (b) the financial position of the entity; and (c) the entity's business strategies and its prospects for future financial years.
c) the entity's most significant resources, risks and relationships;	9. The review should discuss the main factors and influences that may have a major effect on future results whether or not they were significant in the period under review. 27. The review should provide a commentary on the strengths and resources of the company whose value may not be fully reflect in the statement of financial position. 30. The review should contain a discussion of the company's risk profile and risk management practices.	
d) the results of operations and prospects;	10. The review should discuss the main activities of the company, including significant features of operating performance for the period covered by the financial report. It should cover all aspects of operations, focusing on the overall company as well as those business or geographic segments that are relevant to an understanding of performance as a whole.	S299 1 (a) contain a review of operations during the year of the entity reported on and the results of those operations; and (e) refer to likely developments in the entity's operations in future financial years and the expected results of those operations;
e) the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives.	8. The review should include a discussion and analysis of key financial and non-financial performance indicators (KPIs) used by management in their assessment of the company and its performance.	