

Department of Treasury and Finance



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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.

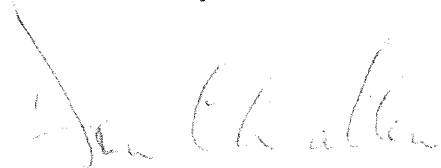
Notwithstanding the above, HoTARAC is not yet convinced that the information that accompanies and supplements an entity's financial statements is within the boundaries of financial reporting and therefore within the scope of the Conceptual Framework. Until Phase E of the Framework has been finalised (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

Contact: Amy Huxley
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Our Ref: 09/176777 BH/DT

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 are 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?