



8 January 2010

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

Email: [standard@asb.gov.au](mailto: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.

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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](mailto: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](http://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](mailto:kerry.hicks@charteredaccountants.com.au)

Yours sincerely

Lee White  
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- 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.	