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

5 March 2010

Dear Kevin

Exposure Draft ED 183 *Management Commentary*

I am enclosing a copy of the PricewaterhouseCoopers response to the International Accounting Standards Board's exposure draft ED/2009/6 *Management Commentary*. The letter reflects the views of the PricewaterhouseCoopers network of firms and as such includes our own comments on the matters raised in the Exposure Draft.

If the IASB issues a guidance document on management commentary, we would encourage the current Group of 100 guidance to be updated (or replaced) to align it with the IASB document. Since the two documents are very similar, this should not have a significant impact on corporate reporting in Australia but would further demonstrate Australia's commitment to consistent reporting world-wide.

We are not aware of any regulatory or other issues arising in the Australian environment that would affect the implementation of the proposals. Subject to the specific comments raised in our submission to the IASB, we believe that the proposals would result in financial statements that would be useful to users and that the proposals are in the best interests of the Australian economy.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

Jan McCahey

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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

1 March 2010

Dear Sir

Exposure Draft on Management Commentary ('MC') (the 'exposure draft')

We are responding to your invitation to comment on the above exposure draft.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of the member firms that commented on the exposure draft. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We welcome the opportunity to comment on the exposure draft. We support initiatives to drive improved corporate reporting, encompassing both financial reporting (comprising the financial statements and other financial reporting, such as a financial review) and contextual and non-financial reporting in annual reports, including MC.

We believe that the need for contextual and forward-looking MC has increased in recent years. Market turmoil and the credit crunch have been reminders that financial measurement alone cannot provide investors with sufficient insight into corporate performance and the longer-term sustainability of businesses. Factors such as market context, governance, risk, business model dynamics, culture and behaviour are critical to their assessment.

We are supportive of the role the IASB has played in moving the broader reporting debate forward, and we support the approach taken in the exposure draft that guidance rather than a standard is appropriate. We also agree that any guidance should be built around core principles and a content framework to allow management to determine the most useful information to include in its MC.

The IASB influences the reporting agenda, and its views on MC can help steer market participants towards coherent corporate reporting. The IASB's work on MC is a positive step, but we have several comments on the IASB's priorities and the overall positioning of MC in the future development of reporting.

Firstly, any decision to proceed with the MC project in its current form should be assessed against the other elements of the IASB's agenda and projects within the Memorandum of Understanding, and the continuing pressure to deal with the issues arising from current market conditions. We question whether the MC project should be a priority for the IASB at this time, given its other priorities and its resource constraints. We also recognise that the exposure draft would have little impact on current reporting for many countries around the world and should not be given priority over the agenda to be completed by 2011.

Secondly, the MC exposure draft is one among a large body of global guidance and regulation that is aimed at enhancing the breadth and quality of corporate reporting beyond the financial statements – for example, around MD&A, OFR, CSR, and environmental, social, governance, remuneration and risk issues. Current approaches to driving improvements in corporate reporting between markets and national jurisdictions differ where guidance and regulations can vary significantly. Yet there is a growing consensus among stakeholders on the need for improved insight into a company's broad performance by approaching reporting in a more holistic way.

A number of initiatives are underway globally to drive the development of a blueprint for an integrated reporting model in a structured, logical, timely and accountable way – for example, the activities of the internationally supported 'Accounting for Sustainability' forum and the issuing of 'King III', the revised Code and Report on Governance for South Africa.

We encourage the IASB to see its work on Management Commentary as a potentially significant contribution to these initiatives and to engage in such collaborative efforts to steer market participants towards an integrated reporting model.

The IASB's MC guidance may in the short term clarify the components of decision-useful reporting beyond the financial statements. We believe, however, that more extensive thinking is needed to identify how all the elements of the connected reporting model can be developed to include the issues arising from recent market events and those that relate to the sustainability agenda, including emissions, waste, resource usage and tax. If the IASB decides to continue to have MC on its agenda, we suggest that the final guidance provides a sense of how this more holistic approach to reporting may evolve over time.

We comment on the questions posed in the Invitation to Comment in the Appendix to this letter. These comments should be considered in the context of the points made in this letter about the priorities of the IASB and the future development of reporting.

If you would like to discuss any of these points in more detail, please contact Richard Keys, Global Chief Accountant (+44 (20) 7212 4555), David Phillips (+44 (20) 7804 5055) or Tony de Bell (+44 (0)20 7213 5336).

Yours sincerely

PricewaterhouseCoopers

PricewaterhouseCoopers LLP

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Appendix

Detailed response to the questions posed by the Invitation to Comment within the Exposure Draft on Management Commentary (MC)

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?

We support the IASB's decision at this stage to develop principles based guidance for MC rather than a mandatory standard.

This is an appropriate approach to achieving high-quality corporate reporting. It will allow regulators in individual jurisdictions to choose whether to adopt the guidance where there is no existing MC requirement. This approach will also enable integration with existing MC requirements where applicable.

We reiterate the view in the attached letter that such guidance would form just one element of multiple regulations and guidance surrounding corporate reporting, as the drivers for effective reporting become even more diverse as a result of emerging issues such as carbon reporting.

Achieving a cohesive approach to improving corporate reporting, rather than tackling individual aspects of reporting in a piecemeal fashion, is vital to ensuring the information provided by preparers is useful for capital providers' decision-making. This is not a goal we believe can be achieved by the IASB issuing MC guidance in isolation, but it could be achieved through relevant capital market participants coming together under the umbrella of a facilitating body to develop the future of reporting.

For example, the December 2009 'Accounting for Sustainability' roundtable (attended by more than 170 international representatives, including preparers, standard setters, investors, national accounting bodes, regulators, academics and other organisations) proposed the creation of the International Connected Reporting Committee. Such a committee could establish a collaborative and accountable governance structure to oversee the task of steering market participants towards the enhanced insight and understanding that would arise from a connected reporting model.

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?

We agree with the proposed content elements of the framework for preparing and presenting MC. These are consistent with the findings of our research over the past decade and with similar content frameworks proposed by bodies such as the International Corporate Governance Network and the American Institute of CPAs in its Enhanced Business Reporting initiative.

We believe that such a principles-based framework for reporting MC will allow good practice to develop over time. However, we have some concerns around other aspects of this framework – please see our additional comments below.

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?

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We believe that including detailed application guidance and illustrative examples may lead to boilerplate reporting and therefore agree that it should be excluded from the MC guidance. We believe that good practice disclosures will in part be encouraged by this principles-based MC guidance and in part be driven by market pressure. Specific examples of such good practices in reporting should be developed over time by interest groups such as investors, analysts, preparers and other interested parties.

Additional comments

Scope

To ensure that following this guidance is not seen as a condition for compliance with IFRS overall, we recommend inclusion of a paragraph similar to that in IAS 34, Interim Financial Reporting, for example:

Each financial report, annual or interim, is evaluated on its own for conformity to IFRSs. The fact that an entity may not have provided management commentary during a particular financial year or may have provided management commentary that does not comply with this guidance does not prevent the entity's annual financial statements from conforming to IFRSs if they otherwise do so.

Identification of MC

The exposure draft states that 'when an entity prepares MC to accompany IFRS financial statements, it should not make that commentary available without those financial statements.'

We believe this is unnecessarily prescriptive; management may wish to use MC elsewhere in its communications of corporate performance and prospects – for example, within presentations to investors and analysts, in summary financial reports or accompanying interim financial information.

We recommend this proposal be amended in such a way as to encourage management to provide cross-references within MC to where supporting documents can be found, including IFRS financial statements where appropriate.

Qualitative characteristics

We have two concerns regarding paragraph 20 of the ED around qualitative characteristics.

Firstly, we explained our views on the qualitative characteristic of verifiability in our comment letter dated 29 September 2008 in response to ED on Conceptual Framework Phase A: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information. They are set out below. We believe these concerns are magnified in the context of MC, due to the inherently forward-looking orientation of the information being reported.

Extract from comment letter:

> We do not believe that the Boards have adequately explained the characteristic of verifiability. While the word itself invokes perhaps an inappropriate association with 'auditable', we would be less concerned with the word used if the description was clearer.
>
> We question *how* information should be verifiable and *by whom*. As written, we struggle with the application of this principle to the preparation of financial reports (from the perspective of the preparer) and the development of standards (from the perspective of the standard setter).

We are aware that accounting under certain existing standards is dependant on management's intent (for example, hedge accounting under both IFRS and US GAAP). One possible reason for including verifiability as an enhancing characteristic may be the Boards' desire to limit allowable alternative treatments based on a management decision that cannot be verified. Verifiability is then appropriately included in the conceptual framework, but would be applicable only to standard setters.

With regard to the preparer, verifiable may be misunderstood to mean audited, although as described, we believe it more closely resembles the idea of accuracy, or perhaps sound judgment. That is, information is verifiable if a reasonable individual with all facts and circumstances would arrive at a similar conclusion. Described in this manner, verifiability seems to be integral to the accurate accounting for transactions, and as such is better described as a component of faithful representation.

We believe that the Boards need to better explain what they mean by the term *verifiability.* It might be helpful to describe how the concept the Boards are trying to convey is currently addressed in IFRS, as decision-usefulness has been assessed under that framework without any reference to verifiability. In view of the association with 'auditable', the Boards may also consider using a different term.

Based on further analysis, it may be appropriate to eliminate verifiability, include it as a component of faithful representation or clarify its impact as an enhancing characteristic.

Secondly, we find the notion of 'maximising' the enhancing qualitative characteristics to be confusing and in contrast to the discussion presented on this area in the Phase A Conceptual Framework ED. We recommend this terminology be removed from the MC guidance.