

01 March 2010

International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
United Kingdom
Email: CommentLetters@iasb.org

Dear Sir/Madam

SAICA SUBMISSION ON EXPOSURE DRAFT ON *MANAGEMENT COMMENTARY*

In response to your request for comments on the IASB's exposure draft, *Management Commentary*, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA). Please note that SAICA is not only a professional body, but also secretariat for the Accounting Practices Board (APB), the official standard-setting body in South Africa. The SAICA comment letter results from deliberations of the Accounting Practices Committee (APC), which is the technical advisory body to the APB.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Sue Ludolph
Project Director – Accounting

cc: Moses Kgosana (Chairman of the Accounting Practices Board)
Prof Alex Watson (Chairman of the Accounting Practices Committee)

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GENERAL COMMENTS

We are generally supportive of the Board's decision to publish guidance for management commentary. We also support the Board issuing guidance on management commentary as a framework that will accompany financial statements that are prepared in accordance with International Financial Reporting Standards (IFRS). Whilst we believe that the proposed guidance could be a useful in providing decision-useful information on historical and prospective commentary on the entity's financial position, financial performance and cash flows, we have certain concerns with the proposals that we recommend be addressed before the final guidance is issued.

Our concerns with the Exposure Draft include:

- It is unclear from the wording of the Exposure Draft as to whether it is intended to represent best practice or a required minimum. Both levels of guidance present unique challenges. Best practice cannot be regulated, while minimum requirements could encounter obstacles in terms of local legislation in some jurisdictions, notably in the area of forward-looking information. Minimum requirements also tend to drive a tick-box approach, thereby compromising the overall quality of the result. Best practice on the other hand could be so far removed from reality in some jurisdictions that the guidance could be totally ignored. On balance we prefer best practice as the intended outcome and recommend that the Board opt for an "apply or explain" approach in respect of this guidance.
- The Board has indicated in paragraph 1 that the proposed guidance will assist management in preparing decision-useful management commentary to accompany financial statements prepared in accordance with IFRSs. However, in our view, it is unclear how some of the proposals contained in the Exposure Draft will interact with IFRSs, particularly the interaction between IAS 1 requiring additional disclosures to meet the fair presentation objective and BC13 of the Exposure Draft. This concern has been elaborated further in our response to Question 1.
- The Exposure Draft does not specifically state where this proposed management commentary will be positioned, that is, in the financial statements or in the annual report. As it is proposed that management commentary will be prepared according to its own framework and will accompany the financial statements that are prepared in accordance with IFRSs, we recommend that this be positioned in the annual report, outside of the financial statements.

SPECIFIC COMMENTS

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?

Yes, we agree with the Board's decision to develop a guidance document for the preparation and presentation of management commentary, instead of an IFRS. However, it is unclear as to how some of the proposals contained in the Exposure Draft will interact with financial statements that are prepared in accordance with IFRSs. The Exposure Draft states that the objective of the proposed guidance is to issue a framework for the

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preparation and presentation of management commentary to accompany financial statements prepared in accordance with IFRSs. Paragraph 17(c) of IAS 1– *Presentation of Financial Statements*, states that “*In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable IFRSs. A fair presentation also requires an entity to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance*”. This means that IFRS specifies minimum requirements but not maximum requirements. BC13 of the exposure draft seems to contradict the IAS 1 requirements. Paragraph BC13 states that “*The Board observed that it is important that users of the financial reports should be able to distinguish information that is prepared using the proposed Guidance from information that is prepared using IFRSs, and from information that may be useful to users but is not the subject of the guidance described in the Guidance or the requirements in IFRSs.*” The implication is that there cannot be information required by both IFRS and the proposed guidance, when it is argued that this could be the case. For example, paragraph 30 of the proposed guidance requires “*disclosure of an entity’s principal risk exposures*”, which could overlap with the requirements of paragraph 33 of IFRS 7 – *Financial Instruments: Disclosures*, which requires disclosure of information on risks arising from financial instruments. It is therefore suggested that it be clarified that information disclosed in terms of the proposed guidance should only be required to be identified as such if the same information is not also required to be provided in order to comply with IFRS. We suggest that the Board state that an entity cannot claim compliance with the proposed guidance unless it has complied with it, and has identified which information it has provided in terms of the proposed guidance that is not required by IFRS. Accordingly an entity should firstly determine whether its financial statements comply with IFRS and then considers whether any additional information is required in terms of the proposed guidance; with such additional information to be identified and not forming part of the annual financial statements.

We also understand that the Board will be developing a disclosure framework and we recommend that the principles contained in this Exposure Draft be consistent and updated for the principles to be included in the disclosure framework.

We are also concerned that the proposed guidance would be perceived as the absolute minimum and thus could result in a ‘tick box’ exercise rather than applying professional judgement depending on each entity’s specific circumstances, thus limiting entities from providing disclosures that are broader than the proposed guidance and that could be useful to users.

BC28 states that “*The requirement for a focus on information that helps users of the financial reports assess prospects is found in all of the jurisdictions surveyed in the discussion paper. This principle has its roots in regulation, specifically in the MD&A requirements of the SEC. The third of the SEC objectives for MD&A reporting is:*

... to provide information about the quality of, and potential variability of, a company’s earnings and cash flow, so that investors can ascertain the likelihood that past performance is indicative of future performance.”

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We understand that the principle in BC28 is derived from the SEC MD&A, but it is unclear in our view how, and to what extent, past performance would be reflective of future performance.

Having suggested that the Board position the proposed management commentary outside the financial statements, we would also recommend that the Board provide clarity on whether or not this proposed management commentary would fall within the scope of paragraph 13 and 14 of IAS 1. Paragraph 13 states that “*Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity’s financial performance and financial position, and the principal uncertainties it faces...*” whilst paragraph 14 states that “*Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of IFRSs.*”

Content elements of a decision-useful management commentary

The proposed framework for the preparation and presentation of management commentary is intentionally general. This reflects the Board’s view that a flexible approach elicits more meaningful disclosure by encouraging entities that choose to prepare management commentary to discuss the matters most relevant to their individual circumstances. Consequently, the proposed framework for the preparation and presentation of management commentary sets out the principles, qualitative characteristics and content elements necessary to provide existing and potential capital providers with decision-useful information.

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 refer to our comments under ‘General comments’ and Question 1 as this is difficult to answer without the context of the intended level of the proposed guidance, that is, best practice or minimum requirements.

Yes, we agree that the content elements described in paragraph 24-39 provide decision-useful information; however, we would propose that the Board expands on these. We urge the Board to consider the guidance contained in the SEC MD&A on systems and controls as we believe that this guidance would provide decision-useful information.

We would also propose that the Board incorporate disclosures on sustainability reporting and remuneration policies in the final guidance. We are also of the view that the proposed disclosures in paragraph 30 of the Exposure Draft relating to risks, which are simply risk identification procedures, would not necessarily provide decision-useful information. Risk mitigation techniques in the context of risk appetite are considered decision-useful information.

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Application guidance and illustrative examples

The Board does not intend to include application guidance or illustrative examples in the final management commentary guidance document. The Board is concerned that such detailed guidance could be interpreted as either a floor (minimum requirements for content) or a ceiling (the only disclosures for inclusion in management commentary). The Board believes that the development of application guidance or illustrative examples to help management apply the proposed framework for management commentary is best left to other organisations.

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?

We agree with the Board's decision not to include detailed application guidance and illustrative examples in the final management commentary guidance document as we believe that providing such information could possibly become a checklist for minimum requirements.

OTHER COMMENTS

1. The Board introduces the Exposure Draft by stating that the proposals presented will not result in an IFRS. The basis for arriving at this conclusion has not been provided either in the body or Basis for Conclusions of the Exposure Draft. We therefore propose that the Board address this in the Basis for Conclusions of the final guidance.
2. The Exposure Draft contains a table in BC42 showing a relationship between the five content elements and users needs, which we believe to be useful. We recommend that the Board considers incorporating this table in the body of the final guidance.

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