



International Accounting Standards Board®

Press Release

FOR IMMEDIATE RELEASE

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IASB publishes Discussion Paper on Management Commentary

The International Accounting Standards Board (IASB) published today a Discussion Paper *Management Commentary* that assesses the role the IASB could play in improving the quality of the management commentary that accompanies financial statements.

The Discussion Paper was prepared for the IASB by staff of its partner standard-setters from New Zealand, Germany and the United Kingdom and the Canadian Institute of Chartered Accountants.

Management commentary is widely regarded as an important part of companies' annual reports and many jurisdictions have developed requirements or principles on management commentary. The Paper reviews those requirements and offers recommendations on how the IASB might promote the wider adoption of best practice in the interests of investors and others who use financial reports.

Introducing the Discussion Paper, Sir David Tweedie, IASB Chairman, said:

The management commentary accompanying financial statements gives readers a valuable insight into management's view of the main trends and factors underlying the current and future development, performance and position of the entity's business.

The Board commissioned this Discussion Paper to help us assess how the Board could help to improve the quality of management commentary and promote international convergence of the varying practices around the world. We are grateful to our partner standard-setters for funding this project, and to the team who prepared the Paper.

The IASB has discussed the Discussion Paper but has yet to develop tentative views on the authors' recommendations. However, it has agreed that if it adds this project to its agenda it will regard the Discussion Paper as the first stage in its due process. In that case, the IASB could publish an exposure draft as the next phase of such a project. The IASB invites comments on the Discussion Paper by 28 April 2006.

The primary means of publishing Discussion Papers is by electronic format through the IASB's subscriber Website. Subscribers are able to access today's publication through 'online services'. Those wishing to subscribe should contact:

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Printed copies of the Discussion Paper *Management Commentary* (ISBN 1-904230-97-0) are available, at £10 each including postage, from IASCF Publications Department.

From 7 November, the text of the Discussion Paper will be available freely from the IASB's Website.

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NOTES TO EDITORS

About the IASB

The International Accounting Standards Board (IASB), based in London, began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB. The 14 Board members (12 of whom are full-time) are drawn from nine countries and have wide international experience and a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore, base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences between IFRSs and Japanese accounting standards, and in March the boards met to decide on the initial programme of work for the project.

About the Management Commentary project

Background

In October 2002 the IASB asked the Financial Reporting Standards Board (FRSB) of the Institute of Chartered Accountants of New Zealand to provide staff to lead a project to examine the potential for the IASB to develop standards or guidance for management commentary. The UK Accounting Standards Board (ASB), the Canadian Institute of Chartered Accountants (CICA) and the Deutsches Rechnungslegungs Standards Committee e.V. (DRSC) were asked to provide staff to assist with research and drafting.

Management commentary (MC)

When the project began, its working title was ‘management’s discussion and analysis’ (MD&A). This is the term used in Canada and the United States. However, the ASB in the

United Kingdom, for example, refers to 'Operating and Financial Review' and the DRSC in Germany refers to 'Management Reporting'. The generic term 'management commentary' (MC) is used throughout the Discussion Paper.

The Discussion Paper defines MC as:

information that accompanies financial statements as part of an entity's financial reporting. MC explains the main trends and factors underlying the development, performance and position of the entity's business during the period covered by the financial statements. It also explains the main trends and factors that are likely to affect the entity's future development, performance and position.

Issues raised in the IASB's Discussion Paper *Management Commentary*

The IASB invites comments on the following preliminary views expressed by the project team:

1. An entity's financial report should be viewed as a package comprising the primary financial statements, accompanying notes and management commentary (MC) and that the quality of MC was likely to be enhanced if the Board published requirements relating to MC.
2. The objective of MC is to provide information to help investors: to interpret and assess the related financial statements in the context of the environment in which the entity operates; to assess what management views as the most important issues facing the entity and how it intends to manage those issues; and to assess the strategies adopted by the entity and the likelihood. The primary focus of MC is to meet the information requirements of investors.
3. It is not appropriate to specify the precise information that must be disclosed within MC, or how it is presented. Rather, any requirements for MC should set out the principles and qualitative characteristics, as well as the essential areas of MC, necessary to make the information useful to investors. It is up to management to decide what information is necessary to meet these requirements, and how the information is presented. It is appropriate to consider ways to limit the amount of information that management discloses, to help ensure that only relevant information is presented to investors.
4. It would be helpful to establish criteria to guide the Board in determining whether information it requires entities to disclose within financial reports should be placed in MC, or in the general purpose financial statements. The Discussion Paper suggests placement criteria.

Timetable

The comment period is until 28 April 2006. The IASB is likely to ask the project team to analyse comments received and present recommendations. That process is likely to take place in the second and third quarters of 2006.