



16 July 2009

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IASB EXPOSURE DRAFT ON *MANAGEMENT COMMENTARY*

Comments to be received by 8 February 2010

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Exposure Draft which has been posted on the Institute's website at:

www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php.

Management commentary is an opportunity for management to outline how an entity's financial position, financial performance and cash flows relate to management's objectives and its strategies for achieving those objectives. The information contained in management commentary is therefore of keen interest to investors and other users of financial statements. However, while management commentary-type reporting is mandatory in many jurisdictions, some do not have guidance for this type of narrative report. Many preparers and users therefore indicated a need for the IASB to provide such guidance.

The proposals draw upon international best practice in the preparation and presentation of management commentary. The IASB believes that providing non-mandatory guidance will improve the consistency and the comparability of management commentary across jurisdictions.

--- A summary of the framework for the preparation and presentation of management commentary proposed in the Exposure Draft is set out in the Appendix.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IASB Exposure Draft to be considered, they are requested to be received by the Institute on or before **8 February 2010**.

Comments may be sent by mail, fax or e-mail to:

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Comments may be made available for public review unless otherwise requested by the contributor.

Summary of the framework for the preparation and presentation of management commentary proposed in the Exposure Draft

(a) Users

The proposals stress the importance of understanding the needs of existing and potential capital providers when developing the information to be provided in management commentary.

(b) Time frame

The ED proposes that management commentary would address not just information that helps users place the related financial statements in context but also would provide main trends and factors that are likely to affect the entity's future performance, position or development.

(c) Principles

When developing management commentary the ED proposes that, in order to have decision-useful management commentary, management align its commentary so that it:

- provides management's view of the entity's performance, position and development;
- supplements and complements information presented in the financial statements; and
- has an orientation to the future.

(d) Presentation

To assist users in identifying and understanding matters that are significant, the ED suggests that management should avoid duplicating in its management commentary the disclosures made in the notes to the financial statements. In addition, generic ("boilerplate") disclosures should be avoided because they do not contribute to an understanding of the specific entity.

The ED proposes that management commentary should be consistent with its related financial statements if the financial statements include segment information, the information provided in management commentary should reflect that segmentation.

(e) Content Elements of a Decision-useful Management Commentary

The IASB suggests that the information provided should enable users to understand:

- the nature of the business, which might include discussion on relative industry / industries, products and services, overall structure, and the markets in which the entity operates
- management objectives and its strategies for meeting those objectives, for example through discussion on how an entity intends to address market trends and the related impact on the entity's future performance
- the entity's most significant resources, which might include an analysis of liquidity, cash flows, financing arrangements, and capital structure
- the entity's principal risks, e.g. strategic, commercial, operational and financial risks, but not all possible risks

- the entity's most significant relationships, in particular those with stakeholders
- the results of operations and prospects, including whether current or historical performance may be indicative of future performance
- the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives, and whether those used in the past continue to be relevant.