



Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.iasb.org)

2 March 2010

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

Dear Sirs,

[IASB Exposure Draft on Management Commentary](#)

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Exposure Draft (ED). Our responses to the questions raised in your Exposure Draft are set out in the Appendix for your consideration.

Over the past decade the Institute has strongly promoted corporate governance standards in Hong Kong and has introduced the Best Corporate Governance Disclosure Awards to raise awareness of the benefits of greater transparency and accountability among stakeholders. We believe that guidance in this area will be an important development internationally, encouraging consistency in management reporting and strengthening governance.

We are supportive of the high level principles-based approach for the content of a MC taken in the ED, albeit with some additional application guidance. Given that each entity possesses some uniqueness in respect of its business model, management structures and operating environment etc, we agree that a 'one size fits all' approach is inappropriate for MC. As we mentioned in our previous submission in 2006, we consider that the detailed requirements for the contents of the MC should continue to be set by local regulators and do not support the development of a mandatory standard by the IASB. We anticipate the guidance in this proposed ED may operate as a means of harmonizing the reporting in countries that already have MC reporting requirements and as a means of providing new guidance for those that do not, in both cases enabling regulators to align their requirements over time with a global benchmark.

We agree with the IASB that management must identify the key information and highlight it in a manner which is most appropriate to their business, reporting style and cultural setting and that it would be inappropriate to impose prescriptive requirements in the guidance. Furthermore, we note that MC is just one element of stakeholder reporting. Stakeholder reporting in a broader sense includes the MD&A, OFR, corporate and social responsibility, environmental and risk reporting. We therefore believe that guidance produced should take a more holistic approach to MC and related areas.



In view of our earlier comment, we question whether the IASB alone is the relevant body to take this project forward, particularly in light of the IASB's existing workload. We believe that a group comprising multiple global stakeholders, including the IASB, would be a more appropriate body to oversee a more comprehensive review of MC and related areas.

If you have any questions on our comments, please do not hesitate to contact me at ong@hki CPA.org.hk.

Yours faithfully,

A handwritten signature in black ink that reads 'Steve Ong'. The signature is written in a cursive, flowing style.

Steve Ong, FCPA, FCA
Director, Standard Setting Department

SO/MC/zc

Hong Kong Institute of CPAs

Comments on the IASB Exposure Draft on *Management Commentary*

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 are supportive of the IASB's decision to take the initial step in developing internationally recognised guidance for the preparation and presentation of a management commentary (MC) instead of an IFRS. We believe that this guidance has the potential to become an international benchmark to assist capital markets in evaluating the transparency of a business and thereby encourage accountability to world capital markets.

As we have mentioned in our previous submission in 2006, given that the information to be disclosed in a MC might relate to business strategy, economic environment, forward looking business prospects and market trends that is very difficult, if not impossible, to verify, it might create difficulties for the auditor in forming an opinion on whether the information is fairly presented. Furthermore, as the legal environments around the world differ markedly in this area, any attempt to introduce mandatory requirements on a global scale would be unsuccessful. In view of the nature of MC, we consider the detailed requirements and the extent to which compliance with those requirements is monitored would be better governed by local regulators.

Nevertheless, as stated in our covering letter, we believe that a broader group comprising other global stakeholders, such as the IOSCO, IFAC, national securities regulators, analysts, investors, preparers and other experts, including the IASB, should take the Exposure Draft forward in the development of MC requirements.

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 broadly agree that the content elements described in paragraphs 24-39 are necessary for the preparation of a decision-useful MC and applaud the clear attempt of the project team to limit the degree of prescription in the guidance. However, we have concerns that the structure of the proposed guidance which simply provides a list of items to be discussed by the management would be of limited help for the users. Instead we would like to see a clear linkage and interaction between the related critical elements such as: from market (e.g. description/explanation of the market, competitive advantages/value drivers, analysis of challenges and success factors), to strategy (e.g. how is the strategy being implemented, with examples) to delivery of value (e.g. overview of performance, how value has been created over the reporting period, what is driving revenue growth, how revenue (cash generated) has been used to build the



business) and key performance indicators, to risk profile and to future goals and prospect.

We note that the ED proposes that the qualitative characteristics of a MC are those described in Phase A of the Conceptual Framework ED and that questions about the applicability of the qualitative characteristics to MC will be resolved during the finalization of Chapter 1 of the Conceptual Framework. We consider that such a cross reference is not sufficient and that it is important that the MC guidance addresses the important issue as to how faithful representation of MC can be achieved, as management may have a natural tendency to focus only on the more favourable aspects of the company's performance.

For example, in the context of encouraging faithful representation, it should be pointed out that performance indicators should be used fairly and objectively, not in a way that could mislead or distort the picture (e.g. by deliberately dating back company safety comparisons to the year of the last bad accident or averaging positive figures by skirting around a year that would otherwise significantly reduce the average). Once suitable performance indicators have been identified, in subsequent MCs, the company should continue to use the same or similar bases of comparison in subsequent years, unless, as suggested in paragraph 38 of the ED, the indicators have become less relevant. Management could also be reminded that without a balanced presentation, less credence will be given to the good news.

However, as noted in our covering letter, we also consider that the final MC guidance should be more comprehensive, addressing the related areas of MD&A, OFR, corporate and social responsibility, environmental, remuneration and risk reporting.

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 overall with the IASB's decision not to impose prescriptive requirements in the guidance. However, we believe that the inclusion of some examples would be helpful in understanding the characteristics of the content elements of the document. For example, it is not entirely clear what is meant by "resources not presented in the financial statements" or "non-financial factors", as described in paragraph 12 of the ED. Further explanatory guidance such as whether employees and customers are regarded as "resources" or "non-financial factors" in a company would be helpful.



Other comments:

Scope

The Exposure Draft states that the framework "*has been developed to apply to publicly traded entities*".

The objective of the Exposure Draft is to enhance the usefulness of financial reports and we believe the principles can be applied to a wider range of financial reports. We believe the framework should not be confined to publicly traded entities but could be extended to include public interest entities which may be defined as "entities that are of significant public relevance because of the nature of their business, their size or their number of employees is such that they have a wide range of stakeholders".

Identification of MC

We noted that paragraph 6 of the ED prohibits an entity from distributing the MC without attaching the full financial statements, if the MC has been prepared "to accompany IFRS financial statements". We are concerned that this proposal may not be practical in practice. For example, is this intended to prohibit an entity providing the MC to analysts during a company presentation unless they provide the full financial statements? How is this requirement intended to operate in the case of summary financial statements and financial highlights? We do not support paragraph 6 and consider it should be deleted.

Principles for the preparation of management commentary

We believe that paragraph 12 does not fully capture the role of the MC in that paragraph 12 focuses only on using the information in the MC to assess management's past performance. As more fully explained in paragraphs 13(c) and 17-19, a good MC has an "orientation to the future". This ought to be acknowledged in the way in which it is described in paragraph 12.