

International Accounting Standards Board  
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19 February 2010

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Submitted electronically through the IASB Internet site ([www.iasb.org](http://www.iasb.org))

**Exposure Draft ED/2009/6 *Management Commentary***

Grant Thornton International is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2009/6 *Management Commentary* (the ED). We have considered the ED as well as the accompanying draft Basis for Conclusions.

We believe that high quality Management Commentary (MC) reporting plays an important role in providing useful information to investors and other users of financial statements, and in improving the quality of the dialogue between the management of entities and those users. This suggests that there is a good case for developing mandatory international requirements. However, the promulgation of an IFRS in this area raises complex audit, legislative, cultural and practical issues that will require considerable time to explore at international level. In particular, the risk of litigation relating to forward-looking information in some jurisdictions may act as a significant barrier to the acceptance of an IFRS in this area. These issues may or may not prove capable of resolution.

In these circumstances, we support the Board's decision to develop a high-level, principles-based guidance document. We believe a document of this nature will contribute to improved MC, particularly in jurisdictions that do not currently have well developed requirements in this area.

We suggest that the Board should in due course revisit the status of the MC guidance and examine the feasibility of developing a mandatory International Financial Reporting Standard (IFRS) (in other words, a Standard that entities must comply with in order to make an explicit and unreserved statement of compliance with IFRS). However, we concur with the Board's view that a guidance document is more appropriate and practical at present. As noted in the draft Basis for Conclusions, the conclusions of the conceptual framework project on a disclosure and placement framework should assist in the future development of MC requirements.

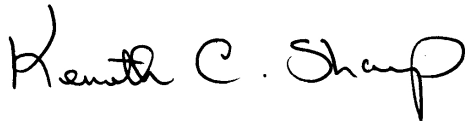
We also largely agree with the proposed principles and content elements of a decision-useful MC. We note however that MC is, by its nature, driven by the views of management with an eye to the future. Therefore, we have some reservations about certain qualitative characteristics expressed in the ED, particularly those of neutrality and verifiability. We suggest that the guidance developed from the ED should describe the qualitative characteristics in such a way as to clarify how they can be applied in practice in the context of MC reporting.

We expand on these remarks and make a number of other comments and suggestions in our responses to the Invitation to Comment, set out in the Appendix to this letter.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive style with a large initial 'K' and a distinct 'S'.

Kenneth C Sharp  
Global Leader - Assurance Services  
Grant Thornton International

## Responses to invitation to comment questions

### Status of the final work product

#### 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 believe that high quality Management Commentary (MC) reporting plays an important role in providing useful information to investors and other users, and in improving the quality of the dialogue between management and users. In due course we believe the Board should explore the feasibility of developing an IFRS to improve the content and consistency of this type of reporting, particularly for 'publicly accountable' entities (as currently defined in other standards). However, the current lack of a disclosure framework (see comments under 'Framework for disclosure' below) and the complex audit, legislative, cultural and practical challenges faced in local jurisdictions, are substantial obstacles to achieving this.

Accordingly, we support the Board's approach to develop high-level, principles-based, non-mandatory guidance (in other words outside the scope of an explicit and unreserved statement of compliance with IFRS) (ED paragraph BC10)). Non-mandatory guidance can provide various benefits including:

- Jurisdictions with developing markets but with few existing requirements for MC may use the guidance as a basis for developing their own local mandatory requirements, so improving the standard and consistency of disclosure.
- Currently, there are a number of jurisdictions with more developed corporate markets that have detailed requirements for the form and content of MC. We believe that non-mandatory guidance will allow preparers to comply with local requirements and provide them with an opportunity to deliver MC that goes beyond the minimum regulatory requirements.
- The guidance can provide a benchmark of good practice, which will assist management in improving their MC disclosures voluntarily. Market pressures may also lead to increased quality of reporting if users have a high-quality benchmark against which to assess MC.
- Consistent with the objective (ED paragraph 11) that MC should present the entity 'through the eyes of management', the high-level, non-mandatory approach of the ED encourages entities to tailor their MC to provide the most relevant and most useful information to the users of their financial statements, and to take into account their industry background, the competitive environment and other information unique to their operations.
- The guidance can contribute to future debates with regulators and legislators, as well as with preparers and users of financial statements, about the role of disclosures in financial reporting more generally. Such debates may be enhanced by the comparison between the high-level, principles-based approach of the MC guidance and the detailed, checklist-based approach of current IFRSs. Also, the emphasis in the MC guidance on an orientation to the future may lead to renewed consideration of the extent and type of forward-looking information that should be incorporated into existing local MC requirements.

With regard to drafting, we consider the wording currently used in some sections of the ED to be too prescriptive a style for non-mandatory guidance, eg paragraph 1 'prescribes', and various paragraphs read as a requirement due to the use of the word "should" (eg paragraphs 18-19, 31, 33 and 35). We prefer the explanatory style used in paragraphs 26-29. Where this is not possible then 'should' could be replaced by 'may' or 'are encouraged to' or similar.

### **Content elements of a decision-useful management commentary**

**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 that the content elements included in paragraphs 24-39 of the ED are consistent with the MC's purpose (ED paragraph 11) of providing information to investors that will place the related financial statements in context. We believe the structure of this section of the ED is more useful than a checklist approach. It provides an explanation of the objectives and the importance of each content element suggesting that entities should disclose not only what happened, but also why it happened and the implications for the entity's future operations. As indicated in our response to question 1, this type of guidance allows entities to use their judgement in determining the most relevant and useful information to the users of their financial reports.

We agree with the ED's principle of orientation to the future (ED paragraphs 17-19). As a drafting matter, we suggest that the provisions of ED paragraph 19 (discussion of how previously disclosed forward-looking information is borne out) should form part of the content elements of decision-useful management commentary described in paragraphs 24-39. As currently drafted, paragraph 19 sets out disclosure content rather than a principle.

We would not expect an orientation to the future to extend to disclosure of detailed forecasts or projections of future financial results. Accordingly we would not expect ED paragraph 19 to require a comparison of actual and projected out-turn at this level of detail.

### **Application guidance and illustrative examples**

**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?**

Yes. We believe that detailed application guidance and illustrative examples may lead to 'boilerplate'-type disclosures. We think that the high-level, principles-based guidance of the ED is adequate and will encourage entities to consider more carefully how to develop the disclosures around their own facts and circumstances.

## Other comments

### Qualitative characteristics of the information to be disclosed

The characteristics proposed in the ED are consistent with those set out in the proposed chapter in the Conceptual Framework project: Phase A: *Objectives and qualitative characteristics* (Phase A Framework ED). In our response to that ED, we agreed that relevance and faithful presentation (components of which are neutrality, completeness and freedom from error) are fundamental characteristics, with comparability, verifiability, timeliness and understandability being enhancing characteristics of financial reporting information in the context of financial statements, which focus primarily on factual and historic information.

In the context of MC, these characteristics are a useful starting point but we have reservations as to the applicability of neutrality and verifiability and suggest they should be described in more detail within the guidance to fit the context of MC reporting. The focus of MC is to describe management's view and opinions and to be more forward looking than the general purpose financial statements that it accompanies (ED paragraph 11). Management's view of the entity implies a measure of subjectivity and some degree of bias in the information disclosed. We therefore agree with the concerns expressed by the dissenting Board members regarding neutrality (paragraph AV3).

Similarly, we question the applicability of the qualitative characteristic of verifiability as described in the Phase A Framework ED to narrative, forward-looking information included in the MC. Such information will include management's opinion and expectations and so cannot be verified in the manner that historical information can be.

We suggest that these reservations can be overcome if the Board expands on these qualitative characteristics to provide greater clarity as to their practical application in the context of MC. Neutrality is currently expressed as being 'free from bias' (Phase A Framework ED paragraph QC10). MC that sets out management objectives and strategies is more useful if it goes on to explain why management believe the objectives can be achieved. Although we would expect the focus on management's viewpoint to involve some level of bias, this bias may be tempered by balance in reporting. This balance comes from the presentation in MC not only of internal drivers and intentions but also the external drivers and causal factors that might prevent these strategies and objectives from being achieved. The discussion of how any previously disclosed forward-looking information is borne out (as encouraged by ED paragraph 19) will also contribute to the neutrality of forward-looking information.

Verifiability is described in Phase A Framework ED paragraph QC21, which is worded in terms of historical numerical information. For forward-looking, narrative information, much of which may be based on management opinion and expectations, an 'indirect verification' approach is a useful starting point but requires the review of more qualitative information and assumptions.

### Duplication of information

ED paragraph 23(b) suggests that entities should avoid duplicating in the MC the disclosures made in the notes to the financial statements. We do not think this is a practical requirement at this time (see comments under 'Framework for disclosure below).

IFRSs contain detailed disclosure requirements with little flexibility to allow disclosure in an alternative location to the financial statements (with limited exceptions such as IFRS 7.B6). However, in some circumstances, the information required by IFRSs may be more easily understood if placed in the context of the MC. To assist users' understanding, we believe some duplication is therefore inevitable if the MC is to provide a useful commentary. Consequently, this prohibition should be removed from ED paragraph 23(b) or the paragraph could be redrafted along the lines of:

"Management is encouraged to minimise duplicating in its management commentary lengthy and detailed disclosures made in the notes to the financial statements, where the financial statements accompany the management commentary. Where appropriate, the management commentary may instead be cross-referenced to where the disclosures are located in the financial statements."

We also suggest the last sentence of paragraph 23(b), as currently drafted is separated into a stand-alone sub-paragraph (paragraph 23(c)) as it is a distinct issue from that of duplication.

#### **Framework for disclosure**

As noted in our covering letter, we believe that the information conveyed in a high-quality MC is valuable to users of financial statements. Consequently, we believe that the Board should at some time in the future reconsider developing an IFRS for MC. However, as noted by the Board at BC44-46, the development of such an IFRS raises questions around 'placement'. These questions are in turn linked to the outcome of the conceptual framework sub-project on disclosure principles. The proliferation of increasingly detailed risk-related, management-oriented and forward-looking disclosures in IFRSs (eg IFRSs 7 and 8), increases the need for such a framework.

We agree that the MC project is not the place to develop a disclosure or placement framework. However, we believe this aspect of the conceptual framework is essential if a mandatory IFRS on MC is to be issued at some point. As noted in our comments under 'Duplication of information' above and acknowledged by the Board in ED paragraph BC46, there will be a significant overlap between the type of information that is disclosed in the financial statements and in the MC until this project is complete. An important feature of this framework will be to identify what type of information is core to the financial statements and any wider financial reporting disclosures within the statement of compliance with IFRS and what information is useful to include in the MC but is disclosed voluntarily, outside the statement of compliance with IFRS.