

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: commentletters@iasb.org

1 March 2010

Dear Sir David,

Re: Exposure Draft ED/2009/6 *Management commentary*

Deloitte Touche Tohmatsu is pleased to respond to the International Accounting Standards Board's (the "IASB" or "Board") Exposure Draft ED/2009/6 *Management commentary* (referred to as the "ED").

We believe that management commentary is an important element of financial reporting and provides decision-useful information to the users. The recent financial crisis has highlighted that users benefit from explanatory information in addition to the financial statements which helps evaluate an entity's financial position, financial performance and cash flows. We are supportive of the Board establishing high-level principles to facilitate comparability amongst entities reporting under IFRSs and to enhance the usefulness of their financial reporting.

We agree with the IASB that the status of any final document should be that of non-mandatory guidance. However, for the avoidance of any doubt, we suggest that the IASB should clarify that an entity's ability to claim compliance with IFRS in its financial statements does not depend on following this non-mandatory guidance on management commentary (BC 46 of the ED could imply otherwise).

Accordingly, we support issuance of the ED as a final guidance document, with some clarifications noted below. Given the very high-level nature of the guidance, there may be requests for providing further guidance with respect to management commentary. In view of the Board's current agenda, we believe the Board should resist such requests in the near term and only consider such requests in the future in coordination with regulators around the world tasked with oversight over financial reports provided to investors.

With regard to the detailed content of the ED we have the following comments which are further discussed in the appendix to this letter:

- We agree that the qualitative characteristics of decision-useful information as described in the Framework should apply to management commentary. However, given the inherently subjective nature of management commentary, we suggest that a principle be included on balancing positive and negative information.
- We suggest that the IASB include a principle on the consistency between information that is presented in the financial statements and information contained in management commentary.
- We suggest that the IASB include a principle around the use of non-GAAP measures.

- We are concerned that there is too much emphasis in the ED on forward-looking information.

Finally, we agree with the Board that detailed application guidance or illustrative examples should not be provided in any final document.

Our detailed responses to the invitation to comment questions are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 207 007 0884.

Sincerely,

A handwritten signature in black ink, appearing to read 'V. Poole', is positioned below the word 'Sincerely,'.

Veronica Poole
Global IFRS Leader – Technical

Appendix: Invitation to Comment

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 agree that any final document produced should be a non-mandatory guidance document instead of an IFRS. We see merit in providing a non-mandatory framework of guiding principles for the preparation of management commentary which may be of particular benefit for those jurisdictions that do not have a set of guidelines. Thus the guidance should contribute to enhancing financial reporting and bringing these jurisdictions closer to those that already have frameworks in place.

However, we believe clarification is needed in any final document with regards to the statement of compliance with IFRS required by IAS 1. Given the status of any final document will be that of non-mandatory guidance, if an entity does not comply with the guidance contained in the final document (e.g., it does not prepare management commentary at all or follows different requirements set by a local regulator) it should not be prevented from describing its financial statements as being compliant with IFRS – i.e., the compliance statement per IAS 1.16 should not extend to management commentary.

However, we believe that an entity wishing also to claim compliance with any guidance on management commentary should follow all the guidance contained in any final document.

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 described in the paragraphs mentioned are generally appropriate for the preparation of a decision-useful management commentary. However, we believe it is important that any final guidance makes it clear that these elements constitute neither a definitive list nor a specific sequence; rather, the elements should be examples of what entities would generally be expected to report on. In addition, national or regional laws or regulations may go beyond or deviate from these elements. For these reasons, we propose that any final guidance lays out the overall objectives of providing information outside of the financial statements rather than focusing on the individual elements.

In addition, we feel that the IASB should clarify the content currently positioned in paragraph 39 of the ED by establishing clear principles on the:

- use of non-GAAP measures in management commentary;
- neutrality of information presented (a balance between positive and negative information); and
- consistency of information that is presented in the financial statements and information contained in management commentary, i.e. the alignment of the back and the front end of financial reports.

We suggest that the IASB sets out the high-level principles at the beginning of the section rather than in the last paragraph of the document to emphasise the importance of those principles.

We believe the articulation of the principles contained in paragraphs 12 and 13 could be improved. Paragraph 12 reads as a summary of what follows in later paragraphs, notably paragraphs 14 to 20 and 27 etc., rather than an articulation of principles. The main principles appear to be in paragraph 13 but, as stated above, it is our view that these are incomplete and should be supplemented with the three principles outlined above.

While we agree with the Board that the qualitative characteristics of decision-useful information should also apply to management commentary as outlined in paragraphs 20 and BC31, we believe that a clarification is needed on how the qualitative characteristic of *verifiability* should apply to management's discussion of why and what circumstances prevailing today might change, e.g. it would be useful to include an acknowledgement of the fact that whilst management's views of the future may not be *verifiable*, but nonetheless they must be balanced and supportable.

While we agree with the principle in paragraph 13(c) that management commentary should have an orientation to the future, we are concerned that this principle has been over-emphasised in paragraphs 17, etc. We acknowledge that the existing narrative reporting frameworks in various jurisdictions require disclosure of management's view about future prospects. The emphasis here is generally not to predict the future, but rather to explain which circumstances prevailing today might change and why. A clarification of this fact would be useful. Furthermore, we fail to see why entities should be required to "discuss the extent to which forward-looking disclosures made in the prior period management commentary have been borne out." We would expect events and circumstances that have impacted the current year to be already discussed in sufficient detail in the notes to the financial statements. To propose extensive analysis as to why trends expected in prior years turned out differently seems to over-emphasise the orientation to the future.

As a matter of due process, we are concerned about the Board's decision to propose disclosure principles as part of a non-mandatory guidance document while deferring its work on that issue in Phase E of the Conceptual Framework project. Clear principles on the type of information that should be presented in the financial statements and information that should be presented outside the financial statements are crucial to avoid unnecessary duplication of information. We note that this issue is already of concern in some jurisdictions where there are requirements to disclose information in the management commentary that is also required by IFRSs to be presented in the notes to the financial statements, for example risk management disclosures mandated by IFRS 7. Hence, we believe that the Board should conclude on placement principles as a matter of priority. If the Board cannot deal with Phase E expeditiously at this stage, we suggest that the Board should at least clarify the issue in the Basis for Conclusions of any final guidance document on management commentary. In this regard, we would also like to highlight to the Board that BC46 may be read as being in conflict with the non-mandatory status of the guidance.

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?

We agree that any final document should not include detailed application guidance and illustrative examples.