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Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaçào Internacional das Comissões de Valore

March 12, 2010

Exposure Draft: Management Commentary
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

RE: Exposure Draft: *Management Commentary*

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1 or the Committee) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board's Exposure Draft on Management Commentary (MC), which is also commonly referred to as Management's Discussion and Analysis (MD&A) or Operating and Financial Review and Prospects (OFR).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein, unless indicated otherwise, reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Following are our comments in response to the specific questions enumerated in the Exposure Draft. We wish to point out that the comments relating to the specific content elements are not intended to be all inclusive – we did not read the Exposure Draft with a view to developing it as comprehensive, ultimately acceptable MC guidance by securities regulators. Rather, we note below the items that caught our attention. The Committee also notes that this Exposure Draft follows the IASB's Discussion Paper on Management Commentary, on which we submitted comments in a letter dated 28 April 2006.

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With respect to priority, we believe the Board should ensure adequate resources are deployed to the many projects that are directed at financial statement requirements, and that the primary focus of the Board's activities should remain on financial statement requirements.

Response to Question 1: Status of the Final Work Product

IOSCO and its members have long recognized the significance of MC-type disclosure, and view MC as a crucial component of management's communications with investors, and as one of management's most vital responsibilities. The development of high-quality international standards on MC could help improve the disclosure that issuers provide. Because of the importance of MC-type disclosure, IOSCO has developed international disclosure standards, principles and guidance for cross-border listed issuers, including disclosure standards on MC.¹ In addition, many of IOSCO's member jurisdictions have had national MC disclosure requirements in place for many years, and their securities regulators have extensive experience both in developing appropriate MC guidance for issuers and in reviewing documents containing MC disclosure. IOSCO's work in the area of MC is the culmination of the thorough analysis and discussion of securities regulators in those IOSCO member states.

In this context, Standing Committee No. 1 agrees with the Board's approach to develop a guidance document instead of an IFRS. We believe that non-mandatory guidance on MC could provide a useful complement to existing disclosure requirements and guidance for non-financial statement disclosure, although national jurisdictions will likely continue to rely on their existing provisions for the public capital markets.

Although we agree with the IASB's approach to developing guidance, the Committee believes that in several areas the Exposure Draft gives the appearance of being overly prescriptive, notwithstanding the statements on page 4 that the proposals it contains will not result in an IFRS and are non-binding. For example, Objective section on page 7 describes the guidance as prescribing a framework for the preparation and presentation of MC to accompany IFRS financial statements. This reference to a "prescribed framework" appears confusing, given that compliance with the guidance on management commentary would not be a required condition for asserting compliance with IFRS. We believe that the Objective section also could be more clearly formulated in order to remove any ambiguity about the non-mandatory nature of the guidance. Other specific examples of what appears to be the overly prescriptive nature of the guidance are highlighted in response to Question 2.

Some members of Standing Committee No. 1 consider that IASB guidance on management commentary may be more beneficial if it were issued after the completion of the associated chapter of the IASB's *Conceptual Framework for Financial Reporting*, given the links between the two documents (see, for example, the note on page 4 of the ED).

¹ In 1998 IOSCO endorsed the *International Disclosure Standards for Cross-Border Offerings and Initial Listings by Foreign Issuers (International Equity Disclosure Standards)*, Item 5 of which establishes disclosure standards for MC. These MC standards are applicable to the information that foreign issuers should provide in disclosure documents used in initial offerings and listings of their equity securities. In 2007, IOSCO endorsed the *International Disclosure Principles for Cross-Border Offerings and Listings of Debt Securities by Foreign Issuers*, Item VIII of which contains substantive guidance on the MC disclosure that foreign issuers should provide in disclosure documents used in initial offerings and listings of their debt securities. In 2010, IOSCO endorsed the *Principles for Periodic Disclosure by Listed Entities (Periodic Disclosure Principles)* which set guidance for the periodic reports of companies that have securities listed or admitted to trading on a regulated market in which retail investors participate. Chapter 3 of the *Periodic Disclosure Principles* calls for annual reports to include MD&A disclosure, and provides guidance for that disclosure. Additionally, in 2003 IOSCO published the *IOSCO General Principles Regarding MD&A* to explain the purpose behind MC and to note general precautions for issuers when preparing MC disclosure.

To another aspect of the possible link between management commentary and the content of the financial statements, we believe that management commentary is an integral part of financial reporting that complements financial information and provides users of financial statements with the appropriate context to understand the financial position and results of the issuer. As a result, we believe there would be a benefit to the harmonization of content and structure requirements for both financial statements and management commentary, given the connection between the two.

One Committee member recognizes that issuing non-mandatory guidance instead of as a mandatory standard has short-term advantages, since it could be a useful reference for those jurisdictions that do not currently have national requirements for management commentary, and it could be a step forward to achieve greater convergence. Nonetheless, in the medium and long-term, once the IASB concludes with other priorities (including financial instruments and insurance), this committee member believes it could be appropriate for the IASB to reconsider the non-mandatory status of its management commentary guidance. If that is the case, the member believes the IASB could include examples and application guidance, in order to allow a more consistent application and avoid misinterpretations. Other Committee members from jurisdictions without MC guidance also would not object to such an approach.

Response to Question 2: Content elements of a decision-useful management commentary

In addition to the general comments above regarding content, we have the following recommendations:

In Paragraph 25, the first sentence is unclear and may be too prescriptive. It would be helpful to revise this statement to explain why content elements are related and should not be presented in isolation.

Paragraph 28 states that a clear description of resources, risks and relationships that management believes affect long-term value . . . provides useful information. To be less prescriptive, the sentence should be revised to say that "Management commentary . . . can provide useful information..."

Paragraph 34 should be revised to state that "Explanations of the performance and development of the entity . . . can provide users . . ." and that "Those explanations are most useful..."

Paragraph 35 implies financial targets are encouraged, which, as is the case with earnings guidance, can be either desirable or not desirable. The paragraph can be revised to say "An analysis of the prospects of the entity can help users . . ."

Paragraph 37 is too conclusive as written because management may not always be right. The first sentence should be revised to say "The performance measures . . . are usually those . . ."

Orientation to the Future

The Committee agrees that management commentary should have an orientation towards the future, as proposed. However, we have concerns with the guidance as currently drafted, as it suggests that forecasts and projections should always be included in management commentary. Specifically, Paragraph 18 indicates that "management *should* (emphasis added) include forward-looking information when management is aware . . .," and Paragraph 17 talks about quantitative data such as forecasts and projections. Paragraph 17 combined with 18 could lead one to believe that "management should prepare forecasts or projections." Forecasts and projections should be permitted, but the Board should consider whether it is appropriate to do so in all circumstances, such as when the information is hypothetical in

nature. Although the Exposure Draft notes that commentary oriented to the future will be influenced by the regulatory and legal environment within which the entity operates, this in itself does not change the perceived level of expectation.

Also, the commentary notes the value of providing quantitative future oriented information but does not provide a sufficient explanation of the factors and assumptions used in developing that quantified information. Further, some discussion on the disclosure of underlying factors should be included in order to ensure that more context is provided on the development of any quantitative information (e.g., forecasts). Such discussion would assist in understanding the basis supporting the forecast and assist in any future discussions on comparing forecasts to actual results since management would need to explain why their original factors did not occur as anticipated.

In Paragraph 19, greater emphasis should be placed on how quantified forward-looking information has been borne out (e.g., forecasts, earnings guidance), as significant attention is placed on such quantitative forward-looking information by the marketplace. For non-quantified forward-looking information, the emphasis should be on *material* information and *material* differences, from the standpoint of how an investor's actions might be affected.

In Paragraph 35 under "Prospects," the sentence "An analysis of the prospects of the entity, *including targets for financial* and non-financial measures, helps users . . ." is a statement that appears to encourage earnings guidance. On the topic of earnings guidance, guidance should remain neutral and talk about what is expected in terms of disclosure *if* an entity publishes earnings guidance. Also, this section should reference back to the broader discussion of forward-looking information in paragraphs 17 and 18. The discussion of forward-looking information in two separate places is ambiguous.

Non-GAAP Measures

The Exposure Draft provides little information on non-GAAP measures, with only paragraph 39 making reference to this type of information. Some Committee members believe there should be more discussion on this topic, such as an explanation of how management uses these measures and how they may be valuable to readers. There should also be an expectation to identify and discuss any measures that change from year-to-year. For example, if the items comprising an adjusted EBITDA measure change from one year to the next, this should be clearly noted and explained. Further, non-GAAP measures should not be provided with greater prominence than the most comparable GAAP measures regarding total profit.

Response to Question 3: Application guidance and illustrative examples

The Standing Committee agrees with the IASB's decision not to include detailed application guidance and illustrative examples in the management commentary guidance document. We believe that it could be difficult to develop useful examples without knowing all of the underlying facts and circumstances of a particular issuer. Providing limited illustrative examples may lead to the provision of minimal or boilerplate disclosure. However, some Committee members from jurisdictions that do not have MC requirements would support the use of detailed guidance and illustrative examples, with appropriate caveats against the provision of boilerplate disclosure, while recognizing that any future issuance of guidance and examples that the Board might decide to undertake would be its own project and be subject to appropriate due process.

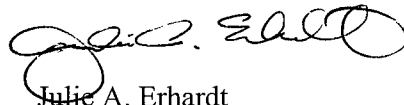
We also support the decision to omit detailed guidance as it could conflict with standards provided by legislators or regulators. However, some Standing Committee members disagree with the reasons the

IASB has given for not including application guidance or illustrative examples as described in BC48, i.e., the argument that guidance could be misinterpreted as either a floor (minimum guidance) or a ceiling (the only disclosures for inclusion in management commentary). Because such a rationale would also apply to any current standard including application guidance or illustrative examples (e.g., IFRS 7), those members believe such a statement should not be included.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

A handwritten signature in black ink, appearing to read "Julie A. Erhardt", written in a cursive style.

Julie A. Erhardt
Chairman
IOSCO Standing Committee No. 1