LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

CL 103

28 April 2006

The Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

Discussion Paper: Management Commentary

The Malaysian Accounting Standards Board (MASB) appreciates the opportunity to offer its views on the Discussion Paper: Management Commentary (DP).

We commend the efforts of the three IASB's partner standard-setters in developing the DP to help the IASB improve the quality of management commentary and promote international convergence.

Having reviewed the DP, we are pleased to submit our responses to specific questions of the DP in an Appendix to this letter.

Generally we are in support of the proposed management commentary disclosure framework for greater comparability of management information and to reduce diverse practices among jurisdictions.

We also support the proposal to add this item on the agenda although the IASB should recognise that there are other pressing accounting issues that should take priority over this document. Securities regulators, being interested parties to this document, should be consulted for views and to determine the extent to which the information as laid out in the commentary will be useful. After all, many securities regulators have put into place some form of guidance on management commentary requirements through their regulatory guidelines.

If the general view was for the management commentary framework to have authority, the more plausible route will be by way of a standard, rather than a non-mandatory guidance. However, we hold the view that management commentary should not be an integral part of the financial statements.

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The difficulty of making the management commentary an integral part of the financial statements is real, especially from an auditing standpoint. The level of audit assurance on such management commentary information is different from that of other elements in the financial statements, and therefore, we believe that it would be appropriate to place such information outside the ambit of the financial statements.

In this regard, the IASB may wish to consider similar approach adopted in IAS 34 *Interim Financial Reporting* that provides for voluntary compliance with the Standard. In other words, when an entity prepares management commentary, it should comply with the Management Commentary requirements. In many jurisdictions, the securities regulators or stock exchange could alternatively mandate companies under their surveillance to comply with the Management Commentary requirements.

We are pleased to submit our responses to the questions you raised in the DP overleaf.

Should you require further information, please contact Dr. Nordin Mohd Zain, the Executive Director of MASB, via e-mail at nordin@masb.org.my.

Yours sincerely,

Dato' Zainal Abidin Putih
Chairman

Discussion Paper
Management Commentary

Requirements for management commentary (MC)

The project team concluded that an entity's financial report should be viewed as a package comprising the primary financial statements, accompanying notes and MC (section 1). They also concluded that the quality of MC was likely to be enhanced if the IASB issued requirements relating to MC (section 6).

Question 1:

Do you agree that MC should be considered as an integral part of financial reports? If not, why not?

Response:

We believe the MC should be placed outside the financial statements.

Similar to other reports such as the environmental reporting, management commentary as an element of good corporate reporting, should sit outside the requirements for IFRS assertion. What is important here is that the management commentary information is made available to company's stakeholders.

If MC is an integral part of financial statements, the requirements for IFRS assertion would pose practical issues (see response to question 3 below).

In addition, if the MC is considered as an integral part of the financial statements, it would be inconsistent with the IASB's Framework. Nonetheless, we note that there is a joint project between the IASB and FASB to consider the scope of the Framework. However, we propose that the IASB should not review the Framework on piecemeal basis, rather the Framework should be reviewed in totality.

Question 2:

Should the development of requirements for MC be a priority for the IASB? If not, why not? If yes, should the IASB develop a standard or non-mandatory guidance or both?

Response:

We support the IASB to add on the project on MC to its agenda. The IASB could also consider working closely with the IOSCO to develop the requirements on MC as securities regulators are also interested and acknowledge the importance of such information.

Nonetheless, other more important core accounting projects should take priority over the MC project. This is because in most major jurisdictions, there is guidance on management commentary, through one form or others such as the regulatory guidelines although they may not be as comprehensive to that proposed in the Discussion Paper.

For the management commentary framework to be authoritative, we prefer an IFRS. However, the IFRS on MC should adopt the approach in IAS 34 *Interim Financial Reporting* in that it does not mandate either the preparation of management commentary or compliance with the Standard. If an entity prepares MC, it should then comply with the said IFRS.

Question 3:

Should entities be required to include MC in their financial report in order to assert compliance with IFRSs? Please explain why or why not.

Response:

We suggest that there should not be assertion on compliance with IFRS with regard to MC requirements as this would pose practical issues, in particular to the audit of such information.

Auditors may have difficulties to express a true and fair opinion on the management commentary information as it is future oriented and very subjective. In addition, the level of audit assurance on such management commentary information is different from that of financial statements, and therefore, it would not be appropriate to place such information as part of the financial statements. Although such matter is an auditing, rather than an accounting issue, it is worth considering due to the consequence of making the management commentary a Standard.

Purpose of MC

The project team concluded that the objective of MC has three elements (section 2). The project team also concluded that the primary focus of MC is to meet the information requirements of investors.

Question 4:

Do you agree with the objectives suggested by the project team or, if not, how should it be changed? Is the focus on the needs of investors appropriate?

Response:

We have no objection to the proposed objective.

Rather than focusing purely on the needs of investors, we suggest the needs of the other 6 category of users as explained the IASB's Framework should also be taken into consideration.

Principles, qualitative characteristics and content of MC

The project team concluded that it is not appropriate to specify the precise information that must be disclosed within MC, or how it is presented. Rather, they believe that any requirements for MC should set out the principles and qualitative characteristics, as well as the essential areas of MC, necessary to make the information useful to investors. It is up to management to determine what information is required to meet these requirements, and to determine how the information is presented. The project team has also suggested that it is appropriate to consider ways to limit the amount of information management is allowed to disclose, as a way of ensuring that it is the most important information which is presented to investors. (See sections 3 and 4)

Question 5:

Do you agree with the principles and qualitative characteristics that the project team concluded are essential to apply in the preparation of MC? If not, what additional principles or characteristics are required, or which ones suggested by the project team would you change?

Response:

We have no objection to the principles and qualitative characteristics of MC as proposed.

Question 6:

Do you agree with the essential content elements that the project team concluded that MC should cover? If not, what additional areas would you recommend or which ones suggested by the project team would you change?

Response:

We believe the essential content areas of an MC outlined in the DP are sufficient, and hence, there is no additional area that we would recommend.

Question 7:

Do you think it is appropriate to provide guidance or requirements to limit the amount of information disclosed within MC, or at least ensure that the most important information is highlighted? If not, why not? If yes, how would you suggest this is best achieved?

Response:

We believe it is important to limit the amount of information disclosed within MC to avoid information overload, and obscuring important information. With this in mind, we believe the MC should focus only on issues that are of significance to the users of financial statements.

Question 8:

Does your jurisdiction already have requirements for some entities to provide MC? If yes, are your local requirements consistent with the model the project team has set out? If they are not consistent, what are the major areas of conflict or difference? If you believe that any of these differences should be included in an IASB model for MC please explain why.

Response:

Yes, the MC requirements are prescribed in regulatory requirements and they are consistent with the project team's model.

Placement principles

The project team concluded that it would be helpful to establish criteria to guide the Board in determining whether information it requires entities to disclose within financial reports should be placed in MC, or in the general purpose financial statements. The project team have suggested placement criteria (section 5).

Question 9:

Are the placement criteria suggested by the project team helpful and, if applied, are they likely to lead to more consistent and appropriate placement of information within financial reports? If not, what is a more appropriate model?

Response:

We believe the MC should not be presented as an integral part of the financial statements - see our response to question 1 above.