

April 27, 2006

Mr. Alan Teixeira
Senior Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

RE: IASB Discussion Paper *Management Commentary*

Dear Mr. Teixeira:

The Enhanced Business Reporting Consortium (“EBRC”) respectfully submits the following written comments on the International Accounting Standards Board (“IASB”) Management Commentary Discussion Paper (Discussion Paper). The EBRC was founded by the AICPA, Grant Thornton LLP, Microsoft Corporation, and PricewaterhouseCoopers in 2005 upon the recommendation of the AICPA Special Committee on Enhanced Business Reporting. The EBRC is an independent, market-driven non-profit collaborative focused on improving the quality, integrity, and transparency of information used for decision-making in a cost effective, time efficient manner. For more information on the EBRC, please visit www.ebr360.org.

The following comments are presented in the context of select, related questions set out in the discussion paper:

Question 1: Do you agree that MC should be considered an integral part of financial reports?

Yes, we believe that MC should be considered an integral part of financial and other company performance-oriented reports. We agree with the IASB Framework for the Preparation and Presentation of Financial Statements acknowledgement that financial statements alone are not, of themselves, sufficient to meet the objectives of corporate reporting, because they ‘do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information’ as set out in paragraphs 6, 54 and 102

of the Discussion Paper. We also believe that the research findings of Deloitte and PricewaterhouseCoopers communicated in paragraphs 103 and 104 respectively are extremely compelling and underscore the need for contextual and non-financial information to supplement and complement financial statement information as covered in the first principle “Supplement and complement financial statement information” detailed in paragraphs 41-45 of the Discussion Paper.

Question 2: Should the development of requirements for MC be a priority for the Board? If yes, should the IASB develop a standard or non-mandatory guidance or both?

Yes, we feel the development of requirements for MC should be a priority for the Board, as we believe MC would contribute considerably to improving the transparency of business reporting. Furthermore, we support the development of a principle-based standard. We agree with the conclusion reached in paragraph 214 ‘that a standard was more likely to enhance MC and was to be preferred to non-mandatory guidance,’ and that ‘any such standard should be principle-based...should define MC, and identify and explain the characteristics and essential content of MC.’

Questions 4-7: Do you agree with objective of the project team and its focus on the needs of investors? Do you agree with the principles and qualitative characteristics that should be applied in the preparation of MC, and with the essential content elements that the project team concluded MC should cover? Do you think it is appropriate to provide guidance or requirements to limit the amount of information disclosed within MC, or at least to ensure that the most important information is highlighted and how would you suggest this is best achieved?

As pointed out in paragraph 111, examples of the type of disclosures that are consistent with the principles, qualitative characteristics and content suggested by the proposed model can help illustrate how some aspects of content elements could be presented, and may also be helpful in developing implementation guidance to accompany an MC standard.

With respect to paragraph 86 which states ‘We believe the development of measurement standards or guidance would be helpful, but it is not a short-term imperative,’ we agree that this is an appropriate position for the IASB to take, and that the short term focus of the IASB should be on the development of a principle-based standard for MC. We also believe, however, that the development of measurement standards or guidance (which we would classify as a common framework of generally

accepted definitions and measures) *should* be pursued through a market driven effort involving all key participants and stakeholders in the corporate reporting process, including representatives from the corporate and investment communities, key enablers such as the accounting profession, and related regulatory and standards-setting bodies. This type of initiative would address the statement made in paragraph 145 that ‘future guidance is likely to be required to provide more definitive guidance to standardize various non-IFRS financial performance measures and other non-financial performance measures and indicators.’

The Enhanced Business Reporting Consortium (EBRC), an independent, not-for-profit, market-driven entity, is uniquely positioned to contribute to this process by coordinating collaboration amongst key market participants in an effort to achieve such standardization on a voluntary basis. The official mission of the EBRC is ‘*A consortium of stakeholders collaborating to improve the quality, integrity and transparency of information used for decision-making in a cost-effective, time-efficient manner*’. Given this key focus on decision-making, we believe the primary focus of enhanced disclosures should be to meet the needs of investors, and that other users of business information such as employees, customers and suppliers will benefit accordingly. We also believe, however, that it is extremely important for the corporate reporting preparer community that will be asked to make the disclosures to have direct, active participation in the development of any definitive guidance to gain their support and agreement. In answer to Question 4, therefore, we support the objective of MC as articulated in paragraph 34, as well as its overarching focus on investor needs with the understanding that preparer commitment is also critical to the success of a principle-based standard.

We also believe in answer to Question 5 that the principles and qualitative characteristics that are presented in the Discussion Paper are both complete and accurate. Our only specific comment here relates to the discussion under the qualitative characteristic of comparability. While we agree with the SEC’s position as stated in paragraph 85 that when a company discloses information and there is no commonly accepted method of calculating a particular non-financial metric ‘it should provide an explanation of its calculation to promote comparability across companies within the industry’, this is only a partial solution. As stated above in the context of paragraphs 86 and 145, we believe that an optimal solution would include the market-driven

development of a voluntary, best practices framework covering the following components:

- Generally accepted definitions, measurements, and disclosure guidelines for industry-specific, process-oriented value drivers and key performance indicators, and
- Generally accepted disclosure guidelines for information about opportunities, risks, strategies and plans, and about the quality, sustainability and variability of cash flows and earnings.

It is also important to emphasize here that common definitions and measures do not mean that all companies within a given industry segment will need to report exactly the same performance measures and indicators in exactly the same way. Instead, common definitions can be developed at the level of the least common numerator and denominator or 'root primes', so that companies can construct metrics as they see fit, but a user of that information would be able to deconstruct it and have a common understanding of the definition of its underlying 'root prime' component elements. For example, in the case of the KPI 'retail sales per square foot', both the numerator and the denominator are currently defined in many different ways. By coming up with common definitions of the individual components or 'root primes' that might be aggregated into the denominator 'square foot' (e.g. the individual components of the aggregated 'square footage' might include a variety of types of spaces such as retail floor space, warehouses, administrative offices, subleased space, etc.), adequate information is provided to the user/investor such that they can more accurately, effectively and efficiently assess the comparability of the actual KPI measures. Similarly, 'retail sales' could be decomposed down to its prime root elements with common definitions being established at that level (e.g. gross sales, discounts, coupons, etc.). This approach would make it much easier for companies to enable investors to understand how each measure, or quantified indicator, reported in MC has been calculated as proposed in paragraphs 93 and A52 in the Discussion Paper.

The EBRC has already started this process by developing a draft, high-level content framework based on current best practices including the PricewaterhouseCoopers ValueReporting™ framework, TRS Mapping jointly developed by Accenture and AssetEconomics, the Operational Reporting and Intellectual Capital Reporting principles proposed by AssetEconomics, and the Gartner Business Performance Framework™.

The draft EBR framework is available for review and comment at www.ebr360.org under exposure drafts. The high-level content categories of this early-stage framework include business landscape, strategy, competencies & resources, and performance, and map closely to the content categories proposed in paragraph A26 of the Discussion Paper.

The next step will be to facilitate a market process to bring together representatives from the corporate and investment communities to build out and customize the framework on an industry by industry and sector by sector basis. This effort will provide an opportunity for market participants to demonstrate a commitment to hold themselves responsible and accountable for the quality of the information provided to, and used by, investors, analysts, companies, regulators, and other stakeholders. This collaborative process would not attempt to recreate work that has already been done to achieve agreement around the definition of key indicators and measures by industry sector groups and others as referenced in paragraph 150 of the Discussion Paper, but rather to leverage that work and gain broad industry acceptance and visibility regarding recognized best practices.

Our views are also consistent with the assertion in paragraph 149 that ‘Developing guidance or standards on how items should be measured does not compel an entity to report that measure, but would lead to greater consistency in reporting by entities that regard that measure as important.’ We too believe that only the most critical indicators or measures for a given company and its industry segment should be disclosed, without requiring the disclosure of so much information that it is rendered irrelevant or overly burdensome to the extent that the costs outweigh the benefits. We support the development of a voluntary framework that identifies and defines key measures or indicators on an industry and sector basis for the sake of consistency and comparability, while allowing companies the flexibility they need to determine the optimal level of disclosure and measures specific to their entity, just as proposed by the project team in paragraph 138 of the Discussion Paper.

The framework development process is important not only in order to enable comparison between entities and more generally to enhance the quality of the types of disclosures being considered under MC, but it is also critical in order to be able to leverage the potential of the eXtensible Business Reporting Language (XBRL: <http://www.xbrl.org/>) for electronic reporting of business information, including that which might be required

through an MC standard. XBRL is a language for the electronic communication of business and financial information. It is the technology that enables more efficient and effective financial and non-financial business reporting over the Internet. In the absence of XBRL, reporting is limited to a static, paper-based environment wherein information is not contextually relevant to the actual reports, and/or is not provided in a manner that can be immediately and effectively reused.

Enhanced Business Reporting and XBRL are two separate and distinct, yet complementary, initiatives: XBRL is a format for how information is reported, whereas EBR is about the content that is being reported. XBRL is an enabler of the implementation of Enhanced Business Reporting in the sense that it allows for the creation of taxonomies around GAAP/IFRS and non-GAAP/non-IFRS reporting concepts, and for efficient and effective reporting of this information. Enhanced Business Reporting, in turn, enables a more robust application of XBRL in the sense that an EBR framework makes it possible to create useful taxonomies for information companies report beyond the financial statements themselves, such as, for example, Management Discussion & Analysis (MD&A) and MC.

In the US, the current MD&A XBRL taxonomy contains very high-level reporting concepts and is weak with respect to specific information that is relevant in a particular industry sector. This highlights the need for an enhanced framework structure for the MD&A, specifically along industry lines, which the EBRC effort provides through market collaboration of key participants in the corporate reporting supply chain. The EBRC framework is being developed with a view to being internationally applicable, and could equally serve as the basis for common definitions and measurement for MD&A and MC. Given increasing pressure on convergence of reporting standards, it would be particularly desirable for both MD&A and MC disclosures to be based on a single, internationally-recognized framework. Under this model, disclosures could be consistent with local country guidance while at the same time referencing common definitions and measures thereby permitting more consistent, comparable and transparent disclosures.

Just as the conceptual accounting framework serves as a basis for GAAP and IFRS taxonomies, a structured framework of generally accepted definitions and measures such as the one being developed by the EBRC is necessary in order to be able to develop an XBRL taxonomy that can be used to tag MD&A disclosures, MC disclosures,

and other non-GAAP, non-IFRS disclosures in a meaningful way, so that users including investors and regulatory bodies can more efficiently and effectively consume and analyze the information. The EBRC framework development process is intended to meet this need, and this framework enabled through XBRL can contribute significantly to achieving the objectives of Management Commentary.

Final Note:

In conclusion, we would like to reference the January 2006 establishment of a new AICPA Assurance Services Executive Committee (ASEC). The AICPA has reconstituted this Committee to address the assurance implications of reported information that is not covered by existing authoritative standards, and as such the future work of ASEC is likely to address some of the assurance implications of MC raised in paragraph 193 of the Discussion Paper. The mission of ASEC is *'to assure the quality, relevance and usefulness of information or its context for decision makers and other users by 1) identifying and prioritizing emerging trends and market needs for assurance, and 2) developing related assurance methodology guidance (e.g. suitable criteria) and tools as needed'*.

We applaud the efforts of the IASB in undertaking this project, and congratulate the project team on a job well done.

Thank you for the opportunity to share our views on Management Commentary. We would be pleased to meet with IASB staff and partner standard-setters and organizations to discuss our comments. If you have any questions, please contact Amy Pawlicki at 201-938-3572.

Sincerely,

The Enhanced Business Reporting Consortium