


1 March 2010



STANDARD LIFE INVESTMENTS

International Accounting Standards Board
First Floor
30 Cannon Street
London
EC4M 6XH

Standard Life Investments
1 George Street
Edinburgh
EH2 2LL

phone: 0131 245 6813
fax: 0131 245 6463
email: guy_jubb@standardlife.com
www.standardlifeinvestments.com

Dear Sirs

MANAGEMENT COMMENTARY - EXPOSURE DRAFT

Standard Life Investments Limited is a leading global fund manager. We have assets under management of £138.7 billion as at 31 December 2009. These funds are primarily invested in listed securities. Accordingly, for stewardship and decision-making purposes we place significant reliance on information contained in financial statements which are prepared in accordance with International Accounting Standards and authoritative guidance pertaining thereto.

We are pleased that the IASB is pressing ahead with developing proposals relating to management commentary. Such commentary provides us with a useful context within which to interpret the financial position, financial performance and cash flows of an entity. Also, it provides a context within which to interpret other aspects of an entity's activities, not least as they relate to stewardship responsibilities. Furthermore, management commentary provides management with a useful reporting tool that provides enhanced explanations of information contained in the audited financial statements, thereby enabling users to understand the nature and dynamics of the matters commented upon. In the light of the foregoing, we regard management commentary as essential to providing the users of financial statements with a true and fair view of an entity's financial position, irrespective of the accounting standards used.

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 note and support the intention that the Board's proposals are to provide a basis for the development of good management commentary rather than an IFRS. We firmly believe that this approach enables entities to comply fully with the spirit of the proposals thereby enabling entities to provide, without restriction, the necessary context within which users can interpret relevant matters. We oppose strongly any move towards a more prescriptive approach to management commentary. In this latter regard we note the alternative views on the Exposure Draft that are set out in the Consultation Document. Mindful of these views, we suggest that, as part of its ongoing work programme, the IASB should undertake to review after, say, three years whether or not the proposed guidance document has or has not resulted in improvements in financial reporting, and make recommendations in accordance with its findings. Also,

Standard Life Investments Limited, tel. +44 131 225 2345, a company registered in Scotland (SC 123321) Registered Office 1 George Street Edinburgh EH2 2LL.

The Standard Life Investments group includes Standard Life Investments (Mutual Funds) Limited, SLTM Limited, Standard Life Investments (Corporate Funds) Limited and SL Capital Partners LLP. Standard Life Investments Limited acts as Investment Manager for Standard Life Assurance Limited and Standard Life Pension Funds Limited.

Standard Life Investments may record and monitor telephone calls to help improve customer service. All companies are authorised and regulated by the Financial Services Authority.
www.standardlifeinvestments.com

we suggest that if an entity has chosen not to have regard for the proposed guidance then it should state this; the external auditors should be encouraged to give emphasis to this matter in their reports.

Question 2 - Do you agree that the content elements described in paragraphs 24-39 are necessary for the preparation of a decision-useful commentary? If not, how should those content elements be changed to provide decision-useful information to users of financial reports?

With the caveat, as contained in the Exposure Draft, that the relevant focus will depend on the facts and circumstances of the entity, we believe that the content elements described in the relevant paragraphs provide a useful framework and reference point for a reporting entity. That said, we offer the following observations:

- a) Rather than the term 'economic model', we suggest that the term 'business model' is more generally accepted amongst preparers and users alike. Substitution in this regard would be appropriate. (Para 26(e))
- b) In respect of all content within the management commentary, but particularly as it pertains to risks, it is important that entities should resist any temptation to use boilerplate language. Specific emphasis to this in the final guidance would seem appropriate.
- c) With regard to reporting performance measures and indicators, management should be guided to comment upon why they regard the performance measures and indicators used to be relevant. Also, they should provide an unbiased explanation as to why the scores under the selected performance measures and indicators have changed or otherwise over the period. (Para 38)
- d) The guidance document should recognise that in certain jurisdictions there may already be authoritative guidance relating to management commentary. The IASB should encourage local standard setters to clarify the status of such guidance in the light of its own guidance.

Question 3 - Do you agree with the Board's decision not to include detailed application guidance and illustrative examples in the final commentary guidance document? If not, what specific guidance would you include and why?

Yes.

Other Comments

In our view, non-financial factors are becoming increasingly important to shareholders and investors, especially when assessing the stewardship of an entity's management. In this context, we should like to see greater emphasis placed on the non-financial measures in the final guidance document.

An important aspect of corporate reporting pertaining to management commentary that concerns us is the apparent lack of any external verification or attestation pertaining to the information. In certain jurisdictions, external auditors are expected to satisfy themselves that there is nothing in the management commentary that is inconsistent with the financial statements on which they have reported but in our opinion this is not sufficiently robust. Given the significance of the management commentary and the scope for inappropriate 'spin', a robust but nevertheless 'light touch' approach to attestation and verification is required. The absence of such external scrutiny threatens to undermine the credibility of management commentary and the quality of decisions taken by shareholders and investors based on information contained therein. We encourage the Board to engage with its auditing counterpart with a view to rectifying this deficiency. To this end, we are sending a copy of this letter to the Chairman of the IAASB to make him aware of our views.

We trust that our views will assist the Board in finalising its guidance. Please do not hesitate to get in touch should you feel that we can be of assistance in the future.

Yours faithfully

Guy R Jubb
Investment Director, Head of Corporate Governance
Standard Life Investments

cc. Mr A Schilder, Chairman, IAASB