



DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

EFRAG  
Stig Enevoldsen  
35 Square Meeûs  
B-1000 Brussels

Telefon +49 (0)30 206412-12  
Telefax +49 (0)30 206412-15  
E-Mail info@drsc.de

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Dear Stig,

**EFRAG's Draft Comment Letter on the IASB Exposure Draft ED/2009/6 Management  
Commentary**

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on EFRAG's draft comment letter on the IASB Exposure Draft ED/2009/6 Management Commentary (ED MC). We appreciate the opportunity to comment on EFRAG's draft comment letter.

The GASB agrees with EFRAG regarding the importance of management commentaries (MC) and that the IASB's project – if given the necessary attention – will contribute to the global convergence of MC. However, the GASB does not share EFRAG's view on the IASB's final work product. Instead of a guidance document we suggest developing a standard which regulators or legislators can – similar to the IFRS for financial statements – either choose to apply in full in their local jurisdictions or not. Application of the IFRS for financial statements would be independent of the application of the MC-IFRS. Accordingly, compliance with IFRS for financial statements and MC-IFRS respectively would be separately determined.

For our arguments and further general comments to EFRAG's draft comment letter, please see the appendix attached to this letter. If you would like to discuss any aspect of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr  
President



## Appendix

### Question 1 – guidance document

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?

- 1 Regarding this question the EFRAG draft CL currently argues in favour of non-mandatory guidance rather than a mandatory standard (draft CL, paras. 4-5). EFRAG is concerned that it would be difficult to develop a standard sufficiently detailed to have an impact on existing practice without creating inconsistencies with existing requirements, e.g. European requirements.
- 2 The GASB does not necessarily see the need to differentiate between *non-mandatory* guidance and a *mandatory* standard: We believe a MC standard would not have to be mandatory worldwide, meaning it would not have to be mandatory for all entities applying IFRS in their financial statements. According to our proposal entities should be able to separately comply with a MC-IFRS and/or the IFRSs for financial statements. I.e., in order to have financial statements in full compliance with IFRSs entities would not have to prepare a MC. However, if an entity states that the MC is prepared in compliance with the MC-IFRS all its requirements would have to be applied in full.
- 3 Following this proposal national regulators or legislators are free to decide for their jurisdiction whether – in addition to IFRS financial statements – the MC-IFRS is either mandatory, optional, or not applicable.
- 4 Given this scenario an IFRS on MC (a standard) will be the most effective way in harmonising MC requirements and thereby improving financial reporting worldwide. A standard would provide a more reliable base for regulators or legislators intending to adopt internationally accepted requirements. There would be less need to continuously develop and refine local requirements.
- 5 Furthermore, a standard would allow the IASB to better discuss and decide on issues regarding the placement of information either in the notes and/or in MC. As far as the MC would be applicable, both, notes and MC would be separately binding requirements rather than one being obligatory (notes) and the other being mere non-mandatory guidance (MC). Therefore, the currently open questions of placing information where they are most appropriate (see for example IFRS 7) could be addressed by the IASB. As far as applicable, each IFRS could contain a paragraph clarifying the placement requirements for the disclosures of this particular IFRS. Such a paragraph could be phrased as follows: “Should the reporting



entity prepare, in addition to IFRS financial statements, a Management Commentary (MC) under the IFRS on MC, the disclosure requirement listed above in para. xy can be provided in the MC rather than in the notes to the financial statements.”

**Question 2 – content elements**

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?

- 6 EFRAG’s draft CL currently supports the high-level, principles-based approach that the IASB is proposing to adopt. Furthermore, EFRAG is broadly supportive of the specific things the ED says on content (draft CL, paras. 8-9).
- 7 While the GASB supports a principles-based approach, we also see the need for a description of content elements (as provided in ED MC.24) in a MC document as well as more detailed guidance on what these content elements should specifically contain (as provided in ED MC.26 et seq.).
- 8 We are, therefore, of the opinion that EFRAG’s proposal (draft CL, para. 9) to focus on “the information objectives and the need to develop the MC with care” instead of providing a list of content elements is not in line with the needs of entities trying to prepare (comparable) MC. To our understanding the objective and basic principles of MC are at length elaborated on in ED MC.1-.3 and in the principles for the preparation of MC (ED MC.13 et seq.). In our view, these principles also provide sufficient room for entity-specific circumstances which need to be taken into account in MC.
- 9 However, we do believe that the IASB could clarify that these content elements are aimed at supplementing and complementing the data provided in the financial statements. Although this is also a stated principle (see ED MC.15-16) there is no explicit link between MC and financial statements at the level of the content elements. We therefore suggest an explanation as to which information of the financial statements the specific content element is going to supplement and/or complement.



**Question 3 – application guidance and illustrative examples**

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?

- 10 As laid out above, the GASB proposes to develop a standard which – if mandated by local regulators and legislators – is to be applied in full by the entities. In order to be applicable by entities and to allow for – within the limits set by the nature of the MC – comparable MC of different entities such a standard needs to provide a minimum level of application guidance. By application guidance we mean guidance on the understanding and expectations as to the content elements. The application guidance should not necessarily extend to illustrative examples. In our opinion illustrative examples – such as those provided in the Discussion Paper MC – often bear the risk of motivating entities to simply mirror these examples irrespective of their entity-specific circumstances.
- 11 Thus, examples such as on page 40 of the Discussion Paper MC could result in “boilerplate language”. That example states the entity's strategy for achieving the objective of being in the top quartile of the world's property companies: e.g. “maximise the returns [...]; focus on our customers with products that meet their needs; build and retain the best team in the property industry; and to focus on generating the maximum earnings from the capital invested [...]”. We believe that this could be true for any entity, however does not add much to the understanding of the information expected on “objectives and strategies” in MC. Application guidance on the other hand could clarify that the entity could discuss financial and non-financial objectives or the time frame for those objectives etc.
- 12 In our view, any application guidance associated with the content elements as defined by the IASB should only be developed by the IASB itself.
- 13 If “other organisations” (as suggested by the IASB and supported by EFRAG) were to develop such application guidance and illustrative examples, the idea of an international MC project would be undermined. Instead of contributing to the harmonisation worldwide such MC guidance would merely fuel additional guidance and examples to be developed by numerous “other organisations”, including local regulators and legislators. If the objectives of the IASB are to be achieved, we believe it to be essential to develop all guidance on MC by the IASB itself, similar to the guidance for IFRS financial statements.



**Extract of EFRAG's additional observations**

- EFRAG does not agree that the desirable qualitative characteristics of MC are those set out in the May 2008 Framework ED (draft CL, paras. 13-16),
- EFRAG does not support the IASB's decision to defer development of placement principles until Phase E of the conceptual Framework is completed. The IASB should develop placement criteria in the interim period (draft CL, paras. 19-21).

- 14 The GASB agrees that the qualitative characteristics of MC are not identical with those set out in the May 2008 Framework ED. We agree with EFRAG that MC information is different in regards to reliability or comparability across entities. We further agree that these aspects should be taken into consideration before finalising the work on this part of the Framework.
- 15 However, we suggest incorporating MC specific aspects within the given set of qualitative characteristics described in the Framework (e.g. by explaining the specific characteristics of the information provided in MC). There should not be a separate set of "MC qualitative characteristics".
- 16 Last but not least, the GASB concurs with EFRAG's view that the development of placement criteria is a pressing issue, which should not be delayed until Phase E of the conceptual framework is completed.