



Association pour la participation des  
entreprises françaises à l'harmonisation  
comptable internationale



**A F E P**

**Association Française des Entreprises Privées**

IASB  
30 Cannon Street  
London EC4M 6XH  
UK

Paris, 5 February, 2010

Re: *ED "Management commentary"*

We welcome the opportunity to comment on the IASB exposure draft presenting a non mandatory guidance for the preparation of management commentary.

We re-iterate our view expressed in response to the Discussion Paper on Management Commentary and to the Constitution Review proposals that preparing either mandatory or non-mandatory guidance for management commentary is not in the remit of the IASB. We therefore strongly recommend that the project be dropped.

We have nonetheless reviewed the proposals prepared by the Board carefully and concluded that they could not result in a useful and relevant guidance for management commentary.

The proposals show that necessary preliminary analysis is missing. More particularly we believe that the following needs to be carried out:

- definition of qualitative characteristics well reasoned on the basis of the specific features of management commentary,
- preparation of a disclosure framework, definition of placement criteria and hence a clear distinction between what belongs to financial statements, what belongs to other sources of financial reporting,
- definition of the specific features of management commentary and how it differentiates from other sources of financial reporting.

As a result, the qualitative characteristics proposed are inadequate and not even properly justified, the principles proposed do not help to characterise the specific features and content of management commentary, and the elements of content proposed are so widely and vaguely defined that they could encompass a mass of information well beyond what is really required to make management commentary both specific and relevant.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.

ACTEO



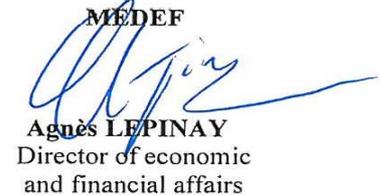
Patrice MARTEAU  
Chairman

AFEP



Alexandre TESSIER  
Director General

MEDEF



Agnès LEPINAY  
Director of economic  
and financial affairs

## Appendix to ACTEO & MEDEF's letter of comments on the exposure draft presenting a non mandatory guidance for the preparation of management commentary.

### Question 1 - Status of the final work product

*The exposure draft proposes a framework for the preparation and presentation of management commentary. The Board believes that its proposals provide a basis for the preparation and presentation of management commentary that will be useful to the users of financial reports. However, the Board intends to publish a guidance document, not an International Financial Reporting Standard (IFRS).*

*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 disagree with the IASB issuing either a non-mandatory guidance or, even worse, an IFRS. We believe that the IASB should concentrate solely on developing a single set of high quality accounting standards, in accordance with the existing constitution of the IASCF. The responsibility for other financial reporting requirements lies primarily with regulators and has not been entrusted to the IASB by jurisdictions having adopted IFRS. The IASCF and the IASB should not tend to extend their mandates before they are being asked to do so. Existing regulations in developed economies can serve as appropriate guidance for those countries where regulations are not yet available.

Moreover the IASB has expressed more than once in their public meetings that non-mandatory guidance or recommendations were useless. We note that the proposed management commentary guidance states in paragraph 8 "An entity's management *should apply* paragraphs 9-39 when preparing management's commentary to accompany financial statements *prepared in accordance with IFRSs*. We therefore believe that the non-mandatory document is likely to be transformed into a mandatory IFRS in the near or distant future. We believe that the best way to avoid such an inappropriate outcome is to issue nothing.

### Question 2 - Content elements of a decision-useful management commentary

*The proposed framework for the preparation and presentation of management commentary is intentionally general. This reflects the Board's view that a flexible approach elicits more meaningful disclosure by encouraging entities that choose to prepare management commentary to discuss those matters most relevant to their individual circumstances. Consequently, the proposed framework for the preparation and presentation of management commentary sets out the principles, qualitative characteristics and content elements necessary to provide existing and potential capital providers with decision-useful information.*

***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?***

We do not believe that the content proposed is adequate.

### ***2.1 The purpose of management commentary***

We agree with the description of the purpose of management commentary as described in paragraph 11 “to provide existing and potential capital providers with information that helps them *place the related financial statements in context*”.

### ***2.2 Principles for preparing management commentary***

We believe however that principles set in paragraph 13 are not consistent with the purpose described in paragraph 11. Placing the financial statements in context does not mean:

- providing financial information that is not required to be reflected in financial statements; we therefore disagree that a principle would be “to supplement and complement information presented in the financial statements”;
- providing projections of financial information as presented in financial statements; we therefore believe that “the orientation to the future” should apply to the context of the financial statements and not include any forecast of any financial information contained in the financial statements;

Moreover we note that “to supplement and complement information presented in the financial statements” cannot be a principle. It remains completely unhelpful in selecting what information should be included in the management commentary as it could justify including *any* information that is not presented in financial statements. The IASB would need first to define clearly the content of financial statements and characterise the disclosures that are necessary for the understanding of primary financial statements. On the basis of this preliminary work, the information necessary for the understanding of the context of the entity’s financial position and performance could be usefully defined.

We agree that management’s perspective is key in preparing management commentary. We also agree that management commentary should analyze the entity’s reported financial position and performance, in order to help users “ascertain the likelihood that past performance is indicative of future performance” (reference to the third of the SEC objectives for MD&A in BC28). We also agree that management commentary should include explanations as to the strategies that management has defined and is conducting, and the changes to them. However, we disagree that management commentary should include any forecast, quantitative targets or prospects, and explain how they have been met, exceeded or missed. We believe that the SEC objective requires that the analysis presented by management of past performance and financial position at the reporting date must help users make relevant assessments of the entity’s potential for earnings.

We note that in paragraph 17 and BC30 the Board acknowledges that management commentary's content is influenced by the regulatory and legal environment within which the entity operates. We believe that such acknowledgement would have convinced the IASB that there is no room for a worldwide guidance or requirement for management commentary and that they should refrain from issuing any.

### ***2.3 Qualitative characteristics***

We disagree with paragraph 20 reference to the conceptual framework qualitative characteristics and constraints. BC31-33 clearly show that the IASB has no sound basis for any decision in this area. The IASB has defined qualitative characteristics before defining the boundaries of financial reporting. It is therefore clear that the IASB has not been ever in a position to define qualitative characteristics on the basis of an appropriate analysis of what financial reporting would require. Stating as sole basis for conclusion that qualitative characteristics in the conceptual framework apply to management commentary because management commentary belongs to financial reporting is somewhat short...

We believe that the work done by others than the IASB at the DP stage was, in the area of qualitative characteristics, of a much higher quality. We support the authors of the DP's proposals to replace reliability and comparability with notions such as supportability, balance and comparability over time. We believe that these notions are more consistent with information presented from "management's perspective".

Maintaining the qualitative characteristics for management commentary as proposed would, either confuse the possible understanding of what qualitative characteristics should encompass, or tend to decrease the management's perspective in the management commentary. We believe that none of these two possible outcomes is desirable.

### ***2.4 Content of the management commentary***

We disagree with the description of the content of the management commentary as proposed from paragraph 24 onwards. It is quite extensive, confuses elements of financial statements with what belongs to the financial statements, suggests that forecasts should be required and any variances explained and, as a result, does not form an appropriate and effective guidance for designing management commentary.

We more particularly disagree with paragraphs 33-39 where we believe elements of contents of financial statements and items that do belong to neither financial statements nor management commentary are mixed up with valid elements of content of a management commentary.

This highlights that the necessary preliminary work is neither carried out nor planned to be. As indicated above, we strongly recommend that the IASB drops the entire project and concentrates on the development of accounting standards.

### **Question 3 – Application guidance and illustrative examples**

*The Board does not intend to include application guidance or illustrative examples in the final management commentary guidance document. The Board is concerned that such detailed guidance could be interpreted as either a floor (minimum requirements for content) or a ceiling (the only disclosures for inclusion in management commentary). The Board believes that the development of application guidance or illustrative examples to help management apply the proposed framework for management commentary is best left to other organisations.*

*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?*

We agree with the Board that neither detailed application guidance nor illustrative examples can be prepared, the need for relevance of a management commentary calling for its presentation and content remaining specifically designed by management.

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