

International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

Paris, February 26<sup>th</sup>, 2010

**RE: Exposure Draft – Management Commentary**

Dear Madam/Sir

We are pleased to comment on the above mentioned Exposure Draft (ED) presenting proposals of the IASB on management commentary.

As stated in our comment letter in response to the Discussion Paper (DP) issued in October 2005 on this subject, we believe that management commentary is a very important topic in the sense that financial statements alone are not sufficient to give users a comprehensive view of the financial position of an entity.

However, we are still not convinced that it is up to the IASB to conduct such a project without the help of market regulators or similar organisations. We reiterate our view expressed in response to Part 2 of the Constitution Review proposals that a closer collaboration with a wider range of organisations is necessary to improve the credibility of the IASB work, especially on a topic that does not deal with pure accounting issues. Thus, the support of CESR and IOSCO for the publication of a guidance document on management commentary is not a sufficient prerequisite to legitimate the IASB work in this area (we refer to paragraph BC9).

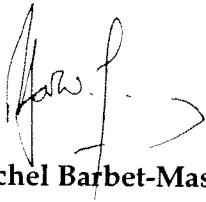
Having said that, our main concerns regarding this project are:

- given the particular status of this text, we would like the IASB to guarantee that its intention is not to turn this document into an IFRS afterwards. In our opinion, it is crucial that complying with this framework will never be a necessary condition for asserting compliance with IFRSs, once an entity prepares and presents a management's report along with its financial statements prepared in accordance with IFRSs;

- for entities that are located in jurisdictions where local requirements or regulations already exist, we doubt that the proposed guidance on management commentary will present any added value in the sense that it would enhance the quality of the information already disclosed in management's report. Worse, it may add unnecessary constraints on those entities because in practice, non-mandatory guidance often results in binding guidance as soon as it is followed by those who always want to be "top of the class". Thus, we fear that the guidance issued by the IASB on management commentary might result in additional work for entities that already have to comply with many sources of related requirements in developed economies;
- although we acknowledge that a guidance on management commentary prepared by an international organization is of great interest for entities located in jurisdictions where no local requirements or regulations exist, we believe the guidance proposed in the above mentioned ED is too vague to fill any gap, as it consists only of a framework, with no application guidance or examples (compared with what was included in the previous DP). In our opinion, those entities can easily access regulations prepared by well-known regulators, thus fulfilling their needs without the help of the ED;
- the toing and froing between the proposed guidance on management commentary and the Conceptual Framework – currently being revised – could lead to significant future revision of the text on management commentary:
  - as it is pointed out in the ED, this project should be read in the context of the revision of the Conceptual Framework, especially Phase A. As we are writing this comment letter, the final document on Phase A has not yet been released. More precisely, since paragraph BC33 of the ED on management commentary states that *"questions about the applicability of the qualitative characteristics to management commentary will be resolved during the finalisation of Chapter 1 of the Conceptual Framework for Financial Reporting"*, it is difficult to consider that the qualitative characteristics of the information included in management's report have been thoroughly defined in the ED. Moreover, since management commentary is, by definition, prepared using management's point of view, we doubt qualitative characteristics of such information can include at all times faithful representation (in the sense that the depiction of an economic phenomenon should be neutral), comparability and verifiability (when it comes to forward-looking information), those qualitative characteristics being presented in the ED on Phase A of the Conceptual Framework;
  - besides, Phase E on Presentation and Disclosure, including Financial Reporting Boundaries has not yet started. Though, this phase's objective is *"to determine the concepts underlying display and disclosure of financial information, including the boundaries of such information, that will achieve the objective of general purpose financial reporting."* We believe the publication of the final chapters of Phase E, which will enable determine what are the placement criteria of information (i.e. in the notes or elsewhere, for instance in management's report), is also a precondition for the design of a framework for the preparation and the presentation of management commentary. Hence, we disagree with the position taken in paragraph BC46.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Yours sincerely



**Michel Barbet-Massin**

*Head of Financial Reporting Technical Support*

## Appendix to our letter on the Exposure Draft on Management Commentary

### *Status of the final work product*

#### *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 agree with the Board's decision to develop a guidance document instead of an IFRS if the use of the term "guidance" does imply that the final document on management commentary is non-mandatory for all entities within the scope of this guidance.

However, since paragraph 8 of the ED indicates that an entity's management *should* apply paragraphs 9-39 when preparing management commentary to accompany financial statements prepared in accordance with IFRSs, we ask the Board to confirm that its intention is not to change the status of this document afterwards.

Likewise, given the particular status of the final document, we have reservations as how it will be updated in the future, in particular considering the interactions with the revision of the Conceptual Framework.

### *Content elements of a decision-useful management commentary*

#### *Question 2*

*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?*

Overall, we agree that the content elements described in paragraphs 24-39 are necessary for the preparation of a decision-useful management commentary.

However, in detail, we would suggest the following changes (some remarks have already been formulated in our response to the DP on management commentary):

- information about objectives and strategies seems to be very demanding. We refer in particular to the discussion of the relationship between objectives, strategy, management actions and executive remuneration that the proposed guidance deems helpful. Besides, explaining over what period of time success should be assessed will probably result in giving information that is neither verifiable nor neutral since such information is very subjective. Finally, we are concerned that if an entity is required to reveal too much of its strategies, this might weaken its position in the future as it could lead to a competitive disadvantage;
- information about resources, risks and relationships:
  - as far as information about resources is concerned, we believe an entity should disclose the main aspects of the policy put into place regarding sustainable

development since the users of the financial reports are becoming more and more sensitive to this kind of information;

- management should present, as part of its risk management policy, its key internal control procedures;
- as regards information about relationships, even if such information is more comprehensive than the information disclosed in application of IAS 24, we would suggest that the final document on management commentary point out that such information should be consistent with related party disclosures.

Last but not least, we believe it would be necessary to define the content elements not only in terms of broad headings, but also by establishing more detailed requirements if this guidance aims at helping entities that are located in jurisdictions where no local requirements exist. Though, a “check-list” approach should be avoided.

### *Application guidance and illustrative examples*

#### *Question 3*

*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 believe detailed application guidance and illustrative examples are essential to help an entity in the preparation of management’s report, especially if the main interest for the IASB to issue such guidance on management commentary is to fill the gap that may exist in some jurisdictions where no local requirements exist.

In our answer to the DP on management commentary, we had suggested that the project be focused on guidance regrouping best practices as perceived by the Board and consistent with IFRSs. We reiterate this view since we believe it does not contradict the idea that eventually, it is up to the management to determine which information is relevant or not to users. Thus, we do not think detailed application guidance or illustrative examples would be seen as either a floor (minimum requirements) or a ceiling (the only disclosures for inclusion in management commentary), as it is asserted in paragraph BC48 of the ED.

Besides, the Board’s admission that the development of such application guidance and illustrative examples is best left to other organisations (we also refer to paragraph BC48) points out, in our opinion, that the IASB has no valid background to issue alone a framework for the preparation and presentation of management commentary.

### *Other comments*

As we indicated in our cover letter, the toing and froing between the proposed guidance on management commentary and the Conceptual Framework – currently being revised – could lead to significant future revision of the text on management commentary:

- as it is pointed out in the ED, this project should be read in the context of the revision of the Conceptual Framework, especially Phase A. As we are writing this comment letter, the final document on Phase A has not yet been released. More precisely, since paragraph BC33 of the ED on management commentary states that *“questions about the applicability of the qualitative characteristics to management commentary will be resolved during the finalisation of Chapter 1 of the Conceptual Framework for Financial Reporting”*, it is difficult to consider that the qualitative characteristics of the information included in management’s report have been thoroughly defined in the ED. Moreover, since management commentary is, by definition, prepared using management’s point of view, we doubt qualitative characteristics of such information can include at all times faithful representation (in the sense that the depiction of an economic phenomenon should be neutral), comparability and verifiability (when it comes to forward-looking information), those qualitative characteristics being presented in the ED on Phase A of the Conceptual Framework;
- besides, Phase E on Presentation and Disclosure, including Financial Reporting Boundaries has not yet started. Though, this phase’s objective is *“to determine the concepts underlying display and disclosure of financial information, including the boundaries of such information, that will achieve the objective of general purpose financial reporting.”* We believe the publication of the final chapters of Phase E, which will enable determine what are the placement criteria of information (i.e. in the notes or elsewhere, for instance in management’s report), is also a precondition for the design of a framework for the preparation and the presentation of management commentary. Hence, we disagree with the position taken in paragraph BC46.