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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**25 January 2007, London**
Project:	**Management Commentary**
Subject:	**Detailed Comment Letter Analysis (Agenda paper 11B)**

Introduction

1.1 The comment period on the discussion paper 'Management Commentary' – a paper prepared for the IASB by staff of its partner standard-setters and others - ended on 28 April 2006. A total of 117 comment letters were received from 26 individual countries. The analysis provided in this paper is based on 116 responses. Respondent 117 was a late submission and while acknowledging that the project is a significant task facing the international business community; it did not answer the specific questions in the discussion paper. Most of the letters were from European organisations.

1.2 The breakdown of letters received is as follows:

Geography		Respondents	
Americas	10	Preparers	13
Asia	12	Preparer organisation's	17
Australasia	12	Academics	5
Germany	16	National standard-setters	14
Global	11	Users	7
UK	28	User organisations	7
Rest of Europe	27	Accounting firms	9
		Institute of accountants	24
		Government agencies	5
		Consortium	2
		Consultants	4
		Supervisors/regulators	8
		Non-governmental agencies	1
TOTALS	116		116

Refer to Appendix – 1 for a breakdown of the respondents

2 Requirements for management commentary (MC)

The project team concluded that an entity's financial report should be viewed as a package comprising the primary financial statements, accompanying notes and MC (section 1 of the discussion paper). They also concluded that the quality of MC was likely to be enhanced if the IASB issued requirements relating to MC (section 6 of the discussion paper).

Q1 Do you agree that MC should be considered an integral part of financial reports? If not, why not?

Respondent	Yes	No	Not answered	Total
Preparers	11	1	0	12
Preparer organisation	12	4	1	17
Academics	5	0	0	5
National standard-setters	12	1	1	14
Users	6	1	0	7
User organisations	7	0	0	7
Accounting firms	8	1	0	9
Institute of accountants	23	1	0	24
Government agencies	5	0	0	5
Consortium	2	0	0	2
Consultants	4	0	0	4
Supervisors/regulators	7	0	1	8
Non-governmental agencies	1	0	0	1
TOTALS	104	9	3	116

2.1 The majority of respondents, 92 per cent of those who answered the question, agree that MC should be considered an integral and important part of the financial reports. It constitutes the narrative which explains the company's business model and thereby the context in which the financial numbers should be interpreted.

> "We agree that MC should be considered as an integral part of financial reports. As the Discussion Paper makes clear, both the Constitution of the IASC Foundation and the IASB's 'Preface to International Financial Reporting Standards' acknowledge the importance of 'other financial reporting' to assist in the interpretation of a complete set of financial statements and to

improve users' ability to make efficient economic decision" (CL3 - The Accounting Standards Board).

2.2 There is positive support from the user community.

> "As primary users of financial reports, the type of information envisaged for MC provides us with not only improved accountability but also relevant information to assist our decision-making. Currently, institutional investors often have 1:1 meetings with the senior management of companies to discuss many of the topics that are likely to be addressed in MC. Therefore, to require MC to be prepared and to be accessible to all users will help to further level the information playing field, especially as it pertains to listed companies" (CL9 - Standard Life Investments).

2.3 From a preparer's perspective:

> "We agree that management commentary is an integral part of the financial reporting package. Such discussion provides investors with important information to bridge the gap between financial accounting requirements and economic events. As a result, investors are afforded better insight necessary to interpret and assess the related financial statements, the environment that the company operates in as well as the issues impacting management and how management views these issues. Without a management commentary, investors would lack key decision making information" (CL 49 – UBS AG).

2.4 Several respondents expressed a view on the degree to which MC might be regarded as *integral*.

> "We believe that a clear commentary issued alongside the annual financial statements is a very important element of the corporate reporting process. The degree to which it might be regarded as *integral* is, in our view, dependent on the nature of the reporting entity. In any case, the qualities and objectives of management commentary and the financial statements are distinct, and the boundary between them should remain firmly in place.
>
> We recognise that the current review of the '*Framework*' should encompass consideration of whether it should cover 'other financial reporting', which is referred to in both the IASC Foundation Constitution and the *Preface to International Financial Reporting Standards*" (CL17 - The Institute of Chartered Accountants in England and Wales).

2.5 Another view is that the IASB's Framework should be extended to cover the MC.

> "Indeed, the MC is so important, and the links between it and the financial statements so great, that we believe the IASB's Framework document should be extended to cover the MC. We note in this context that the Framework is currently under examination for improvement. Since this project is still at a fairly early stage it appears to be a great opportunity to discuss a possible extension of the scope of the Framework to other financial reporting, and thereby bringing it more into line with the wording of the IASCF Constitution and the IFRS Preface" (CL105 - European Financial Reporting Advisory Group).

2.6 While agreeing that MC is an integral part of the financial reports but not part of the financial statements, the question of important audit consequences, if MC would be an integral part of financial statements, is also discussed.

> "If Management Commentary would be an integral part of financial statements important consequences for the audit would arise, because the audit on Management Commentary is different from the one on financial statements. In fact, the information contained in Management Commentary is more qualitative and subjective in nature, with elements that are not objectively verifiable" (CL45 - The Italian accountancy profession).

and

> "In the view of the committee, MC should not be part of the financial statements (i.e. primary statements and notes) nor be subject to the same level of audit assurance as the financial statements. The objective of MC is to provide information regarding processes, positions, risk exposures and prospects through the eyes of management. The performance of complete audit procedures on this information would be difficult and potentially inappropriate" (CL105 - Basle Committee on Banking Supervision).

2.7 There were nine respondents who disagreed with the proposal that MC should be considered an integral part of the financial reports.

2.8 Several respondents did not agree with this proposal because of a presumption that the MC would have to audited, for example:

> “The G100 does not consider the MC should form part of the financial report. The G100 considers that the MC is an essential part of the communication with shareholders as part of the annual report. We consider that the MC is a component of financial reporting but would distinguish it from the financial report, which in our view, comprise the financial statements and notes thereto which are also subject to audit. We do not believe that MC should be included in the scope of the audit opinion on the financial statements” (CL20 - The Group of 100).

Similar views expressed include:

> “Information related to future forecast as an integral part of financial reports and to be the subject of auditing or any kind of review is strongly opposed (CL44 - Nippon Keidenren – Japanese Business Federation);

and

> “In particular there is an implication that MC would be subject to an audit process. We do not favour this being the case as we believe it would generate the wrong approach to company reporting: a paper-trail process and a compliance - type attitude. This would not generate the highest quality and most cost-effective corporate narrative reporting which added value for shareholders” (CL56 – Hermes Pension Fund Management Limited).

2.9 MC should not be an integral part of financial reports for a number of reasons summarised below:

> “The best companies already produce MC material relevant to their own circumstances and any degree of compulsion or prescription would be of no benefit and at worst would reduce the clarity, relevance and quality of what shareholders currently enjoy”

and

> “The obligations of preparing an MC can be very arduous and the costs and management time will fall disproportionately on smaller quoted companies “ (CL65 – The Quoted Companies Alliance).

Q2 Should the development of requirements for MC be a priority for the Board? If not, why not? If yes, should the IASB develop a standard or non-mandatory guidance or both?

(a) Should the development of requirements for MC be a priority for the Board? If not, why not?

Respondent	Yes	No	Not answered	Total
Preparers	6	5	2	13
Preparer organisation	7	7	3	17
Academics	3	1	1	5
National standard-setters	10	3	1	14
Users	2	1	4	7
User organisations	6	1	0	7
Accounting firms	5	4	0	9
Institute of accountants	13	10	1	24
Government agencies	2	2	1	5
Consortium	1	1	0	2
Consultants	2	0	2	4
Supervisors/regulators	3	1	4	8
Non-governmental agencies	0	0	1	1
TOTALS	60	36	20	116

2.10 There were 96 responses on this question; 60 respondents, 63 per cent of those who answered the question, agreed that the development of MC should be a priority for the Board; of the 60 respondents, 19 respondents specifically felt that MC should be a medium/low priority for the Board; while 36 respondents, 37 per cent of the responses, were of the opinion that this development was not a priority for the Board.

2.11 A selection of responses that support the development of requirements for MC as a high priority for the IASB include:

Preparers:

> "We support the development of requirements for MC, because we see MC as an important element of business reporting. Therefore, it should be given high priority by the IASB" (CL4 – Munich Re Group);

"We believe that MC should be a priority for the IASB to develop guidance in this area. This will promote international convergence and improve transparency of narrative reporting" (CL74 – AVIVA).

Preparer's Organisations:

"The G100 believes that the IASB should give the development of requirements for an MC high priority. We consider it important that a balanced and objective, principally narrative, discussion of the performance and prospects of the company written in a clear and understandable prose is essential to supplement and enhance the information included in the financial statements" (CL20 - G100).

National Standard Setters:

"Yes, in our view, the priority for developing the requirements for MC by the IASB should be high, because at this moment there are no international generally accepted principles for MC, comparable with the standards developed for financial statements. Developing principles and guidance for MC will improve the quality of financial reporting in general and help to realize convergence in this area" (CL18 – Dutch Accounting Standards Board(DASB).

Accounting Firms:

"We believe that the development of requirements relating to Management Commentary accompanying financial statements prepared in accordance with IFRSs should be a high priority for the board. We believe this to be particularly the case now that there is fairly extensive use of valuations in financial statements making it very important that the various factors contributing to performance in the period are properly understood" (CL99 – RSM Robson Rhodes).

Institute of Accountants:

"We consider that the MC should be a priority for the Board. As stated in the Discussion Paper (paragraphs 3 and 6), both the IASC Foundation's Constitution and the IASB *Framework for the Preparation and Presentation of Financial Statements* refer to the importance of "other financial reporting." The IASB is now well established in the process of convergence to treat the MC as a priority" (CL76 - The Certified General Accountants Association of Canada).

User Organisations:

> "We believe that the development of the requirements for a Management Commentary should be a high priority since it is becoming increasingly difficult, especially with the extensive use of valuations in financial statements now, to understand long-term performance and value creation as set out in those statements without a detailed discussion to set them in context and which complements and supplements them." (CL6 – International Corporate Governance Network)

2.12 Several respondents, while agreeing that MC requirements should be developed, considered this task as a medium / low priority for the Board. Predominately, they consider the Board's financial statement projects should have a higher priority. In particular they were of the opinion:

> "We believe that the development of the MC should be a medium term priority. We support the establishment of the MC, but believe that the immediate focus of the IASB should be on the development of a stable platform of IFRS and the convergence project between IFRS and US GAAP" (CL85 - Telstra).

> "Consequently, though we consider the MC project as important, for us it is of a lower priority than the development of a full and stable set of financial reporting standards. Hence, whether an MC project is taken on or not onto the IASB agenda should depend on the existence of available resources after prior allocation to financial reporting standards projects (CL58 – The French Association of Financial Executives).

> "While important, the FRSB believes that this project should be a medium, but not top, priority project for the Board. The FRSB considers that there are several more significant projects on the IASB's agenda, for example, the review of the Conceptual Framework, Revenue Recognition, Business Combinations and Leases. These projects should be accorded a higher priority than the project on MC" (CL108 – The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants).

2.13 The vast majority of respondents who disagreed with the proposal to the develop requirements for MC did so on the grounds that such a project would delay the completion of higher priority projects affecting the financial statements e.g. the convergence between the IASB and FASB, International Reporting Standards (IFRS) IFRS's for Small and Medium-sized entities (SME's), Business Combinations Phase II In addition, some commented that robust narrative business reporting already exists in varying guises.

2.14 A selection of responses that do not support the proposal that the development of requirements for MC should be a priority for the IASB include:

Users:

> "There are currently significant issues on the agenda, such as fair value measurement, convergence issues, and the amendments to IAS 39 that should take precedence over any guidance on management commentary. We believe the Board should continue to focus its resources on addressing the more contentious accounting issues before embarking on management commentary" (CL49 - UBS AG).

Preparer Organisations:

> "Variations in (and the evolving nature of) the legal frameworks in different jurisdictions mean that the development of comprehensive MC requirements are unlikely to be successful at this point in time. We believe that the IASB has higher priorities, including its review of the *Framework for the Preparation and Presentation of Financial Statements* on which the development of MC guidance must be predicated "(CL77 - The Hundred Group of Finance Directors).

National Standard Setters:

> "From the standpoint of promotion of international convergence through developing high quality, common accounting standards for use in capital markets, we believe that the priorities for the IASB should be the items set out in the MOU between the IASB and the FASB, issued in February 2006, and those addressed in the joint project with the ASBJ" (CL57 – Accounting Standards Board of Japan).

Accounting Firms:

> "We note that at the December 2005 Board meeting the Board considered a technical plan for the resolution of known accounting issues. That plan was considered to be 'optimistic'. In the course of that meeting Board members noted that the resolution of some of those issues might be up to five years away. We believe it would not be appropriate at this time for the Board to widen the range of reporting it deals with , rather, resources should be directed to improving those aspects of financial reporting which are more contentious and currently on the Board's agenda" (CL7 – Deloitte).

Institute of Accountants:

> "There are more important subjects such as the accounting for pension costs and the accounting for leases for instance which should be addressed before this topic" (CL93 – London Society of Accountants).

2.15 Several respondents considered that it was not appropriate for the Board to take the lead on this project, in particular:

> "MC is not a matter which falls innately within the responsibility of an accounting standard setter" (CL10 – Bundesverband Deutscher Banken - Association of German Banks).

2.16 One respondent supports the case for companies to be more proactive in their disclosures to their owners, and to discuss more openly such matters as strategy and future prospects. However, regulators are not best placed to set out requirements in this area. Rather narrative reporting needs to be developed as a matter of best practice through interaction between companies and their owners about what disclosure adds values and what does not (CL56 - Hermes Pension Management Ltd).

(b) If yes, should the IASB develop a standard or non-mandatory guidance or both?

Respondent	Std	Guidance	Both	Neither	Not answered	Total
Preparers	4	7	1	1	0	13
Preparer organisation	5	8	0	3	1	17
Academics	3	2	0	0	0	5
National standard-setters	7	4	0	2	1	14
Users	3	4	0	0	0	7
User organisations	3	3	0	0	1	7
Accounting firms	2	5	0	2	0	9
Institute of accountants	11	10	0	1	2	24
Government agencies	1	3	1	0	0	5
Consortium	2	0	0	0	0	2
Consultants	1	0	1	0	2	4
Supervisors/regulators	1	7	0	0	0	8
Non-governmental agencies	1	0	0	0	0	1
TOTALS	44	53	3	9	7	116

2.17 With regard to the question of whether a standard or non-mandatory guidance the views are split. In summary, 53 respondents, 48 per cent of those who responded, want guidance, while 44 respondents, 40 per cent of those who answered the question, want a standard and three wanted a hybrid system that includes both standards and guidance. Nine respondents don't agree with either option – these are largely those who don't think it is the IASB's role to get involved. Seven didn't answer or were so unclear what they were trying to say.

2.18 A significant number took the view that guidance was the correct path. A number of those considered that guidance would be a first step – leaving open the possibility that they would support a standard at a later stage; while another respondent proposed a phased approach suggesting that MC should be developed tin three stages, short term, medium term and long term

Examples of the responses expressed in respect of whether the IASB should develop a standard or guidance or both are highlighted below:

Standards:

"To the extent that standards are perceived to deliver a higher quality of disclosure than guidance and to avoid a perception that management commentary is inferior in quality to financial statements, the goal should be the issuance of a standard" (CL33 – The Canadian Institute of Chartered Accountants).

"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" (CL50 – Enhanced Business Reporting Consortium).

"The CAC recommends that IASB develops a standard that would be mandatory for all firms claiming compliance with IRFS. A mandatory standard would improve comparability of disclosure across jurisdictions. The CAC believes that voluntary standards have little value" (CL67 – The Canadian Advocacy Committee of the CFA Societies of Canada).

"Because we regard management commentary as an integral part of the financial report at least for listed entities, a comprehensive set of International Reporting Financial standards should include a mandatory requirement to prepare a MC" (CL19 – The German Accounting Standards Board).

"Since voluntary as well as mandatory guidance already exists in many forms all over the world, we support developing a mandatory standard so that MC reporting is harmonised" (CL90 – Federation of German Industries)

Guidance:

"As companies, even within the same industry can be immensely different, i.e. have different business models, organizational and legal structures, it does not make sense to develop standards for either length or content of the management commentary. Non-mandatory guidance is therefore seen as the only sensible solution to this problem. Guidance should be concerned with helping companies structure their MC and underline narrative statements by helping companies in defining possible relevant measures and how to explain key non-financial performance measures" (CL2 Christian Nielsen – Academic).

"We should prefer non-mandatory guidance, provided that the guidance is accompanied by an effective audit review standard, designed to ensure that MCs prepared in accordance with such guidance can be relied upon by users. The benefit, from our perspective, of non- mandatory guidance is that it creates a benchmark of best reporting practice against which companies can exercise flexibility and discretion to tailor their commentaries to their particular requirements whereas a standard may tend to result in 'boilerplate' disclosures, which tend to comply with the form rather than the substance of the reporting requirements" (CL9 - Standard Life Investments).

"In our experience, the market is generally the most effective arbiter of the quality of a company's reporting practices. Investors recognise and reward transparent reporting practices. We consider, furthermore, that any attempt to introduce mandatory requirements on a global scale would be unsuccessful. Practice and market expectations around the world differ markedly in this area, as does the legal environment. We therefore recommend that the Board publishes an optional standard or statement of good practice on management commentary. A non-mandatory document would permit regulators of management commentary to align their recommendations or requirements over time with an agreed global benchmark. It would also encourage the development of good practice in jurisdictions unfamiliar with the notion of providing the market with balanced and transparent narrative information. The Board should keep the guidance under review as practice develops in this area around the world" (CL17 – Institute of Chartered Accountants in England and Wales (ICAEW).

2.19 Comments received from The Committee of European Securities Regulators (CESR) (CL109), and The International Organisation of Securities Commissions (IOSCO) (CL81) are particularly relevant to this question.

2.20 "From CESR perspective, this paper is dealing with a very important matter as Management Commentary is strongly connected with financial information and aims at providing investors with key information on the manner in which the financial statements are looked at from the management standpoint. CESR fully supports enhanced Management Commentary information”.

“It is primordial that IASB’s project be designed in such a way as to fit well with the European regulatory framework. CESR-Fin would like to draw your attention to the fact that there are already various requirements on Management Commentary at European level (the 4th and 7th directives in process of being enhanced, but also the Transparency Directive and the Prospectus Regulation n°809/2004). The matter is also covered by various national regulations. We are concerned that a mandatory standard on Management Commentary may conflict with regulatory requirements and CESR-Fin therefore believe that IASB's output on Management Commentary should be in the form of non-mandatory guidance. Subsequently, this non-mandatory guidance can be given more prominence or a higher legal status by a region or a country, if it so decides. Moreover, although it is probably a premature question, it will be useful in the European context to examine whether the respective European legislation can encompass an IASB’s standard on Management Commentary. Having the comfort of the EC legal services and a consultation of the ARC on this point would be most welcome”.

“If IASB issue text on Management Commentary, such guidance should focus on areas that have a direct link with the financial elements. IASB has a clear and valuable knowledge of accounting and financial reporting standards and it is important in our view to leave sufficient flexibility for preparers to comment on all aspects of their business performance that they deem relevant for investors’ information. Developing principles for the elaboration of general financial information for investors about the company and its environment is the responsibility of legislators or securities regulators. Subject to decisions to be taken by CESR Chairs, CESR might consider the possibility of developing further work on these issues to ensure a convergent implementation of the Transparency and Prospectus Directives and to foster harmonised day-to-day application of this legislation. We would encourage a dialogue between the IASB and CESR to minimize the risk that any guidance issued by the IASB conflicts with the standards developed by regulators. It will be necessary to consider how such guidance would be adapted and implemented for interim reports”.

2.21 IOSCO and its members have long recognised the importance of MC-type disclosure. Communication with investors in a clear and straightforward manner is one of management's most vital responsibilities.

In this respect IOSCO make three specific comments.

- IOSCO has developed international pronouncements[1] on MC, and national disclosure requirements on MC exist in several IOSCO member countries as a result of securities regulations or company law:

> "Given the importance of MC disclosure, the development of high quality international standards on MC would help improve the disclosure that is provided by issuers. Recognising this, IOSCO has already developed international disclosure standards for listed issuers, including disclosure standards on MC".

> "The standards and principles established on MC by IOSCO are the culmination of thorough analysis and discussion over a period of years by the securities regulators of the most developed markets, several of whom have many years of experience in reviewing the MC disclosures provided by the issuers of their jurisdictions".

- Non-mandatory IASB guidance that is focused on MC disclosures linked to accounting standards could be a useful complement to the MC requirements and guidance set by securities regulators or company law, as long as the guidance does not conflict with national securities regulation and company law.

> "Although many jurisdictions have already implemented the IOSCO MC standards and principles, non-mandatory guidance by the IASB on MC disclosures linked to accounting standards could be a useful complement to the MC requirements and guidance set by securities regulators or company law".

[1] 1. General Principles Regarding Disclosure of Management's Discussion and Analysis of Financial condition and Results of Operations (2003).
2. International Disclosure Standards for Cross-border Offerings and Initial Listings by Foreign Issuers (1998).
3. Consultation Report: International Disclosure Principles for Cross-border Offerings and Listings of Debt Securities by Foreign Issuers (2005).

> "If the IASB decided to develop MC guidance, it should not assume that its guidance would be mandatory. Indeed, if the IASB tries to develop a mandatory standard on MC with which the issuers must comply in order to assert compliance with IFRS, and this standard is inconsistent with the MC disclosure requirements contained in the securities regulations of these jurisdictions, this would be highly problematic".

- MC disclosure is most appropriately solicited through disclosure provided outside the financial statements or the notes to the financial statements.

> "According to the proposed placement principles in the discussion paper, any information that is deemed essential to an understanding of the primary financial statements and elements should be disclosed in the accompanying notes, rather than in the MC. However, MC disclosure is valuable precisely because it provides information that is viewed as essential to understanding the financial statements. We are concerned that the placement principles will not result in consistent disclosure of MC information, and may result in some information that is normally viewed as MC disclosure in the notes to the financial statements".

> "We believe if the IASB decides to develop guidance on MC, it should solicit this MC disclosure through disclosure that is provided outside of the financial statements or the notes to the financial statements. We also believe that if the IASB decides to develop such guidance, the views of the securities regulators and preparers should be considered by the other entities that would be tasked with assessing what auditing standards, if any, should apply to MC".

2.22 Other views expressed include:

> "We believe the work carried out in the DP is valid and should be kept as reference for providing guidance for preparers and regulators in jurisdictions where there are no MC regulations. The Board should therefore put this project in its research agenda and keep the DP and comments received from its constituents as a starting point for future use. "(CL 106 – Nestle S.A.).

> "We do not support the requirements for management commentary being either non-mandatory guidance or a separate

standard. On one hand, it would be difficult to encourage compliance with non-mandatory guidance and, on the other hand, a standard would require audit sign-off which has its own complexities in terms of the cost. Furthermore, it is difficult to prescribe to management what they should report on if the purpose of providing management commentary is to allow management to determine what information they want to disclose to improve the users' ability to make efficient economic decisions" (CL37 – The South African Institute of Chartered Accountants).

"We wish to emphasise that we firmly believe that it is essential that the body responsible for developing the management Commentary should include strong representation from investors and should have a broad range of expertise covering corporate governance, social and environmental assets and the valuation of intangibles as well as corporate reporting. We therefore consider the IASC Trustees should establish a body other than the IASB to take this project forward." (CL6 – International Corporate Governance Network.

Q3 Should entities be required to include MC in their financial reports in order to assert compliance with IFRSs'? Please explain why or why not?

Respondent	Yes	No	Not answered	Total
Preparers	5	8	0	13
Preparer organisation	4	10	3	17
Academics	2	2	1	5
National standard-setters	6	5	3	14
Users	3	1	3	7
User organisations	4	2	1	7
Accounting firms	2	7	0	9
Institute of accountants	8	13	3	24
Government agencies	0	2	3	5
Consortium	0	0	2	2
Consultants	2	0	2	4
Supervisors/regulators	0	6	2	8
Non-governmental agencies	0	0	1	1
TOTALS	36	56	24	116

2.23 There were 36 respondents, 39 per cent of those who answered the question, considered that MC should be included in the financial reports in order to assert compliance with IFRS, while 56 respondents, 61 per cent of the responses, did not consider it appropriate; the remaining respondents chose not to answer this question.

Reasons for requiring MCto be included in financial reports in order to assert compliance with IFRS include:

2.24 MC will increase investor confidence in IFRS compliance:

> "Entities should be required to include MC in their financial reports. Otherwise investors cannot be sure that it complies with IFRS. This lack of confidence would damage all entities preparing MC's "(CL1 – Volkswagen AG).

2.25 The additional reported information will be viewed to be necessary for the interpretation and assessment of the financial statements by the stakeholders :

> "Companies should be required to include MC in their financial reports in order to assert compliance with IFRS for three reasons. First, if it is not required it won't be done, probably by

most companies. Second, if it is done only by some then the information from these complying companies will tend to be ignored by users since the information provided will (i) not be cross sectional comparable and may therefore be regarded to be somewhat redundant and / or (ii) be regarded as being selective and biased in any case. Third, if operations reporting is to be a supplement and complement to financial reporting it needs to be included in the same document so that the information so provided can be considered and compared and contrasted to provide as complete a view of the prospects of the company as possible" (CL48 – AssetEconomics, Inc).

2.26 MC is an integral part of financial reports and making it a voluntary statement would undermine the benefits of IFRS comparability.

> "We regard MC as an integral part of financial reports. As global investors, comparability of accounting information is one of the major perceived benefits of IFRS. To make the MC a wholly voluntary statement would undermine seriously the benefits of IFRS comparability. Furthermore, to exclude MC from the assertion of compliance with IFRS would call into question whether financial reports prepared in compliance with IFRS could ever achieve fair presentation of the entities' financial positions" (CL9 – Standard Life Investments).

2.27 MC will enhance shareholder engagement with Boards and Management.

> "We believe that the widespread adoption of the practice of publishing high quality MC would markedly improve shareholder understanding of investees companies and enhance shareholder engagements with boards and management" (CL 101 – Governance for owners).

2.28 The ultimate objective is for MC to achieve a status equal to other financial reports:

> "Yes. We believe that this should certainly be the ultimate objective of regulation on MC. Given increasing perceptions as to the importance of the MC genre, MC should be seen as being of equal status to other components of financial reports" (CL24 – University of Sterling).

> "If IASB decides to develop a standard on MC entities should be required to include MC in their financial reports in order to comply with IFRS, although we acknowledge that this may raise some challenges, as outlined in Section 6 of the Discussion Paper. As the project team acknowledges, this is an area where a MC standard in the short-term may have to provide for optional adoption by jurisdictions or entities, although the ultimate goal is for MC presentation to be a prerequisite for assertion of compliance with IFRSs." (CL104 – The Institute of State Authorised Public Accountants in Denmark).

Reasons for not requiring MC to be included in financial reports in order to assert compliance with IFRS include:

2.29 MC is complimentary to but separate from the financial statements and should not be covered by IFRS. It would be onerous and inappropriate to require all entities to assert IFRS compliance if such compliance were to require the inclusion of MC.

> "The FRSB considers that MC requirements should be in a Standard that relates to information that is presented outside the financial statements. As such, entities should not be required to include MC in their financial reports in order to assert that their financial statements comply with IFRSs" (CL107 – The New Zealand Institute of Chartered Accountants).

> "No, as we do not consider that the IASB should develop MC pronouncements, we do not consider that entities should be required to include MC in their financial reports in order to assert compliance with IFRS" (CL86 – Hong Kong Institute of Certified Public Accountants).

> "No. We believe any MC standard should fall outside of IFRS for this purpose. IFRS should address financial statements and notes thereto, not additional narrative statements that may be published with the financial statements" (CL92 – BDO Global).

> "No - We believe it would be both onerous and inappropriate for the IASB to require all entities asserting IFRS compliance to prepare a MC per the IASB discussion paper" (CL23 – Irish Bankers Federation).

2.30 MC includes management's analysis of both historical financial performance and forward looking information using a mix of narrative, non-financial measures, and non-IFRS financials. It provides the view "through management's eyes" and therefore cannot possess the same degree of objectivity as that expected from a set of financial statements and accordingly is not suitable for development as an IFRS which would necessarily require more of a rules-based approach.

> "Whilst IFRSs are a move to harmonise accounting across territories, the proposed MC model is a 'principle-based' model that relies upon management's views as to what the most important issues and risks are facing the entity and allows them the ability to demonstrate both historic and forward looking performance using a mixture of both non-financial measures and non-IFRS financials coupled with actual IFRS compliant data extracts. If entities were required to include MC in their financial reports in order to assert compliance with IFRS it would lead to a situation whereby the proposed MC model would have to become more 'rule-based' rather than 'principle-based' such that IFRSs can retain their overall goal of convergence - this would remove the purpose therefore of MC by limiting the extent to which MC can be reported as seen 'through the eyes of management' (CL100 – British American Tobacco).

2.31 Mandatory MC should not be imposed on companies – Guidelines only should be developed or should be 'Best Practice' guidance. MC should not be subject to audit.

> "The audit issues associated with requiring that financial reports include MC in order to assert compliance with IFRSs are far more significant than the paper makes out. Furthermore, the MC requirements proposed are more far-reaching than those currently subject to audit in various countries around the world. We also believe there will be many interpretation issues arising from an MC requirement within IFRS. We would strongly oppose any development which would, having consumed a significant amount of IASB time, goes on to consume a significant amount of IFRIC time. We believe there is a high risk of a large number of requests for interpretations arising from the MC requirements, and that the main driver behind such requests will be differences in business cultures" (CL7 - Deloitte).

"We would prefer that an entity be required to provide a separate compliance assertion on the Management Commentary rather than to include Management Commentary in their compliance assertion on the IFRS financial statements"(CL27 – Federation des Experts Comptables Europeans).

"We do not consider compliance with the MC guidance should be needed for the overall compliance with IFRS because the guidance should be in the form of best-practice guidance and not a standard, financial statements should be capable of being stand-alone without any MC, if a standard were produced it would seem likely that the compliance assertion by management might be better stated in different terms from that given on the financial statements, given the nature of some of the information provided. Likewise the assurance statement by the auditors on the MC might need to be different from that on the financial statements "(CL70 – The Association of Chartered Certified Accountants).

Other matters expressed include:

2.32 **Amendment to IAS 1**

"We favour the development of a mandatory standard because we believe this is the best way to enhance and harmonise the practice of MC. Therefore, we recommend an amendment to IAS 1, additionally to the extension of the framework" (CL4 – Munich Re Group).

Restriction to listed entities

"We are of the opinion that MC should be mandatory for listed companies" (CL63 – GEFIU, German Financial Executives Institute).

Phased/Optional adoption should be considered.

"Microsoft believes the IASB should develop a standard that provides for optional adoption by jurisdiction or entities in the short term. This approach will allow for robust discussions for improving MC and financial reporting in general, without the barriers a mandatory requirement would create" (CL84 – Microsoft).

"MC should be developed in stages as follows:

(i) Short term
A principles based good practice statement – an international reporting statement – should be issued. Application should be voluntary, but encouraged for listed entities, other large public interest entities and any other entities purporting to prepare an MC.

(ii) Medium term
A principles based international reporting standard (as opposed to an international financial reporting standard) on MC should be issued. The standard should be initially available for adoption if an entity or jurisdiction (via a securities regulator for example) chooses to adopt it. While we consider global harmonisation to be important, we believe that regulators should primarily be responsible for setting MC standards in their local jurisdictions.

(iii) Long term
A review should be performed in the longer term to assess the effectiveness both of MC reporting where an MC standard has been adopted locally and also of the voluntary application of such a standard in other territories. If, at that stage MC reporting was found to be ineffective, then a mandatory requirement (for listed companies, other large public interest entities and any other entities purporting to prepare an MC) and / or further guidance may be appropriate" (CL89 – PricewaterhouseCoopers).

New Standards:

"We recommend presenting the requirements on management commentary in a new series of standards with a distinctive numbering system (i.e. not as an IFRS). A new series of standards could develop at a different pace to IFRSs, and, for example, may accommodate principles and qualitative characteristics that are not the same as those in the Framework for the Preparation and Presentation of Financial Statements" (CL 112 – International Federation of Accountants).

3 Purpose of MC

The project team concluded that the objective of MC has three elements:

- **to interpret and assess the related financial statements in the context of the environment in which the entity operates;**
- **to assess what management views as the most important issues facing the entity and how it intends to manage those issues; and**
- **to assess the strategies adopted by the entity and the likelihood that those strategies will be successful.**

The project team also concluded that the primary focus of MC is to meet the information requirements of investors.

Q4 Do you agree with the objective suggested by the project team or, if not, how should it be changed? Is the focus on the needs of the investors appropriate?

(a) Do you agree with the objective suggested by the project team or, if not, how should it be changed?

Respondent	Yes	No	Not answered	Total
Preparers	11	0	2	13
Preparer organisation	11	1	5	17
Academics	4	0	1	5
National standard-setters	11	0	3	14
Users	6	0	1	7
User organisations	6	0	1	7
Accounting firms	6	0	3	9
Institute of accountants	20	3	1	24
Government agencies	3	0	2	5
Consortium	2	0	0	2
Consultants	3	0	1	4
Supervisors/regulators	5	0	3	8
Non-governmental agencies	1	0	0	1
TOTALS	89	4	23	116

3.1 The majority of respondents, 95 per cent of those who answered the question, agree with the objective and the three elements suggested by the Board. Twenty–three did not answer the question.

3.2 There were very few comments to this part of the question by those respondents that agreed with the objective suggested by the project team. Typical responses included: “We fully support the proposals of the project team, we agree to the three objectives, we agree in principle with the three elements of the suggested objectives of MC and welcome the focus on simplicity, these objectives are relevant, straightforward and unambiguous”.

3.3 Several respondents while generally agreeing with the proposal expressed these views:

> “We generally agree with the objectives suggested by the project team, including the conclusion that the primary focus of management commentary is to meet the information requirements of investors. It is in the best interest of companies to provide meaningful commentary for the investors. However we have some concerns with the objective “to assess the strategies adopted by the entity and the likelihood that those strategies will be successful”. In developing its business strategy management must take into consideration the likelihood of success. However, we do not believe that it should be mandatory to require a company to disclose its actual strategy or its likelihood of success as it may provide competitors with proprietary information” (CL49 - UBS AG).

> “The discussion paper proposes as one objective of Management Commentary an evaluation of the corporate strategy and the probability of the success of the strategy by the management, which in our view also includes an estimation of the success of the risk management strategy. We consider such an evaluation on the part of management to be highly questionable and suggest omitting this altogether” (CL55 – Association of German Public Sector Banks).

> “Paragraph 34 sets out the objective of management commentary. The second element of the objective is to provide information to help investors “to assess what management views as the most important issues facing the entity and how it intends to manage those issues”. It is particularly important in interpreting

> both this element of the objective of management commentary and the principle of "through the eyes of management" that there is no ambiguity in the definition of management provided in paragraph 51"(CL3 – The Canadian Institute of Chartered Accountants).

> "HOTARAC agrees with these objectives and notes that the context is in respect of profit seeking entities" (CL102 – Australia's Heads of Treasuries Accounting and Reporting Advisory Board).

3.4 Four respondents disagree with the proposal. Their principal objections are: The objective of MC, as outlined in section 2, has not been sufficiently elaborated. It is wider than providing a context to the financial statements; the three elements are too narrow and MC information will be difficult to differentiate from other information in the entities report.

> "We also believe the three elements are too narrow and preparers, users and verifiers will not be able to differentiate MC information from other information contained in the entities report. We consider the elements should be re-written to:
>
> - Interpret and assess the related financial statements in the context of the economic, social and environmental footprint in which the entity operates;
> - Assess what management views as the most important risks and opportunities facing the entity and how it intends to manage those risks and opportunities; and
> - Assess the strategies adopted by the entity and the likelihood that those strategies will be successful" (CL 94 – Sustainability working group - special interest group attached to the New Zealand Institute of Chartered Accountants).

3.5 The proposal should not include future prospects or proposals and it is not appropriate to specify the precise information that must be disclosed or how it is presented.

> "The project team concluded that it is not appropriate to specify the precise information that must be disclosed within MC, or how it is presented. Rather, they believe that any requirements for MC should set out the principles and qualitative characteristics, as well as the essential areas of MC, necessary to make the information useful to investors. It is up to management to

determine what information is necessary to meet these requirements, and to determine how the information is presented" (CL73 – Institute of Certified Public Accountants of Kenya).

(b) Is the focus on the needs of investors appropriate?

Respondent	Yes	No	Not answered	Total
Preparers	8	0	5	13
Preparer organisation	10	2	5	17
Academics	4	1	0	5
National standard-setters	4	7	3	14
Users	5	0	2	7
User organisations	7	0	0	7
Accounting firms	7	1	1	9
Institute of accountants	15	7	2	24
Government agencies	1	3	1	5
Consortium	1	1	0	2
Consultants	1	1	2	4
Supervisors/regulators	4	2	2	8
Non-governmental agencies	1	0	0	1
TOTALS	68	25	23	116

3.6 The results of the responses to this question were mixed, 68 respondents, 73 per cent of those who answered the question, agreed that investor focus was appropriate while 25 respondents, 27 per cent of the responses, disagreed. It should be noted that of the 25 respondents who did disagree, 14 responses were from National standard setters and Institute of Accountants. The question was not answered by twenty-three respondents.

Responses who agreed that the focus on the needs of investors is appropriate include:

3.7 There were very few comments to this part of the question by those respondents who agreed with the objective suggested by the project team. Typical responses included: "We agree with the focus on investors, it is in the best interests of companies to provide meaningful commentary for investors, the focus on investors is consistent with the framework's view that if the needs of the investors are met then largely the needs of other users of MC would be met"; other comments include:

"We agree that the primary focus should be on the needs of investors and would not wish to see the scope of MC extending to the needs of a wider set of users. On the contrary, we would prefer the addressees of MC to be specifically confined to the existing shareholders of the company" (CL65 – Quoted Companies Alliance).

" We agree with the presumption that that the provisions financial statements as well; as for MC which meet investor's needs will also meet most of the needs of other users" (CL19 – Accounting Standards Committee of Germany).

"Although we believe that ideally financial reports should address the information needs of all users, we acknowledge that the primary focus of Management Commentary would be the investors. If the objective of Management Commentary were broader, there is a risk that the amount of information disclosed would be excessive. There are other types of reporting which meet the needs of users other than investors. Management Commentary should not replace other forms of reporting, and we therefore, agree with the assertion that if the needs of investors are satisfied, most of the needs of other users are also satisfied" (CL27 – European Federation of Accountants).

3.8 The main concerns expressed by those respondents who did not agree are:

- The focus should not be solely on investors. MC will be very useful to other groups of users as defined in the IASB Framework.

"No, we do not agree with the focus on meeting the information needs of investors. MC should meet the information needs of a broad range of users. In our view, MC is useful to a broad range of users in making economic decisions. The groups of users can be in accordance with the framework of IFRS, which sets outs seven groups of users (investors, employees, lenders, suppliers, customers, governments and the public). MC should be an integral part of the financial reports; there is no need to focus on a special class of users. User's needs for information may differ among different groups of users. In our opinion the focus on investors will lead to more detailed requirements and thus to a prescriptive rules-based standard" (CL18) – Dutch Accounting Standards Board).

Other comments:

3.9 Several respondents, while agreeing with the proposal, commented as follows:

- The focus should only be on primary investors/current shareholders in public listed companies.

> "However we would recommend a clarification around the definition of investors. There are many stakeholders with an interest in reading the Management Commentary, employees, suppliers, taxation authorities etc but to give the clarity on the purpose of the Management Commentary it is important that the focus be directed towards the interests of investors, meaning the current shareholders. This should be made clear in any reporting standard. This is consistent with the accounts being addressed to the shareholders and will avoid ambiguities and potential liability claims from people who might have classed themselves potential investors, but who are not actual investors. This is very important in securing meaningful commentaries, especially in so far as they include or could include forward-looking statements" (CL69 – Association of Corporate Treasurers).

> "However we prefer the focus to be described as directed at the interests of the existing shareholders, since they are the owners of the business and the prime beneficiaries of the MC" (CL87 – CBI).

- Not all investors are equal, MC must be concerned with minimising the information asymmetry between the large and small investors; thereby ensuring a fair capital market – MC is of greatest importance to private investors.

> "I agree that the primary focus of MC is to meet investors' information needs. However, it must be taken into consideration that not all investors are equal. The real purpose of MC should be to ensure fairness on the capital market. It can be argued that MC is of greatest importance to private investors, as they do not have access to analyst services, at least not directly. Institutional investors typically have access to a wide range of analyst services, and so they have an advantage over the private investors. MC

must be concerned with minimizing the information asymmetry between the large and the small investors, thereby ensuring a fair capital market" (CL2 – Christian Nielsen Academic).

- It is essential that management takes a broad view in deciding what should be included in MC.

> "We believe that an MC Standard should provide greater clarity that, while the objective of MC is to provide additional information to investors, it is essential that management takes a broad view in deciding what should be included in MC. This reflects our view, which is shared by others, that the decisions and agenda's of other stakeholders can significantly influence the performance and value of a company. Accordingly we would suggest that an additional paragraph is added to the draft standard following paragraph A7 along the lines of:
>
> "Investors' needs are paramount when management consider what information should be contained in MC. However, information in MC will also be of interest to users other than investors, for example creditors, customers, suppliers, employees and society more widely. Management should consider the extent to which they should report on issues relevant to those other users where, because of those issues' influence on the performance of the business and its value, they are also of significance to investors. MC should not, however, be seen as a replacement for other forms of reporting addressed to a wider stakeholder group" (CL79 - Consortium of corporations, global investors and other interested parties).

4 Principles, qualitative characteristics and content of management commentary.

The project team concluded that it is not appropriate to specify the precise information that must be disclosed within MC, or how it is presented. Rather, they believe that any requirements for MC should set out the principles and qualitative characteristics, as well as the essential areas of MC, necessary to make the information useful to investors. It is up to management to determine what information is necessary to meet these requirements, and to determine how the information is presented. The project team have also suggested that it is appropriate to consider ways to limit the amount of information management discloses, as a way of ensuring that only relevant information is presented to investors (see sections 3 and 4).

Q5 Do you agree with the principles and qualitative characteristics that the project team concluded are essential to apply in the preparation of MC? If not, what additional principles or characteristics are required, or which one's suggested by the project team would you change?

Respondent	Yes	No	Not answered	Total
Preparers	10	2	1	13
Preparer organisation	12	1	4	17
Academics	4	1	0	5
National standard-setters	10	1	3	14
Users	3	1	3	7
User organisations	6	1	0	7
Accounting firms	6	1	2	9
Institute of accountants	19	5	0	24
Government agencies	4	0	1	5
Consortium	2	0	0	2
Consultants	4	0	0	4
Supervisors/regulators	4	1	3	8
Non-governmental agencies	1	0	0	1
TOTALS	85	14	17	116

4.1 The majority of the respondents, 86 per cent of those who answered the question, agree with the principles and qualitative characteristics identified by the project team; while, 14 respondents, 14 per cent of the responses, disagreed. The question was not answered by seventeen respondents.

Comments made by those respondents who agreed with the principles and qualitative characteristics identified by the project team include:

4.2 "We fully endorse the principles of supplement and complement financial statement information, through the eyes of management and an orientation to the future, as well as the qualitative characteristics of understandability, relevance, supportability, balance and comparability over time" (CL8 - Allianz Group).

"In general, we agree with the principles and qualitative characteristics that the project team concluded as essential to apply in the preparation of the management commentary. We agree that it is not appropriate to specify the precise information that must be disclosed in the financial statements. Management should determine the ultimate content of any management commentary. If prescriptive guidance is given, the end result could be boilerplate disclosures that do not provide meaningful information to investors. As such, we support the project team's conclusion that any requirements should set principles and allow management to decide how those principles should be fulfilled. We believe management commentary would be more complete if it included forward looking information describing trends and uncertainties that affect the business. Forward looking information is generally not required to be included in management commentary. However, we believe the information would provide investors with important information in understanding the future of the company. The information also complements the historical financial statements, which explain where the company has been" (CL49 – UBS).

"We agree with the principles and qualitative characteristics as set out by the project team. As far as quantitative information is regarded, we propose to address only the top KPIs. In our view companies should not be obliged to present quantitative forecasts or give projections but they should present information about those aspects and events for the year under review that could be relevant for assessing future prospects. Forward-looking information should focus on qualitative

Comments made by those respondents who did not agree with the principles and qualitative characteristics identified by the project team include:

4.3 The same framework terminology of reliability and comparability should be used, instead of the supportability, balance and comparability over time terms used in the proposal and should include all qualitative characteristics.

> "Regarding the qualitative characteristics, we believe that it is essential to keep the discussion in line with the ongoing work on the Conceptual Framework. Any requirement or guidance dealing with MC should not include modifications of the qualitative characteristics before a more general discussion has taken place between the IASB and its constituency" (CL53 – Committee of European Banking Supervisors).

4.4 Concerns exist about the orientation to the future and the issue of forward looking statements because safe harbour clauses do not exist in all jurisdictions. This information might create expectations for users and a consequent liability for management.

> "FAR agrees that information about the future is important, but there is a risk for the Management in disclosing future oriented information. An example could be potential lawsuits in cases where the description of the future does not match the actual development in the Company. FAR recommends further discussion and clarification in this area" (CL31 – FAR).

4.5 Reporting through the eyes of 'management' should be changed to through the eyes of the 'Board' or those with the prime responsibility for the preparation and presentation of the entity's financial statements and reports.

> "We disagree with the second principle, which suggests that reporting should be through the eyes of management. Further we would note that it is not true that this principle is central to all current models of narrative reporting, as this is not the case in the UK. Though an earlier form of the UK standard did use this formulation, it now refers to reporting being through the eyes of the board. To our minds this is an important distinction and we strongly favour the use of the UK formulation. After all, the board of directors is accountable to the shareholders and is responsible for formally approving company reporting" (CL65 - Quoted Companies Alliance).

4.6 Concerns were also expressed in relation to the qualitative characteristic of comparability between companies. Each company is unique and each faces unique circumstances and challenges.

> "We also have a comment in relation to the qualitative characteristic of comparability between companies. Our strong view is that this is a mistaken aim: as each company is unique, each faces unique circumstances and challenges. Seeking to require reporting which enables comparisons between such different organisations threatens to generate meaningless data which does not respond to the nature of each business. This will frustrate boards and add little value to shareholders who need to understand the specific nature of each company and the challenges it faces" (CL65 - Quoted Companies Alliance).

4.7 The need for 'supportability 'as a qualitative characteristic is questioned.

> "We do not understand the need for 'supportability' as a qualitative characteristic. We do not believe that information that is considered to be reliable (as required by paragraphs 73-74) is likely to be unsupportable" (CL7 – Deloitte).

4.8 Paragraphs 41-57 of the discussion paper provide valuable insights on important issues; however this respondent did not consider them as principles:

> "We consider that paragraphs 41–57 provide valuable discussions on important issues although we are not convinced that the opinions stated are principles. Paragraphs 41–45 and paragraphs 52–57 are essentially an elaboration and explanation of the purpose of the MC as the wording of the final paragraph evidences. We consider that this material could be placed in the section discussing the objective" (CL76 – The Certified General Accountants Association of Canada).

The following additional comments were expressed by respondents who agreed with the principles and qualitative characteristics identified by the project team.

4.9 The IASB should resist the introduction of additional terms and use the same terms as in the Framework:

> "In general, the FRSB agrees with the principles and qualitative characteristics identified in the Discussion Paper.

However, it notes that, notwithstanding that the Discussion Paper considers that MC is focused on and aimed at the same users as financial statements (investors), the qualitative characteristics for MC are not completely matched to those for financial statements, namely understandability, relevance, reliability and comparability, as set out in the *Framework*. For instance, the proposed qualitative characteristics of "supportability", "balance" and "comparability over time" are subsets of the broader characteristics of "reliability", "neutrality" and "comparability". While a pronouncement on MC may emphasise these subsets as being especially important for MC, the FRSB considers that it is more useful and consistent in principle if the same general qualitative characteristics as the *Framework* were used" (CL107 – The Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants).

4.10 Concerns exist over the future orientation / forward looking statements in the absence of legislated safe harbour provisions in some jurisdictions.

"We agree with the principles of supplementing and completing the financial information and with the principles of seeing the entity 'through the eyes of management'. However, we have concerns about the orientation to the future and the issue of forward looking statements because safe harbour clauses do not exist in all jurisdictions. Therefore it is very important that any MC guidance be absolutely not prescriptive in this area" (CL – Nestle S.A).

4.11 The project team should consider the meaning of assurability and the way to assure items which includes future information; MC should include a define method of construction in relation to structure and content.

4.12 Management is too loose a term and needs to be clearly defined.

"We support 'through the eyes of management' as a guiding principle on the presumption that 'management' in this regard refers to the 'board of directors'. In a number of jurisdictions the term 'management' is used to refer to 'the board' whereas in other jurisdictions it refers solely to 'executive management' – and the vision of these two groups can sometimes differ significantly. To avoid any ambiguity in this regard, an appropriate definition and / or clarification of 'management' would be useful" (CL9 – Standard Life Investments).

Q6 Do you agree with the essential content elements that the project team concluded that MC should cover? If not, what additional areas would you recommend or which ones suggested by the project team would you change?

Respondent	Yes	No	Not answered	Total
Preparers	10	0	3	13
Preparer organisation	11	1	5	17
Academics	3	1	1	5
National standard-setters	11	0	3	14
Users	3	1	3	7
User organisations	6	1	0	7
Accounting firms	7	0	2	9
Institute of accountants	22	0	2	24
Government agencies	5	0	0	5
Consortium	0	0	2	2
Consultants	4	0	0	4
Supervisors/regulators	5	0	3	8
Non-governmental agencies	0	1	0	1
TOTALS	87	5	24	116

4.13 The majority of respondents, 95 per cent of those who answered this question, agreed that with the essential content elements that the project team concluded that MC should cover.

The opinions expressed by those respondents who agree with this proposal include:

4.14 "Microsoft strongly agrees with the essential content elements and believes that the proposed MC disclosure framework will significantly improve financial reporting" (CL84 – Microsoft).

"IBF consider the approach taken by the IASB as very practical approach in that it provides a framework and illustrative and narrative examples as to what content should cover and be MC. IBF acknowledges that Section 4, in relation to "content" is very difficult to issue. Specifying disclosures for MC is not an easy task as different and somewhat unique in its nature of business" (CL 23 – Irish Banks Federation).

"We agree with these essential content elements as proposed by the project team. Whilst some additional guidance as to the sorts of information might be helpful, at this level it is

> much better not to be too prescriptive, lest the important disclosures become obscured by excessive detail on irrelevant factors. Indeed, any standard should be drafted positively to discourage the inclusion of non-material matter which can be used deliberately to hide more important points the authors wish to remain obscure (CL 69 –Association of Corporate Treasurers).

> “The essential content elements of MC are consistent with the findings of our research over the past decade. We believe that the high level framework for disclosure will allow good practice to develop over time” (CL89 – PricewaterhouseCoopers).

Five respondents disagree with the proposal. Their principal objections are:

4.15 It is not appropriate to produce a list of essential content elements for narrative reporting. Rather, each board must remain free to determine what issues are most relevant to cover in its reporting to its shareholders. Producing a list of essential content elements threatens to generate a compliance-driven approach to reporting, which will devalue disclosures and waste both time and money.

> “We strongly believe that it is not appropriate to develop a list of essential content elements for narrative reporting. Each board needs to be free to determine what issues it needs to cover in its narrative reporting to its shareholders. Creating a list of essential contents will drive a compliance approach to reporting which will degrade the value of the disclosures and waste time and money. In particular, we believe that it is unhelpful to include illustrative examples or implementation guidance. This will only serve to encourage a tendency to approach narrative reporting as a check-box process rather than a thoughtful process which will genuinely add value for both the company and its shareholders” (CL56 – Hermes).

4.16 More detailed requirements for MC should be established, not just broad headings without any content requirements. An indicative list for companies should be considered for inclusion in MC that could usefully include areas that are not commonly included in current reporting; this could include the environment, employees, human rights, social and community matters.

> “In our opinion, it is not sufficient to define a disclosure framework for MC accompanied by guidance through examples

alone. If MC is an integral part of financial reports and has to fulfil the outlined principles and qualitative characteristics, it is both necessary and possible to define the essential content of MC not only in terms of broad headings, but also by establishing more detailed requirements. In this context, we would like to suggest the Board stipulate a mandatory classification of the main headings, as a minimum" (CL12 – Institut der Wirtschaftsrüfer).

The following additional comments were expressed by respondents who agreed with the proposed essential content elements.

4.17 Additional disclosure should be required for corporate governance and the strategy in respect of sustainability (people, planet, profit, social and community matters etc.)

> "Additionally, we would recommend the inclusion of information on environmental matters, as set out in the UK Reporting Statement on the Operating and Financial Review, given the importance of environmental impacts from economic activity" (CL54 – The Institute of Chartered Accountants of Scotland).

4.18 It should be clarified that paragraph 100 of the paper is not a comprehensive list. Companies should be allowed to include other information if relevant or required by legislation.

> "We agree with the essential content elements developed in the discussion paper, although we do not regard the list provided in paragraph 100 as necessarily comprehensive. The disclosure of other information in MC could be regarded also as of particular importance, such as the explanation of certain events occurring after the balance sheet date, the presentation of key risk management policies and procedures or the disclosure of information in accordance with the "pillar 3" provisions of our supervisory framework (a large part of which could be placed in Management Commentary). Besides, it is important to give the management the opportunity to adapt MC to the precise business, strategy and environment of the entity, in order to provide more relevant information to users" (CL53 – Committee of European Banking Supervisors).

4.19 The IASB should specify the content in more detail.

"For this reason [comparability] we prefer specifying the content of MC in more detail - especially as a compensation of the strong accentuation of the management approach" (CL22 – Prof. Kirsch, University of Münster, Germany).

4.20 The IASB should consider additional content elements.

"The company's financial position should be covered in greater detail. Again, the German GAS 15 and the SEC MD & A requirements may provide useful guidance" (CL36 – SG-AKEU, Germany).

4.21 The IASB should not require specific KPI's, as KPI's are industry specific.

"The IASB should not, for any reason, require specific key performance indicators (or "KPI's") as KPI's are industry-specific. Furthermore, while companies in a particular industry may utilize industry KPI's, additional KPI's specific to the manner in which a company managed may also be utilized. Therefore, the standardization of any KPI's would result in diluting relevant information for users of financial reports" (CL114 – German Insurance Association).

4.22 The IASB should not define key performance indicators (KPI's).

"…further standardized measure [with regard to performance measures and indicators] would sacrifice relevance for an arguably very limited comparability" (CL36 – SG-AKEU, Germany).

"We do not believe that it would be helpful, […] if key performance measures like ROCE were defined by financial reporting standard setting bodies. These performance measures are defined on an entity-specific level in order to support the management of the group. Standardising such measures for reporting purposes would prevent the use of entity-specific purposes and would be in contrast to the management approach of MC" (CL19 – German Accounting Standards Board).

4.23 Specify risk reporting requirements.

"In respect of risks, management should be obliged to describe the financial and operating risk management system adequately and to provide information, in particular, about the concentration of risks resulting from specific circumstances or the entity's business activities. These risks threatening the existence of the entity should be highlighted. […] In our opinion, the requirements proposed in the discussion paper (paragraph A41-42 are not sufficient" (CL12 – Institute of German Certified Accountants, IDW).

Q7 Do you think that it is appropriate to provide guidance or requirements to limit the amount of information disclosed within MC, or at least ensure that the most important information is highlighted? If not, why not? If yes, how would you suggest this is best achieved?

Respondent	Yes	No	Not answered	Total
Preparers	4	7	2	13
Preparer organisation	11	1	5	17
Academics	3	2	0	5
National standard-setters	8	3	3	14
Users	2	1	4	7
User organisations	5	2	0	7
Accounting firms	5	3	1	9
Institute of accountants	13	11	0	24
Government agencies	2	1	2	5
Consortium	0	0	2	2
Consultants	3	0	1	4
Supervisors/regulators	4	1	3	8
Non-governmental agencies	0	0	1	1
TOTALS	60	32	24	116

4.24 There were 91 responses on this question; 60 respondents, 65 per cent of those who answered the question, agreed with the proposal to provide guidance or requirements to limit the amount of information disclosed within MC, or at least ensure that the most important information is highlighted; while 32 respondents, 35 per cent of the responses, disagreed. The question was not answered by 24 respondents.

Responses that agreed with the proposal include:

4.25 Focus should be on issues relevant to investors / users, information which enhances understanding of the financial reports and issues of greatest importance should be highlighted. Any requirements should be principle-based; full disclosure is unrealistic.

> "We feel it is appropriate for the MC to provide guidance or requirements to ensure that only the most important, key information is disclosed. There are several comments throughout the discussion paper that provide guidance on the amount and type of information to disclose, as well as illustrative examples. Appendix A also provides a good summary" (CL 11 – NSW Treasury).

"We agree with the discussion paper's objective, that is, to promote clarity in reporting, so that MC's give due prominence to important issues and more limited disclosure to less significant matters. CIPFA is currently considering how guidance might be developed for Public Benefit entities. We would be happy to share the results of these considerations when they are more fully developed" (CL66 – CIPFA).

"We believe the information provided in MC should be limited to that which is key to meeting MC's objective. For example, detailed narrative that gives every risk faced by a particular entity is unhelpful, unless the principal risks are highlighted. Thus paragraph A22 of Proposals for an MC Standard is appropriate in stating that the objective is quality rather than quantity of MC content. The principle of providing 'an analysis through the eyes of management' is important. Directors should be encouraged to provide information that is significant to the entity and also closely linked to the information actually reviewed by the board. This is consistent with the management approach proposed by the IASB in ED 8, 'Operating Segments'. We recommend that reference be made to the potential breadth of disclosure that will be necessary in order to meet MC's objective. We could provide examples if this would be useful. We anticipate that over time, industry best practice will improve the quality of corporate reporting" (CL89 – PricewaterhouseCoopers).

"We fully agree with the concept of limiting the amount of information disclosed within the MC to the most important information so as to focus the reader and not to overwhelm the reader with less than material information, thereby 'obscuring' key information from the reader. The degree of specification should be left to the discretion of the company. An appropriate arrangement of the reporting framework should be left to the management since this is the only way to ensure well balanced reporting. MC should focus on issues relevant to investors. Issues of greatest importance should be highlighted. Information and presentation of the information should be balanced. Negative and positive information should not be offset. Requirements to limit the amount of information disclosed and to guide the presentation of this information should be general and principle-based" (CL114 - German Insurance Association).

4.26 Guidance should be provided based upon the materiality concept and be general in nature. Actual reported information should be left to the discretion of individual companies, their directors and management to determine.

> "We agree with the position taken in the discussion paper. It is important to limit the amount of information disclosed in MC to avoid cluttering the report with too much information, since this would obscure information directly relevant for investors' economic decision-making. In our opinion, this problem could be avoided by adopting the principle of materiality. Applying materiality would enable the content of MC to be restricted to that information important to enable investors to make their own assessment of the development of the entity. Highlighting key facts by ranking and classifying the key elements of MC, inserting additional headings and including a contents guide are other measures which could be used to prevent information overload in MC's. Therefore, we would appreciate the Board providing additional guidance in the exposure draft of the standard accordingly" (CL12 – Institute of German Certified Accountants, IDW).

> "The IASB's role should be limited to providing guidance, and in that context could say something on these matters in the interests of promoting useful and meaningful MC. However it should very much be a matter for individual companies and their directors to determine the structure and content of their MC" (CL 87 – CBI).

> "We agree with the project team's view that the onus should be on management to decide the content of MC and that there should be flexibility in both the presentation and content of MC. While some guidance may be useful to demonstrate how the MC objective may be achieved, we do not believe that detailed guidance – which may be misconstrued as required content – is necessary" (CL 77 – The Hundred Group of Directors).

4.27 The objective should be that whatever information is disclosed should be determined by 'Quality not Quantity'.

> "We agree with the approach proposed in the Discussion Paper. The objective is for quality, not quantity of content (as referred to in paragraph A22 of the proposals) for an MC standard set out in Appendix A of the Discussion Paper. The MC standard could also make clear, as the OFR Reporting Standard did, that management will need to consider the key issues to include in MC

in order to provide users with focused and relevant information" (CL3 – UK Accounting Standards Board).

"We welcome, as a matter of principle, the focus on the quality and relevance of reporting rather than the quantity of reporting. We also welcome a dislike of "boilerplate" and "cluttering up statements" and support you in this. It is appealing to contemplate restricting the statement to a fixed number of words but we do not consider this practical. Equally, it is appealing to restrict the MC to matters relevant to shareholders (i.e. excluding those matters which might be placed in a CSR report) but not necessarily helpful. It is also appealing to require an importance ranking (particularly for risk factors), but we would be concerned that the ranking might lead to illogical flows separating two risk factors for example which are connected but which rank differently. It is also likely to lead to a report which reads as a list rather than a narrative description of the board's views. We believe that this is therefore an area for encouragement, rather than prescription, to be concise as well as balanced, reliable, supportable and understandable. The MC is the board telling shareholders about the company through their eyes – being long-winded, irrelevant and dull may be instructive to shareholders about their appointed stewards" (CL65 – Quoted Companies Alliance).

Responses that did not agree with the proposal include:

4.28 A too strong limitation of the size of the content could possibly endanger the inclusion of all necessary specific issues of an entity and is unlikely to prohibit excessive reported detail.

"In our view, the Board already encourages a focus on only significant matters by means of the requirements stated in the *Framework of the Preparation and presentation of Financial Statements.* We believe that the board is unlikely to be able to prohibit excessive detail, and therefore we disagree with guidance or requirements to limit the amount of disclosure within MC" (CL75 – KPMG).

4.29 Management/Directors must identify the key information and present this in a manner which is most appropriate to their business and industry, reporting style and cultural setting.

"Beyond emphasizing that relevant information is to be provided and appropriately highlighted, we do not think it is appropriate to provide guidance to limit the amount of information disclosed within the management commentary. The management commentary is to reflect the approach, goals and judgment of the management" (CL33 – The Canadian Institute of Chartered Accountants).

"We do not support limiting the amount of information, but instead suggest that the emphasis should be on providing key elements of information. The qualitative characteristics described would naturally limit the amount of information filtering through. We do not foresee that management would voluntarily disclose information which is not relevant" (CL37 – The South African Institute of Chartered Accountants).

"No, we do not believe that it is appropriate to provide guidance that would limit the amount of information disclosed with the management commentary. We believe that management must identify the key information and present this in a manner which is most appropriate to their business and industry, reporting style and cultural setting. We do not support any restricted limitations on the information to be provided. We believe that providing a framework, such as the essential content elements, provides management with a structure for developing the content of the management commentary" (CL49 – UBS AG).

4.30 If requirements were issued it would distract from the principle-based approach upon which the proposed MC model relies not to mention the problems in how such a limitation could be drafted.

"We do not think it is appropriate to provide guidance or requirements to limit the amount of information within MC. We have a strong preference for a principles based approach to information disclosure. Furthermore, the provision of guidance or requirements to limit the amount of information may be used inappropriately by certain preparers since it may provide unintended loopholes to enable such preparers to side-step difficult disclosures that should otherwise be made in order to achieve fair presentation" (CL 9 – Standard Life Investments).

"The SFRSC supports principle-based standards. Therefore, we do not think there is a need to limit the amount of information disclosed within MC not to mention the problems in how such a limitation should be put into words" (CL62 – The Swedish Financial Reporting Standards Council).

"A fixed structure should not be mandatory. We prefer a solution giving adequate flexibility to present MC information through the eyes of management” (CL63 – GEFIU, German Financial Executives Institute).

Q8 Does your jurisdiction already have requirements for some entities to provide MC? If yes, are your local requirements consistent with the model the project team has set out? If they are not consistent, what are the major areas of conflict or difference? If you believe that any of these differences should be in included in an IASB model please explain why.

Respondent	Yes	No	Not answered	Total
Preparers	8	3	2	13
Preparer organisation	12	0	5	17
Academics	2	1	2	5
National standard-setters	9	2	3	14
Users	2	0	5	7
User organisations	4	0	3	7
Accounting firms	0	0	9	9
Institute of accountants	18	2	4	24
Government agencies	5	0	0	5
Consortium	0	0	2	2
Consultants	1	0	3	4
Supervisors/regulators	2	1	5	8
Non-governmental agencies	0	0	1	1
TOTALS	63	9	44	116

4.31 The responses need to be carefully analysed. The sixty-three 'Yes' responses can be broken down into three categories:

- Current requirements exist – 39 responses
- 4th Directive requirements – 8 responses
- Voluntarily recommendations – 16 responses. All UK responses made reference to the Operating and Financial Review (OFR).

All responded, except one (CL73 – The Institute of Certified Accountants of Kenya), that the local requirements were consistent with the model the project team has set out.

Current requirements:

> "The German jurisdiction already requires entities to provide MC. The German jurisdiction is consistent with the model of the IASB project team" (CL1 – Volkswagen AG).

> "Yes, in the Netherlands, we have legal requirements for entities to provide MC. These local requirements are in general

consistent with the model of MC. There are no important differences" (CL18 – Dutch Accounting Standards Board).

"Austria has a very long tradition of mandatory MC requirements, at least for corporations of a certain size irrespective of a corporation being listed or not. The Austrian requirements as set forth in the Austrian Commercial Code include already all relevant EU requirements, which we consider to be very similar to the MC as proposed by the working group" (CL32 – Austrian Financial Reporting and Auditing Committee).

"French companies are already required by national legislation (Code de Commerce) and regulation to prepare a 'Rapport Annuel' the purpose of which is similar to the purpose of the proposed MC. We are not aware of major differences between the requirements concerning the 'Rapport Annuel' and the project team proposals concerning MC" (CL 58 – The French Association of Financial Executives).

"Canada currently has extensive MC requirements. It is the CAC's belief that current requirements would be compatible with the model the project team has set out with one important proviso, that national security commissions could **add but not reduce** to the disclosure requirements" (CL67 – The Canadian Advocacy Committee).

"Yes, there are some specific disclosure requirements for public listed companies. However, these disclosures are not consistent with the model set out in this discussion paper. Disclosures cover corporate governance issues with specific requirements on the composition of directors, qualifications of persons to be appointed to serve as company Chief Finance Officers and company secretary, of significant changes to memorandum of associations. In Kenya, almost without exception, all financial reports are accompanied by varied versions of MC's. However, they are not consistent in all aspects with the proposed model of the project team as they are prepared in an attempt to satisfy several stakeholders instead of strictly investors, due to lack of guidance" (CL 73 – The Institute of Certified Public Accountants of Kenya).

4th/7th Directive requirements:

"The Italian requirements pertaining to MC, which stem from the EU Directives, do not present any areas of conflict with the general principles set out in the DP" (CL14 – The Italian Standard Setter).

> “Under Swedish legislation, based on the Fourth and Seventh EU Company Law Directives we already have requirements for presentation of an annual report that is similar to the requirements set out by the project group for MC. The Swedish Stock Exchange rules stipulate on some areas even more information to be disclosed than what is suggested in the discussion paper. Based on a very high level review of local requirements in Sweden and the details set out in paragraphs B12-B15 of Appendix B FAR has not identified any major areas of conflict with MC” (CL31 – FAR).

Voluntary requirements:

> “The UK position has changed with the repeal of legislation requiring quoted companies to prepare and publish OFRs, although companies are still required to prepare a fair review of the business in line with EU legislation. Companies can still prepare OFRs on a voluntary basis and the ASB has published best practice guidance in the form of a ‘Reporting Statement’ on the OFR. The UK requirements and best practice guidance are consistent with the model set out by the project team, although the business review requirements are less detailed” (CL3 – The Accounting Standards Board).

4.32 On a geographical basis the responses by those who answered the question (62 per cent) can be summarised as follows:

- Yes: Australia, Austria, Canada, France, Germany, Holland, Hong Kong, Japan, Kenya, Korea, Malaysia, Singapore, United Kingdom, United States of America.
- 4th / 7th Directive: Ireland, Italy, Spain, Sweden.
- No: New Zealand, South Africa, Switzerland.

> “South Africa does not presently have a requirement for entities to provide management commentary” (CL37 – The South African Institute of Chartered Accountants).

> “The NZ Treasury is unaware of any requirements in New Zealand for entities to provide management commentary” (CL43 – The New Zealand Treasury).

> “The Swiss Stock Exchange currently does not have a formal directive addressing the required content of a company's management commentary “(CL 49 – UBS AG).

5 Placement criteria

The project team concluded that it would be helpful to establish criteria to guide the Board in determining whether information it requires entities to disclose within financial reports should be placed in MC, or in the general purpose financial statements. The project team have suggested placement criteria (section 5 of the discussion paper).

Q9 Are the placement criteria suggested by the project team helpful and, if applied, are they likely to lead to more consistent and appropriate placement of information within financial reports? If not, what is a more appropriate model?

Respondent	Yes	No	Not answered	Total
Preparers	9	2	2	13
Preparer organisation	7	5	5	17
Academics	4	0	1	5
National standard-setters	8	3	3	14
Users	1	1	5	7
User organisations	4	2	1	7
Accounting firms	4	2	3	9
Institute of accountants	17	4	3	24
Government agencies	2	0	3	5
Consortium	0	0	2	2
Consultants	2	0	2	4
Supervisors/regulators	4	1	3	8
Non-governmental agencies	0	0	1	1
TOTALS	62	20	34	116

5.1 The results to this question were mixed, 62 respondents, 76 per cent of those who answered the question, agreed with the proposal, while 20 respondents, 24 per cent of the responses, disagreed; the remaining 34 of the total population did not respond.

Responses that agreed with the proposal include:

5.2 "The placement criteria suggested by the project team are useful and consistent with the actual German requirements. If particular information is required by any IASB standard, it should be assessed clearly, whether it is to be published in the notes or in the MC. Any double requirements for the notes and the MC should be strictly avoided. As far as a minimum of double requirements cannot be avoided, links from the MC to the notes should be permitted." (CL1 - Volkswagan AG).

"We agree with the placement principles suggested. The notes complement, comment and increase the information contained in the balance sheet and the profit and loss account to give a true and fair view of the company's assets, liabilities, financial position and profit or loss" (CL15 – Spanish Accounting and Auditing Institute).

"We appreciated the addition of Appendix E, which gives practical examples of the application of the placement criteria. We initially found themselves a little hard to grasp in practical terms and would recommend the continued inclusion of Appendix E. The establishment of placement criteria is a vital part of the exercise. We would like to see a situation where cross over between MC and the financial statements are minimised" (CL21 – The Institute of Chartered Accountants in Australia).

"We support the objective to provide placement criteria. It is currently unclear from the discussion paper whether management commentary would fall under the umbrella of the IASB and require audit procedures to be performed. Management commentary can contain forward looking assertions and the information is presented through "the eyes of management", as such we firmly believe the information should not be audited and should be placed outside of the audited financial information. We agree that there are currently required disclosures in existing IFRS that have the characteristics of management commentary.

However, we believe that where an accounting standard requires disclosure of specific information, those disclosures should be made in the financial statements or accompanying notes. Disclosures are intended to supplement the primary financial statements and disaggregate or expand on the elements presented in the primary financial statements, providing further information on how the information has been measured and recognized. However, we do not support IFRS 7 type placement criteria that says you can incorporate cross-references from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements, for example the management commentary" (CL49 - UBS AG).

"Yes, we believe the placement criteria suggested by the project team are helpful and they are likely to lead to more consistent and appropriate placement of information within financial reports. There is currently a lot of debate and discussion concerning issues such as complexity of accounting standards, fair value measurements, and quarterly earnings guidance and how addressing these issues can improve financial reporting.

Microsoft believes these issues are symptoms of a bigger problem, a broken financial reporting model. In essence, we have a financial reporting model largely based on a manufacturing economy and the industrial age, while the economy has moved to the information age and the financial reporting model has failed to change accordingly. We believe the proposed MC framework goes a long way to addressing the issue and should be the focus of discussion in improving the financial reporting model" (CL84 – Microsoft).

"The placement criteria are helpful and likely to lead to more consistent and appropriate placement of information.
Within the financial statements or Management Commentary, as appropriate, though a decision on where to include particular information will by its nature sometimes require the exercise of significant judgement. Placement criteria will be particularly important if Management Commentary does not form an integral part of IFRS's. It will remain important, however, for standard setters to express clearly the disclosures required to be provided in the financial statements as these are subject to full audit unlike those that form part of Management Commentary" (CL99 – Robson Rhodes).

Responses that did not agree with the proposal include:

5.3 Placement criteria should not be included as part of the MC model until further work has been done on this project and the review of the conceptual framework is complete.

"We believe it would be premature to discuss placement criteria at this point. This discussion should be delayed to phase E of the IASB-FASB Framework project" (CL19 – Accounting Standards Committee of Germany).

"We do not believe that the suggested placement criteria would be helpful. As described in paragraph 155, there is a risk that the views of this project on placement criteria might not align with the views that emerge from the joint Conceptual Framework project between the IASB and the FASB. The placement criteria should be addressed pending development of the Conceptual Framework project" (CL57 - Accounting Standards Board of Japan).

5.4 The decision on where information should be disclosed must be made by the Board of Directors; flexibility should be given to the board.

> “We would strongly favour it being left to the intelligence and good sense of boards of directors to choose where the appropriate venue is for useful narrative disclosures to shareholders” (CL56 – Hermes Pension Management Ltd).

> “Whereas, we consider it can be helpful to set out placement criteria to determine the appropriate place for MC disclosures, the ultimate decision should be with the company’s board. In this respect, it is important that in considering where the information is to be placed, regard is also given to the audit requirements relating to that information as these can differ according to where it is located” (CL61 – IMA).

5.5 The proposed criteria is neither helpful nor unhelpful. The delineation between what information should be in notes to the financial statements versus management commentary is too arbitrary, the criteria to determine whether information is placed in the notes to the financial statements or the MC should be whether the information is required by a standard, which is mandatory and subject to audit, or not. We do not believe that that it is necessary for these issues to be addressed in this discussion paper. We believe that it is more appropriate to deal with this issue on a standard by standard basis; placement is more likely to be an issue to be addressed on a national basis.

> “As users of financial information, we find the criteria for placement of information neither helpful nor unhelpful. Generally, we view notes to the financial statements and management commentary as disclosures, which together provide context for the financial statements. And as such, the delineation between what information should be in notes to the financial statements versus management commentary is somewhat arbitrary. The understanding of a company’s operations, financial performance and financial condition is greatly improved if information – explanation, discussion and analysis about a given financial item - is provided in one location rather than scattered throughout various disclosures which need to be pieced together to get a complete picture” (CL108 – CFA Institute).

5.6 Where the IASB believes information should be disclosed as a result of an accounting standard, it should be disclosed within the financial statements.

> “We disagree with the proposal for placement criteria. We believe that where the IASB believes information should be disclosed as a result of an accounting standard, it should be disclosed within the financial statements. The information required to be disclosed by accounting standards is ordinarily

very detailed and very specific. To permit or require its inclusion within the MC would be to risk clouding the communication of the key information that management has identified as being important" (CL7 – Deloitte's).

5.7 The placement criteria are more useful as guidance to the Board than to preparers, not just related to Management Commentary but to all disclosures.

"IASB should develop general criteria for the whole scope of financial reports. They should work to develop high quality criteria, at principle-based level. Placement criteria are helpful to differentiate whether the information is related to the financial position or not. However, it is too simple to summarise in two criteria the placement of information which is also a matter of judgment. The placement of information in Management Commentary could be by deduction: anything that is not captured by a disclosure requirement in IFRSs should go into the Management Commentary" (CL27 – European Federation of Accountants).

5.8 The placement criteria already are already necessary as guidance to the IASB while developing accounting standards.

"It is our opinion that certain disclosure requirements should be revisited. By way of Example, IFRS 7 requires sensitivity analyses ad embedded values to be disclosed in the notes to the financial statements. This is a fundamental change to current accounting practice where risk management tools are presented in various parts of a financial report, but not in the financial statements or footnotes. […] As another example, the SEC requirements on market risk exposure are published in the MD &A and not in the notes to the financial statements" (CL8 – Allianz Group).

5.9 Implementing placement principles means that it is unclear whether a piece of information needs to be placed in MC or the notes accompanying financial statements.

"In our opinion, implementing placement principles means that it is unclear whether a piece of information needs to be placed in MC or the notes accompanying financial statements. Since we believe that MC should be well separated from financial statements within financial reports, and since all IFRS's provide precise guidance about information to be disclosed within the notes, we believe that, by difference, all information not required by an existing standard should not be put within MC if it is relevant to do so as regards essential contents. Besides, should placement criteria be required, we are unsure these are defined enough to prevent misunderstanding and divergent practice. Finally, we are concerned about the issue set out in paragraph 192 regarding audit assurance as regards MC. In our opinion, it is not appropriate for the IASB to decide what information falls within the scope of audit and what information shall not. In this respect we do not find this element of the placement criteria helpful" (CL72 – Mazars).

5.10 "We found the discussion on placement criteria (paragraphs 153-185) useful although, as the paper explains, the proposals (paragraph 169) are simply a first step. However, we do not believe that the development of placement criteria will really be meaningful until a single body has complete jurisdiction over the content of both the financial statements and notes and the management commentary" (CL116 – Shell International Limited).

Other comments:

5.11 Several respondents, while agreeing with the proposal, acknowledged that the discussion paper was a good starting point for developing a placement framework but more work will still need to be undertaken on this issue.

"The placement criteria put forward by the project team are formulated in fairly general terms. Insofar we agree. However, we would like to point out that these criteria alone are far from able to facilitate any clear-cut decision being made in those cases that are not straightforward. In our opinion, well-elaborated criteria are needed. Because of its importance, we are of the opinion that it will be necessary to undertake in-depth research on this subject. The main problem will be, that it is almost impossible to find simple but suitable placement criteria, because the close interrelationship between MC and the financial statements is inherent in the objectives of MC (i.e. to help investors to interpret and assess the related financial statements)" (CL12 – Institute of German Certified Accountants, IDW).

"The discussion of placement criteria in section 5 of the discussion paper represents a useful preliminary assessment of the underlying issues. However, we are not convinced that the criteria proposed on page 53 are sufficiently clear and robust. This topic should be addressed and tested comprehensively as part of the conceptual framework project." (CL17 – ICAEW).

"The placement criteria proposed in paragraph 169 of the Discussion Paper appear to be helpful a starting point for developing a placement framework. However, the FRSB considers that there will always be borderline cases where it is not clear whether information should be disclosed in the notes to the financial statements or in MC. For a placement framework to be useful, a clear distinction between notes to financial statements and MC is required since both types of information are considered to supplement and complement financial statements. In addition, a robust definition of MC is also necessary to differentiate MC information from notes to financial statements" (CL107 – New Zealand Institute of Chartered Accountants)

Appendix - 1

List of Respondents

Accounting Standards Board – Canada	CL 26
Accounting Standards Board – Japan	CL 57
Accounting Standards Board – United Kingdom	CL 3
Allianz Group	CL 8
AssetEconomics Inc	CL 48
Association Francaise des Enterprises Privees	CL 41
Association of British Insurers	CL 88
Austrian Financial Reporting and Auditing Committee	CL 32
Aviva plc	CL 74
Bankenverbank Bundesverband Deutscher Banken	CL 10
BDO Global	CL 92
British American Tobacco	CL 100
Bundesverband Öffentlicher Banken Deutschlands	CL 55
Centre for Financial Market Integrity	CL 108
Chartered Institute of Management Accountants	CL 40
Christen Nielsen, Aarhus School of Business	CL 2
CIPFA	CL 66
Committee of European Banking Supervisors	CL 53
Confederation of British Indusrty	CL 87
Conseil National de la Comptabilite	CL 34
Consiglio Nazionale dei Dottori Commercialisti & Consigilio dei Ragioneri	CL 45
Consortium of corporations, global investors and other interested parties	CL 79
Council on Corporate Disclosure and Governance	CL 110
CPA Australia	CL 13
Deloitte	CL 7
Department of Accounting and Finance, University of Sterling	CL 24
Deutsches Rechnungslegungs Standards Committee e.V (Accounting Standards Board of Germany)	CL 19
Dutch Accounting Standards Board	CL 18
Enhanced Business Reporting Consortium	CL 50
Ernst & Young	CL 29
European Financial Reporting Advisory	CL 115
F&C Asset Management plc	CL 64
F. Hoffman-La Roche Ltd	CL 28

FAR	CL 31
Federation des Experts Comptables Europeens	CL 27
Federation of German Industries	CL 90
Finanzgruppe Deutscher Sparkassen und Giroverband	CL 60
Friends Provident	CL 46
German Insurance Association	CL 114
Germanwatch	CL 47
Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU, German Financial Executives Institute)	CL 63
GLW Analysis Services Pty Ltd	CL 51
Governance for Owners LLP	CL 101
Grant Thornton	CL 16
Group of 100	CL 20
Heads of Treasuries Accounting and Reporting Advisory Committee	CL 102
Henderson Global Investors	CL 25
Hermes	CL 56
Hong Kong Institute of Certified Public Accountants	CL 86
HSBC Holdings	CL 95
Institut der Wirtschaftsprüfer (Institute of German Certified Accountants)	CL 12
International Corporate Governance Network	CL 6
International Federation of Accountants	CL 112
Investment Management Association	CL 61
Irish Bankers Federation	CL 23
Korea Accounting Association	CL 42
Korean Accounting Standards Board	CL 111
KPMG	CL 75
Legal and General	CL 39
London Investment Banking Association	CL 71
London Society of Chartered Accountants	CL 93
London Stock Exchange	CL 59
Malaysian Accounting Standards Board	CL 103
Mazars	CL 72
METI – Japanese Ministry of Economy, Trade & Industry	CL 30
Mexican Accounting Standards Board	CL 78
Microsoft Corporation	CL 84
Munich Re Group	CL 4
Nestle SA	CL 106
New South Wales Treasury	CL 11

New Zealand Institute of Chartered Accountants	CL 43
Nippon Keidanren	CL 44
Norges Bank Investment Management	CL 98
Organismo Italiano de Contrabilita	CL 14
PricewaterhouseCoopers	CL 89
Ramachandran Mahadevan	CL 83
RSM Robson Rhodes	CL 99
Schmalenbach-Gesellschaft für Betriebswirtschaft e.V	CL 36
Securities Commission	CL 97
Shell International Ltd	CL 116
Spanish Accounting and Auditing Institute	CL 15
Standard Life Investments	CL 9
Subcommittee of Japanese METI	CL 38
Sustainability Working Group	CL 94
Sustainable Development Management, Axel Hesse	CL 80
Swedish Financial Reporting Standards Council	CL 62
Syngenta International AG	CL 91
Telstra	CL 85
The Association of Chartered Certified Accountants	CL 70
The Association of Corporate Treasurers	CL 69
The Basel Committee on Banking Supervision	CL 105
The Caiteur Group	CL 82
The Canadian Advocacy Committee	CL 67
The Canadian Institute of Chartered Accountants	CL 33
The Certified General Accountants Association of Canada	CL 76
The Coalition for Improved Reporting and Analysis	CL 117
The Committee of European Securities Regulators	CL 109
The Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants	CL 107
The French Association of Financial Executives	CL 58
The Hundred Group of Finance Directors	CL 77
The Institute of Certified Public Accountants of Kenya	CL 73
The Institute of Chartered Accountants in Ireland	CL 35
The Institute of Chartered Accountants of Australia	CL 21
The Institute of Chartered Accountants of England and Wales	CL 17
The Institute of Chartered Accountants of India	CL 113
The Institute of Chartered Accountants of Scotland	CL 54
The Institute of State Authorised Public Accountants in Denmark	CL 104

The International Organization of Securities Commissions	CL 81
The Japanese Institute of Certified Public Accountants	CL 52
The Quoted Companies Alliance	CL 65
The South African Institute of Chartered Accountants	CL 37
The University of Waikato	CL 96
The Wuppertal Institute for Climate, Environment and Energy, Germany	CL 68
UBS AG	CL 49
UNICE	CL 6
Volkswagen AG	CL 1
Westfälishe Wilhelms-Universität Münster - Institute of Accounting and Auditing, Professor Kirsch	CL 22