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Exposure Draft ED/2009/6 Management Commentary

The Swedish Enterprise Accounting Group (SEAG) is a forum for the Chief Accountants from the largest Swedish listed companies. The Group is administered by the Confederation of Swedish Enterprise, to which most participating companies of SEAG are joined.

Representing preparers' point of view, SEAG welcomes the opportunity to comment on the above-mentioned Exposure Draft.

General remarks

The SEAG do not see an underlying demand for stipulating guidance for a Management Commentary. There is no need for such guidance in jurisdictions that already have mandatory requirements for Management Commentary or a similar type of report. Jurisdictions that do not have standards today can look for guidance in standards or regulations adopted in other jurisdictions. Since IASBs proposal to some degree seems to be based on existing standards or regulations, it is not clear what the benefits of the proposal are. If there is a need for further international co-ordination between jurisdictions, this is not a task for the IASB. Instead, this is mainly a question for national and international securities markets regulators.

Further reason for not publishing guidance is that this is a question that touches upon the concepts underlying the disclosure of financial information, including the boundaries of such information. Since those issues are dealt with in Phase E of the Framework project it seems inconsequent that the IASB now pushes for guidance for Management Commentary without an established and firm conceptual background for the project.

If the IASB still intends to follow through on its proposal, we would like to give the following comments to the questions raised in the Exposure Draft. We also would like to make some other comments about the proposed guidance.

Comments on questions

Question 1 Do you agree with the Board´s decision to develop a guidance document for the preparation and presentation of management commentary instead of an IFRS? If not, why?

We consider that a guidance is to be preferred compared to an IFRS if this means that an entity can use the guidance and implement parts not covered by national rules for Management Commentary, according to what is viewed as useful for the entity. In Sweden, as an example, there is already a requirement by law in relation to Management Commentary (Board of Directors report, regulated in the Annual Accounts Act) that covers much of the information required in the proposed guidance from IASB.

On the other hand, we consider that an IFRS is to be preferred compared to guidance, if an IFRS on Management Commentary replaces national requirements for a Management Commentary. The major benefit would be that by making the Management Commentary a part of the financial reports as defined by IFRS, disclosure requirements in the notes and in the Management Commentary can be co-ordinated in way that is not possible today. But having said that, we cannot support that the content of the Exposure Draft is turned into an IFRS standard without significant improvements. Please refer to our comments under question 2.

It seems unrealistic that an IFRS on Management Commentary could replace national rules in the foreseeable future. Given this, guidance for Management Commentary is better than an IFRS.

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

Our opinion is that the elements are useful for preparation of a decision-useful Management Commentary, but we would not classify them as necessary. In general, we are concerned about how the guidance will be interpreted when it comes to the detailed level of information. We strongly believe it is necessary that the information required is high-level information and that it also shall be based on a management approach.

It may not be possible to establish elements that could be applicable for all types of industries. Needs are different from industry to industry. Certain industry practice exists already today, performed by the companies in the specific industry and based on discussion with and information requirements from for instance analysts. We believe this kind of “self-regulation” is to be preferred instead of having the same regulation for all kinds of industries. Hence, the elements proposed should be guidance rather than requirements on areas that could be useful information.

The required information appears to be very comprehensive, especially in paragraph 35 Prospects. That kind of information would be classified as a forecast according to many contracts with stock exchanges and will require a continuous follow-up and updating process from the preparers. A question here is how and when shall changes be communicated? In connection to financial reports or immediately when changes occurs as most regulations from stock exchanges stipulate? Undesired effects of the guidance could therefore be conflicts with contracts and legal obligations which the entity is bounded to.

From our perspective it is also necessary that the guidance do not require an entity to disclose information which could be harmful for the business and/or its relationships. For example, it could be detrimental for the entity to disclose certain strategy plans from a competition point of view. Likewise, certain relationships with customers and suppliers may not be disclosed because of the contractual relations to such parties. Accordingly, we consider that the guidance would be improved if the wording in the paragraph is expressed on a more general level, instead of focusing on details.

We also consider that there is a risk that mandatory information in the financial statements might be duplicated in the Management Commentary, with regard to some areas discussed in the Exposure Draft, even though it is stated in paragraph 23 (b) of the Exposure Draft that management should avoid duplicating in its Management Commentary the disclosures made in the notes of the financial statements. This is not very helpful, since national rules might demand similar information in the Management Commentary.

There are already today a lot of disclosure requirements about risk in IFRS 7 “Financial instruments: Disclosures” and in IAS 1 “Presentation of Financial Statements“. Information about relationships and information about whether a single customer represents a significant portion of the entity's business is also a requirement of IFRS 8 “Operating Segments”. The financial statements are extensive already today and we strongly agree it would be useful if information is not duplicated, in order to keep the number of pages in the financial reports down.

But given the disclosure requirements in IFRS and general requirements as set out in the Exposure Draft and in e.g. Sweden also in national rules for Management Commentary, how then is an entity supposed to comment on a general level in the Management Commentary on issues covered by specific disclosure requirements in IFRS? Either the information is duplicated or “watered down” to an extent that it is not useful.

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

We agree as application guidance and examples are helpful in financial reporting standards, which involve complicated calculations, such as IFRS 2. If, on the other hand, the IASB decides to issue a general guidance document on Management

Commentary, then the situation is different and it is better not to include any detailed examples. In Sweden, for example, the format and precise content of the Management Commentary is to a large extent dictated by national legislation and stock exchange requirements. With a detailed application guidance and illustrative examples it would probably be a conflict in following national legislation and simultaneously satisfy the requirement to present the commentary in accordance with the "Management's view".

Other comments

We would like to point out that even though the Exposure Draft proposes to issue guidance for a non-mandatory report, the wording of the text in the Exposure Draft often is drafted in such a way that it gives the impression to be compulsory. How can one for example set requirements like those expressed in paragraph 6?: "When an entity prepares management commentary to accompany IFRS financial statements, it should not make the commentary available without those financial statements". The management commentary is not part of the financial reports as defined by IFRS. Maybe the IASB here already has envisioned that the guidance eventually will be turned into an IFRS?

But what happens if an entity publishes a Management Commentary, with its content based on non-mandatory guidance from IASB, without accompanying IFRS financial statements? It is not a deviation from IFRS, but it might be viewed as a deviation from the non-mandatory guidance. But if an entity can make a Management Commentary available without accompanying financial statements or not is a question for the specific jurisdiction, not for the IASB. The "rules" set in paragraphs 6-8 should therefore be deleted as there is an immediate risk for confusion. The guidance should only comprise the content of the Management Commentary.

We are pleased to be at your service if further clarifications to our comments are needed.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE

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