BUSINESSEUROPE

IASB
International Accounting Standards
Board
30 Cannon Street
London, EC4M 6XH
United Kinddom

23 February 2010

BUSINESSEUROPE's comments on the ED "Management Commentary".

Dear Sir/Madam,

BUSINESSEUROPE welcomes the opportunity to comment on the exposure-draft for a non mandatory guidance on Management Commentary.

For a variety of reasons, BUSINESSEUROPE believes that the IASB should not issue any form of guidance on Management Commentary, at least not at this stage:

- The IASB is – and should remain – an accounting standard setter, dealing with recognition, measurement and disclosures in financial statements only;

- No work whatsoever has been carried out at the conceptual level to help define financial reporting beyond the remit of financial statements. As a result, qualitative characteristics that should apply to management commentary have not been defined and thought through;

- Internal inconsistencies in the proposals reveal that they have been hastily prepared and approved. In-depth analysis and rework would be necessary to make the proposals acceptable;

- The IASB has taken the view, repeatedly in public deliberations, that non-mandatory provisions were useless;

- Finally the IASB workload is already heavier than is reasonable; moreover, the constraint in timing up to the June 2011 deadline that the IASB has set for itself constitutes a serious threat on the quality of the standards to be issued as part of the 2011 stable platform.

Among the internal inconsistencies mentioned above, we wish to highlight our strong opposition to the publication of any target or other forecast performance indicator. Financial statements are by essence backward-looking. The IASB's proposals suggest that elements of financial statements should be provided on a forward-looking basis.

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We disagree with such a suggestion and believe that it stems from an erroneous interpretation of the SEC requirements.

We also wish to highlight that the IASB proposals have the potential to confuse the regulatory framework by straying into issues of implementation and compliance as explained in the detailed answer to question 1.

We provide as an appendix to this letter detailed answers to the invitation for comments.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department

APPENDIX

1- Should the IASB issue non-mandatory guidance on Management Commentary?

BUSINESSEUROPE does not believe that the IASB should issue any guidance, either mandatory or non mandatory. Indeed, we believe that:
- The IASB is – and should remain – an accounting standard setter, dealing with recognition, measurement and disclosures in financial statements only,
- No work whatsoever has been carried out at the conceptual level to help define financial reporting beyond the remit of financial statements. As a result, qualitative characteristics that should apply to management commentary have not been defined and thought through,
- internal inconsistencies in the proposals reveal that they have been hastily prepared and approved. In-depth analysis and rework would be necessary to make the proposals acceptable.
- The IASB has taken the view, repeatedly in public deliberations, that non-mandatory provisions were useless,
- Finally, the IASB workload is already heavier than is reasonable; moreover, the constraint in timing up to the June 2011 deadline that the IASB has set for itself constitutes a serious threat on the quality of the standards to be issued as part of the 2011 stable platform.

Security regulators are in our view responsible for issuing guidance for management commentary. We are particularly worried that despite the positions taken by major security regulators, at the time the Discussion Paper on Management Commentary was issued, the Board decided to ignore the concerns that the IASB should focus on the direct link with the financial statements, leaving it to the legislator or securities regulator to develop principles on general financial information and continue with suggesting guidance beyond that scope. We hold the view that the IASB should focus on financial reporting, which is, as indicated above, a backward looking activity, as acknowledged in BC2.

In its proposals, the IASB acknowledges that different legal frameworks in different jurisdictions could have an impact on the content of management commentary. While we command the IASB to consider such differences as being relevant in the analysis, we believe that such differences deny the ability of the IASB to issue an international guidance on management commentary. Based on our experience with regulators in various legal environments, we note that securities regulators regularly review and update their management commentary guidance based on their review of real life financial statements in order to ensure that appropriate information is provided to the reader. The IASB can and should not try to mirror the securities regulators efforts and consequently, any general guidance given by the IASB must be of such a boilerplate level, that the usefulness is rather doubtful (particularly as it should and may not conflict with local legislation and requirements). The conditions for worldwide application are just not met.

We understand that some jurisdictions lack such guidance and therefore might find the IASB's guidance useful. We note however that requirements set for by regulators in different jurisdictions could be adjusted to local needs, an area where IOSCO could be of valuable assistance and has already issued guidance.

Furthermore, we observe that paragraph 8 in the exposure draft is built on very strong, mandatory requirements, compliance with IFRS being subject to compliance with the management commentary guidance. We believe that this paragraph should be deleted. Any link between the compliance with the guidance and the compliance with IFRS should be eliminated.

Finally, we are puzzled that BC3 indicates that the purpose of the drafted guidance is to "affect how management communicates information on its performance (...)". While we believe that this is indeed at the heart of the debate on management commentary, as long as the IASB has not defined what it understands under performance, it should not undertake any projects that are build on such fundamental (undefined) terms.

2- Are the proposals for content of a management commentary acceptable?

Although the proposed guidance has been much improved in conciseness and clarity from the Discussion Paper, the content is quite disappointing as close reading and analysis highlight internal inconsistencies and proposals put together quite hastily.

In setting a purpose and principles for the management commentary, we believe the guidance starts where it should.

BUSINESSEUROPE agrees with the proposed purpose for the management commentary, i.e. provide information about the context of the financial position and performance of the entity as reflected in financial statements.

We however disagree with a principle that refers to "any information supplementing financial statements". In the absence of that supplementary information being characterised, the principle is useless. And we believe that the necessary characterisation should reflect the stated purpose of the management commentary.

While we agree with the two other principles (management's perspective and forward-looking information), we do not think that these two principles are adequately developed in the proposals.

Our first issue has to do with the qualitative characteristics. Information about the financial and economic context of the entity provided from management's perspective are quite different from information displayed in financial statements. We believe that applying the same qualitative characteristics, and more particularly reliability and comparability, as for financial statements is highly inappropriate. We believe that proposals made in the Discussion Paper were, on this account, much better. The basis for conclusions shows the lack of analysis on this issue. Indeed it states that since qualitative characteristics have been defined for "financial reporting" as a whole in the second chapter of the revised framework, they should apply to management commentary. We wish to remind the Board that it has not yet given any thought to what financial reporting actually includes, and has therefore not tested whether these qualitative characteristics are fit for anything but financial statements.

Our second issue has to do with how the forward looking principle is being reflected in the proposals for content. The proposals give as an example the publication of targets and analysis in the following period of why and how the published forecasts have been met or missed. The basis for conclusions refers to some SEC requirements that are, in our view, misinterpreted. While correctly reproduced in BC28, the IASB seemed to have drawn unexpected conclusions from it. The SEC guidance wants to draw the attention of the reader to situations where past performance is not indicative for the future. The current drafting however goes far beyond that point and seems to mandatory require forward looking statements, far beyond the SEC requirements. Forecasting and budgeting are management tools, they are not meant for external financial reporting and should therefore not be mandated by any from of standard setter guidance.

We also found the guidance on non-GAAP measures far reaching and boilerplate and do not believe that the currently proposed drafting meets the aim to increase comparability.

3- Should the IASB provide detailed illustration and guidance?

BUSINESSEUROPE agrees with the IASB that no detailed illustration and guidance are appropriate.