

Stig Enevoldsen Esq  
Chairman, Technical Experts Group  
EFRAG  
Avenue des Arts 41  
1040 Brussels

24 March 2006

Dear Mr Enevoldsen

**IASB Discussion Paper on Management Commentary**

**Draft EFRAG response to IASB**

The CBI is grateful for the opportunity to comment on the draft EFRAG response to the IASB Discussion Paper.

The CBI strongly supports the principle of narrative reporting, and in the UK we have had a voluntary system of narrative reporting called an Operating and Financial Review since the early 1990s supported by guidance from the UK Accounting Standards Board.

National law will in practice often impose some narrative reporting requirements, and in the case of the UK, we are subject to the requirements of the EU Accounting Directives, including most recently the EU Accounts Modernisation Directive, which impose some narrative reporting requirements. In addition, in the case of EU companies, member states will be setting new requirements in connection with implementation of the Transparency Directive, which will also impose additional reporting obligations on companies and directors.

Particularly in the light of these significant developments, we strongly consider that the IASB should not extend, and that EFRAG should not support extension of, the mandatory requirements for narrative reporting beyond those that may be set by national legislation or a national regulator. The IASB should only involve itself in setting voluntary guidance or guidelines for narrative reporting. In particular, effective and useful narrative reporting is very much a matter for the judgement of the directors according to the circumstances size and nature of its business, they should be allowed to determine what is most material, useful and informative for their shareholders, and shareholders are also at liberty to seek more information on a particular matter from the company, which companies are usually willing to meet the information needs of their shareholders wherever possible.



INVESTOR IN PEOPLE

Clive Edrupt – Company Affairs  
DL: +44 (0) 20 7395 8042 DF: +44 (0) 20 7836 1114 E: [clive.edrupt@cbi.org.uk](mailto:clive.edrupt@cbi.org.uk)

CBI Centre Point 103 New Oxford Street London WC1A 1DU  
T: +44 (0)20 7379 7400 F: +44 (0)20 7240 1578 W: [www.cbi.org.uk](http://www.cbi.org.uk)

Director-General: Sir Digby Jones President: John Sunderland

A voluntary system is also appropriate because narrative reporting very often and usually involves forward – looking information, with the potential for legal liability and litigation should future events turn out differently from those anticipated or envisaged at the time of the narrative report or statement. Directors should therefore be free to manage their liability exposure as they judge appropriate, and having regard to their legal responsibilities and liability under the relevant applicable national law.

Making management commentary a prescriptive IFRS also raises enforcement issues, along with the role and responsibilities of the auditors in connection with narrative reporting, and the applicability or otherwise of the body of IFRS in respect non – IFRS financial information and other information outside the financial statements.

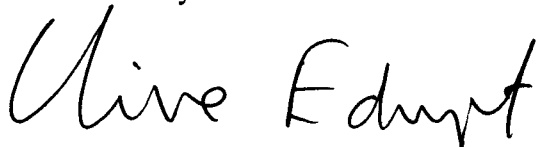
Accordingly, we strongly consider that the IASB’s proposals for Management Commentary, whilst a very worthwhile project, should be limited to guidance for companies in helping companies and their directors to consider what narrative reporting might be helpful to their shareholders. In view of the now very wide adoption of IFRS in the world, no prescriptive requirements should be laid down as an IFRS, because of the many different national legal and liability regimes that operate and apply throughout the IFRS world.

It is also very important before any mandatory requirements on Management Commentary are proposed or recommended for EU companies that the changes introduced by the Transparency Directive, and how the Directive is implemented in Member States, are fully assessed and considered, and in the meantime to allow best practice to develop, where the IASB has a useful role to play in providing guidance.

The CBI therefore strongly considers that in the final EFRAG response to the IASB, EFRAG does not recommend that the IASB proceeds to an IFRS on Management Commentary at this stage as presently proposed in the EFRAG draft, and that EFRAG recommends to the IASB that any recommendations from the IASB constitute only non – mandatory guidance, whilst best practice in narrative reporting develops.

It is also worthy to note that the IASB has a very full programme of other important projects for its attention.

Yours sincerely

A handwritten signature in black ink that reads "Clive Edrupt". The signature is written in a cursive, flowing style.

CLIVE EDRUPT  
CBI Company Affairs