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Le Président

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IASB DISCUSSION PAPER ON MANAGEMENT COMMENTARY

Dear Sir,

I am writing on behalf of the Conseil National De la Comptabilité (CNC) to express our views on the above-mentioned Discussion Paper. Our detailed comments are set out in Appendix 1.

We are in agreement with description of the role of Management Commentary as an integral part of the Financial Report as well as its objectives, content and characteristics as set out in the Discussion Paper.

We also agree that there is a need for the IASB to develop placement criteria to determine whether information should appear in the Financial Statements or the Management Commentary.

However, the development of requirements for Management Commentary is not a priority for the IASB because the subject is covered by local legislators and until now, rightly or wrongly, by financial market regulators in most major countries. Many constituents consider that the IASB priority is to successfully complete the overall accounting coverage of IFRS and achieve a stable reporting platform.

Moreover, we question whether it is the role of the IASB alone to define a standard for Management Commentary which contains non-financial and judgmental information outside the scope of the current Framework. If Management Commentary were brought within the scope of IFRS compliance this would lead to an equivalent extension of the audit scope with which we disagree. We believe compliance with IFRS should continue to apply to the Financial Statements under their current definition.

We are concerned that a standard might not be compatible with existing local commercial law and financial market regulations. Where, as today, there are differences between IFRS and local requirements, this can lead to double reporting of the same fact for different amounts. Such inconsistencies detract from the quality of financial communication.

In conclusion, whilst we share the long term objective of achieving a form of harmonisation in Management Commentary, we do not believe that a mandatory standard is the right approach. A suggestion might be to introduce guidance on best practice on a non-mandatory basis. We are concerned that the management should retain full responsibility for defining the

content and presentation of Management Commentary. We consider that any requirements would be high level and principle based. This would also reduce the risks of conflicting with local regulations.

I hope you have found these comments useful and would be pleased to provide any other explanations or information you might require.

Yours sincerely

Antoine BRACCHI

APPENDIX 1

<p style="text-align: center;">Discussion Paper</p> <p style="text-align: center;">Management Commentary</p>
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Requirements for 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). They also concluded that the quality of MC was likely to be enhanced if the IASB issued requirements relating to MC (section 6).

Question 1: Do you agree that MC should be considered as an integral part of financial reports? If not, why not?

Question 1 CNC's Answer

We agree that Management Commentary should be considered as an integral part of the financial reports.

We believe that Management Commentary is an invaluable complement to the Financial Statements. It enables management to comment on how economic trends and management strategy are reflected in the Financial Statements and to disclose any major assumptions with respect to their preparation.

We do, however, consider that the Management Commentary should not be part of the Financial Statements.

This is because Management Commentary, whilst complementary to the Financial Statements, contains supplementary information of a non-financial or judgmental nature which we do not believe should be subject to audit.

<p>Question 2: Should the development of requirements for MC be a priority for the IASB? If not, why not? If yes, what form should any requirements take?</p>

Question 2 CNC's Answer

We do not think that it is a priority for the IASB to develop requirements on Management Commentary. The correct implementation of a stable platform of IFRSs limited to the financial statements is considered to be an ambitious enough project.

Most of our constituents consider that Management Commentary is essentially a matter for the financial market regulators whose current requirements are considered to be sufficient.

In many countries, such as in the European Community, legal management reporting requirements already exist e.g. in the "Code de Commerce" in France.

There may be room in the long term for non-mandatory guidance on a high level principle based approach. It is, however, essential to preserve the freedom of expression of the management by avoiding over-regulation.

Question 3: Should entities be required to include MC in their financial report in order to assert compliance with IFRSs? Please explain why or why not.

Question 3 CNC's Answer

We are not in favour of bringing Management Commentary within the scope of IFRS compliance.

The Management Commentary does and should contain non-financial information and management opinions, for example with respect to future development, that go beyond the existing scope of the IFRS Framework. We are not convinced that the IASB's scope of reference should be extended to cover these aspects of Management Commentary.

In our view, IFRS compliance implies subjecting the Management Commentary to audit. We think that information of a judgmental nature important to investors cannot be subjected to audit.

Purpose of MC

The project team concluded that, rather than having one dominant objective, MC has three principal objectives (section 2). The project team also concluded that the primary focus of MC is to meet the information requirements of investors.

Question 4: Do you agree with the objectives suggested by the project team or, if not, how should they be changed? Is the focus on investors appropriate?

Question 4 CNC's Answer

The objectives of Management Commentary stated in §34 of Section 2 are:

-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

In our view the three points above resume well the objectives of Management Commentary.

It would seem to us that, underlying the above three objectives, is the requirement to disclose and evaluate major assumptions made by the management.

Furthermore, we agree that the main focus should be on investors. To include items that may interest only creditors or staff may overload the commentary and detract from its clarity.

Principles, qualitative characteristics and content of MC

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 required to meet these requirements, and to determine how the information is presented. The project team has also suggested that it is appropriate consider ways to limit the amount of information management is allowed to disclose, as a way of ensuring that it is the most important information which is presented to investors. (See sections 3 and 4)

Question 5: Do you agree with the principles and qualitative characteristics that the project team believes are essential in the preparation of MC? If not, what additional principles or characteristics are required, or which ones suggested by the project team would you change?

Question 5 CNC's Answer

We agree with the three principal characteristics set out in Section 3 §39 which are to:

- supplement and complement the financial statements;
- provide an analysis of the entity through the eyes of the management; and
- have an orientation to the future.

We also agree with the attributes derived from the Framework that make information useful to investors set out in §40: understandability, relevance, supportability, balance and comparability over time.

We would stress that, as a priority, the Management Commentary should provide the link in plain language between management strategies and the Financial Statements.

Question 6: The DP outlines the essential content areas that MC should cover. Do you agree with these? If not, what additional areas would you recommend or which ones suggested by the project team would you change?

Question 6 CNC's Answer

We agree with the proposal in §98 that actual content and presentation should be left to the management's judgement.

We therefore agree that the disclosure requirements should be a "high-level" framework as set out in §100 (illustrated by the value reporting categories mentioned in §105):

- (a) The nature of the business
- (b) Its objectives and strategies
- (c) It's key resources, risks and relationships
- (d) Its results and prospects; and
- (e) Its performance measures and indicators

We further agree that the link between strategic objectives and results should be made clear and that segmental information would be required.

Question 7: Do you think 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?

Question 7 CNC's Answer

We agree that the Management Commentary should focus on important issues relevant to investors in order to preserve the clarity and effectiveness of financial communication.

Question 8: 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 were not consistent, what would the major areas of conflict or difference be?

Question 8 CNC's Answer

In France, the contents of the mandatory "management report" are defined by the Code de Commerce. There would not appear to be any major inconsistencies of content between requirements under French legislation and the proposals in the "Discussion Paper". However, there are differences in definition between local legislation and IFRSs e.g. the definition of management personnel in IAS 24 and the "Code de Commerce" is not the same so that the same information may be valued at two different amounts.

Placement principles

The project team concluded that it would be helpful to establish principles to guide the IASB in determining whether information it requires entities to disclose within financial reports should be placed in MC, on the face of the primary financial statements or in the notes to the financial statements. The project team has suggested some principles (section 5).

Question 9: Are the placement principles 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?

Question 9 CNC's Answer

§169 proposes the following criteria for distinguishing Management Commentary from notes to the accounts:

- (a) in MC if it provides an investor with information that puts the financial statements into the context of the entity and its operating environment
- (b) In the notes if it is essential to an understanding of the primary financial statements and its elements, whether recognised or not.

The dividing line between the Notes to the Financial Statements and the Management Commentary may not always be easy to draw.

We would broadly support what is said in (a) above with respect to the Management Commentary. In our view, Management Commentary would contain information on environment, strategy evaluation, non-financial indicators that would not normally be disclosed in the Notes.

The Notes would provide more analytical information necessary to explain how the figures in the Financial Statements are built up and valued

However, it may prove necessary to disclose major risks and assumptions in both Notes and Management Commentary since they are both relevant to an understanding of the Financial Statements and to the strategic position of an entity within its environment.

The definition in (b) above of what should go in the Notes does not appear adequate as information given in the Management Commentary would also contribute to an understanding of the primary Financial Statements.

We would suggest that the Notes should provide sufficient information to make the Financial Statements understandable on a “stand alone” basis for investors as well as being “auditable”. However, management under the control of the auditors will inevitably fix the actual dividing line between Notes and Management commentary.