Committee of European Banking Supervisors

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International Accounting Standards Board
30 Cannon Street,
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Dear Madam, dear Sir,

Exposure Draft ED/2009/6: Management Commentary

The Committee of European Banking Supervisors (CEBS), comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the IASB's Exposure Draft on Management Commentary.

Banking supervisory authorities and central banks have a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline.

CEBS welcomes the ongoing efforts of the IASB to improve financial reporting, of which management commentary is a key element. The provision of such information is already mandatory in the European Union (EU) under EU or national legislation and we note that there is no contradiction between these and the ED. The IASB should continue to take care not to create conflicts in the future with EU or national legislation or with market regulators. CEBS is of the view that a guidance document is better suited to avoiding such conflicts than a binding IFRS.

It is noted that the IASB has taken into account many of the comments made by CEBS in its comment letter on the IASB's earlier Discussion Paper (DP) on management commentary (April 2006).

However, given the urgent accounting issues on the IASB's agenda, CEBS does not consider finalising this project as a priority.

Our general and detailed comments on the Exposure Draft (ED) have been provided in the appendix of this letter.

The comments put forward in this letter and in the related appendix have been coordinated by CEBS's Expert Group on Financial Information (EGFI) chaired by Mr. Didier Elbaum (Deputy Secretary General, Commission Bancaire) - in charge of monitoring any developments in the accounting area and of preparing related CEBS positions - and in particular by its Subgroup on Accounting under the direction of Mr. Ian Michael of the UK FSA.

If you have any questions regarding our comments, please feel free to contact Mr. Elbaum (+33.1.4292.5801) or Mr. Michael (+ 44.20.7066.7098).

Yours sincerely,

Giovanni Carosio
Chair, Committee of European Banking Supervisors

Appendix

General Comments

CEBS sees management commentary as an integral part of financial reporting, which enables users to better understand the context in which an entity publishes its financial statements, as well as its prospects. It can also facilitate more effective market discipline.

Within the European Union (EU), the provision of such information is already mandatory, under EU or national legislation and we note that there is no contradiction between these and the ED. CEBS does not object to the IASB developing guidance on management commentary but urges the IASB to continue to take care not to create conflicts with EU or national legislation or with market regulators in the future. A guidance document is better suited to avoiding such conflicts than a binding IFRS. In developing such guidance the IASB should consult with all relevant stakeholders such as securities regulators, analysts, and investors to ensure its approach is consistent with existing national legislation (e.g. company law) and requirements from securities regulators or listing authorities.

CEBS notes that the IASB has taken into account both this view and other comments made by CEBS in response to the IASB's DP when preparing the ED. We also welcome the fact that many points made by the IASB are in line with a set of high level disclosure principles that CEBS published for consultation in October 2009[1]. In particular, we support the IASB's emphasis on avoiding "boilerplate discussions that do not provide insight", since such disclosures add to the quantity rather than the quality of disclosures without conveying meaningful information.

The CEBS guidelines also note that "forward-looking information is desirable", even though such information may be hard to assess and, by its nature, is less reliable than historical data. Therefore care needs to be taken about verifiability, confidentiality and legal liability in order to ensure that forward-looking information is appropriately provided. Along these lines, we encourage the IASB to consider further guidance on how forward-looking information can be properly incorporated into management commentary in a way that it will be useful for users of the information.

When the IASB considers whether specific items of information should appear in the management commentary or in the notes to the financial statements, it should keep in mind that, as indicated above, management commentary should be covered by guidance only, and not by a mandatory standard (as opposed to the notes). Management commentary cannot be a substitute for the notes, which should be understandable and complete (in covering all information required under IFRS). This is especially important given that, in many jurisdictions, the management commentary is not audited but only subject to a consistency review.

As we noted in our earlier letter, CEBS does not consider finalising this project to be an urgent matter. The IASB's agenda is currently under significant

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[1] Disclosure guidelines reflecting the lessons learnt from the financial crisis, http://www.c-ebs.org/Publications/Consultation-Papers/All-consultations/CP21-CP30/CP30.aspx

pressure, particularly as it completes its fundamental review of financial instrument accounting, and we have doubts about whether now is the right time to further deliberate on this document, particularly as its final status will be as a guidance document. In this respect, CEBS agrees with the alternative views expressed in AV4.

Furthermore, we have some concerns with the due process followed in preparing this ED, particularly as regards its link with other IASB projects. CEBS agrees with the IASB that there is a clear link between management commentary and the Conceptual Framework, given the positioning of management commentary as a companion to the financial statements. Nevertheless, CEBS believes that the Board should avoid anticipating far-reaching changes that are under way in other projects. As commented in our response to the IASB's ED on Improvements to IFRS in November 2009, we do not believe that the IASB's references to the Phase A Framework ED are appropriate, before publication of the final document, since they anticipate changes yet to be made and therefore undermine the IASB's due process mechanisms.

Concerning the contents and with regard to the consequences of the financial crisis, we support the idea of asking for information regarding the remuneration of executives and senior staff. As such we recommend adding a 'comply or explain clause' to stress the importance of this information.

Detailed comments

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?

As noted in our response to the IASB's DP, CEBS believes that, as envisaged in the exposure draft, there should not be a compulsory requirement to prepare management commentary in order to assert compliance with IFRS at this stage. Therefore, we agree with the IASB's decision to develop a guidance document instead of 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?

Overall, CEBS supports the content elements proposed by the IASB, which are substantially in line with those identified in CEBS' disclosure principles consultation paper (CP).

Although CEBS believes that adopting a forward-looking perspective is necessary for a decision-useful management commentary, the provision of forward-looking information around strategies, prospects and performance measures is a very sensitive area, with both commercial and legal risk attached. Furthermore, there are inherent limits to the reliability of such information. The IASB should be cautious regarding these and other issues when considering how to incorporate forward-looking information into financial reporting.

Concerning information on the strategy of an entity, it should be possible for an entity to weigh investors' need for insightful information against its own need to treat certain strategies as confidential.

In addition, we would like to mention that management commentary could include information which is not explicitly listed in paragraph 24 of the ED whenever it is helpful to users in assessing the financial position, performance and prospects of the reporting entity and if not required to be included in the notes to the financial statements. This could include additional information that is required by law.

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?

CEBS notes that the guidance is pitched at a very high level, which leaves significant scope for management judgement when applying the guidance. While this encourages disclosures to be presented through the eyes of management (an essential part of management commentary), we believe that there may be advantages to application guidance or illustrative examples in some areas or sectors. The IASB should consider each request on its merits and consider whether other bodies may be well placed to contribute illustrative examples on particular issues.