



ICGN

International Corporate Governance Network

By email commentletters@iasb.org

Sir David Tweedie,
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

23 February 2010

Dear Sir David,

Re: Exposure draft: Management commentary (ED/2009/6)/DP

We are writing on behalf of the International Corporate Governance Network (ICGN) and its Non-financial Business Reporting Committee to submit our detailed comments in response to the questions posed in the Exposure Draft on Management Commentary.

The ICGN is a global membership organisation of institutional and private investors, corporations and advisors from 45 countries. Our investor members are responsible for global assets of US\$9.5 trillion. The mission of the ICGN is to contribute to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. It follows that ICGN takes a strong interest in accounting and reporting issues, and established its Non-financial Business Reporting Committee in 2004 with a clear remit to consider extra-financial reporting issues. Information about the ICGN, its members, and its activities is available on our website: www.icgn.org.

General

The Committee responded in detail to your earlier Discussion Paper on Management Commentary published in November 2005 and we attach a copy of our response of 21 April 2006 for reference and to which we cross refer in our detailed response below.

We are pleased to see that the Exposure Draft reflects some of our earlier comments and that the Management Commentary is seen as a high priority for the IASB but are disappointed to see that some helpful elements in the Discussion Paper have not been reflected in the Exposure Draft. We note that the Exposure Draft proposes to limit the Management Commentary to matters that are linked to the financial statements. However, we feel that the broader approach in the Discussion Paper is more appropriate and more likely to serve investors' needs. Nevertheless we welcome the publication of the Exposure Draft and remain strongly supportive of the concept of Management Commentary.

The ICGN published its own Statement and Guidance on Non-financial Business Reporting in December 2008 which sets out our general position on the subject, both as to principles and to content, and we attach a copy for reference in which we make it clear that greater integration between financial and non-financial

reporting is desirable. We believe that complementarity is key and of great help to investors as well as other users of corporate reports.

We feel that it is important for key players, and not just the IASB on its own, to develop the Management Commentary on a global basis. In our response in April 2006 to the earlier Discussion Paper, we observed that it was essential that the body responsible for developing the Management Commentary should include strong representation from investors and have a broad range of expertise and we encouraged the IASC Trustees to establish a separate body for this purpose.

We continue to press for a broadly based body to develop the Management Commentary and suggest that the perspective of regulators also be included through IOSCO. We also welcome the separate initiative of the Prince of Wales Accounting for Sustainability Project in calling for the establishment of an International Connected Reporting Committee to take forward the cause of integrated reporting and we urge the IASB to give this serious consideration.

A. Responses to Questions in the Exposure Draft

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?

Not entirely- please see our response to Q.3 in our April 2006 letter.

As previously stated in April 2006, we would have preferred a standard, i.e. an IFRS, such that in order to assert IFRS compliance, reporting entities would be required to prepare and present MC along with their financial statements (consistent with our view that financial statements alone are insufficient for investors needs – see ICGN Statement & Guidance on NFBR, December 2008).

In our view, there is a major risk that preparers will not take a non-mandatory approach as seriously as a mandatory one although we recognise that a voluntary approach can sometimes allow greater flexibility in good terms of good practice and so reduce overly boilerplate reporting. However, we remained concerned that insufficient guidance can lead to discursive and irrelevant reporting even in those jurisdictions where there is a basic legal requirement for an enhanced business review.

This has been well demonstrated in the UK Accounting Standard Board's recent report 'Rising to the challenge' published in October 2009 on its review of the narrative reporting of 50 UK listed companies in 2008 and 2009. We also note in France that the lack of guidance and the absence of penalties for non-compliance have limited the effectiveness in practice of the 2001 Nouvelle Loi Economique requirement for listed companies to identify relevant economic and social issues in their annual reports.

We would also draw attention in this context to the SEC's 'Interpretive Guidance on Disclosure Related to Business or Legal Developments Regarding Climate Change' published on 27 January 2010. The SEC publishes interpretive guidance documents to provide clarity and ensure consistency on topics of mandatory disclosure for use by listed companies in relation to existing legal requirements. The new guidance is the world's first national corporate disclosure guidance on climate risk. It is instructive to note that the SEC considers that both mitigation (reducing greenhouse gas emissions) and adaptation (assessing and managing the risks of inevitable changes in climate) may constitute sources of material business risks which have to be disclosed to investors.

We consider that a mandatory approach can improve standards across the board and we would draw attention in this respect to the regulatory role of the Financial Reporting Review Panel in the UK, and we note with interest the UK Financial Reporting Council's intention, publicly expressed by its Chief Executive on 15 January 2010, to look more closely at the front and back end of published accounts of companies, given its concerns about the quality of non-financial information.

We acknowledge, however, the merits of the reasoning provided in the Basis for Conclusions concerning Scope, BC 8-10, and therefore can agree that for now a guidance document is likely the best way forward for the moment. We would suggest that this is kept under review, and that the IASB should commission a study, no more than three years after the guidance has been introduced, on the take up of Management Commentary, particularly in those jurisdictions where there is no legal or other regulatory requirement for non-financial reporting, and whether it might be appropriate to introduce a full IFRS at that stage.

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?

Yes, but with some reservations (please see Q.6 in April 2006 letter).

The content elements as stated in paragraphs 24-39 are necessary but insufficient. We think that the proposed disclosures about strategy, resources and performance measures need to be enhanced to include additional features. We consider that disclosures about risks and risk management are important enough to be treated as a separate content element, rather than being grouped with resources and relationships.

Further, we consider that specific mention should be made of the need for MC to provide explicit disclosures about environmental (particularly climate change and weather risk), social and governance matters that are relevant and material in assessing a company's future profitability and sustainability. In this context, we would again draw attention to the SEC's recent initiative in publishing its "Interpretive Guidance on Disclosure Related to Business or Legal Developments Regarding Climate Change".

We also consider that intellectual and human capital should be given some specific recognition as a "content element". The most appropriate place to bring in any reference to human capital in the ED would be in the reference to "Resources, Risks, and Relationships" beginning at paragraph 28. As it stands, there is only one small paragraph expanding the discussion of "Relationships," which is paragraph 32. This provides an example of a firm with a special exposure to the fortunes of one or a small group of customers (which is helpful) but there is currently no mention of employees, or other stakeholders. We accept that the document is intended to be very general, but it might be worthwhile to include a second example of a firm that has assembled an unusually experienced or skilled team of employees, and what it is doing to attract and retain such people. This clearly is helpful to investors and analysts in assessing value and risk.

We note that in May 2008, the CFA Institute published a manual for investors on ESG factors at listed companies and that the European Federation of Financial Analysts Societies (EFFAS) published in April 2009 its revised version "KPIs for ESG - A Guideline for the Integration of ESG into Key Performance Indicators for

Environmental, Social & Governance Issues” for financial analysis and corporate valuation.

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?

Yes with reservations (see Q. 7 in April 2006 letter). We consider that the earlier Discussion document provided greater clarity than the current Exposure Draft which is more general in its approach.

We note paragraphs 21-23 of the Exposure Draft (Presentation) and agree with the Board’s proposal not to include illustrative examples. We consider, however, that more guidance (but not necessarily “detailed application guidance”) should be provided regarding the nature and extent of disclosures for each content element, such as is provided in the CICA’s Guidance on MD&A Preparation and Disclosure (Comprehensive Revision, July 2009) and the UK ASB’s Reporting Standard on Operating and Financial Review (January 2006), and on the Konzernlagebericht requirement in Germany by DRS 15 - Lageberichterstattung published by the Deutsches Rechnungslegungs Standards Committee (DRSC) (February 2005).

B. Other Comments

Qualitative characteristics of decision-useful information (para. 20)

We agree that the qualitative characteristics for financial reporting set out in the May 2008 Exposure Draft of the Conceptual Framework for Financial Reporting should apply to MC. However, we believe it is essential that the application of these characteristics to MC be discussed, in particular the characteristic of verifiability, and in the context of MC’s forward-looking orientation. Further, the concept of materiality in the context of MC needs further explanation. (See Q.5 in April 2006 letter.)

Orientation to the future (para. 17)

We have no objection to the substance but warn that use of the term “forward looking information” to describe information and disclosures having an orientation to the future may be problematic in jurisdictions such as the USA and Canada where that term has a statutory definition and is burdened with a considerable body of legal cases. To avoid this potential pitfall we suggest that some other term be used to capture the meaning such as “future oriented information”. Further, as pointed out in AV 5 in the section on alternative views at the end of the Management Commentary Exposure Draft, more guidance is needed as to the conditions to be satisfied when providing disclosures that have a future looking orientation.

Users (para. 9)

We do not agree that users of MC should be defined as “capital providers” in the sense stated in the ED (Para. 9 and BC 15-18). We consider that the primary users of management commentary are existing and potential equity investors, who do not have the same degree of access to information about a company as other capital providers such as lenders and creditors. (See Q.4 in April 2006 letter). The information needed by owners for “stewardship / ownership” decisions as well as for “valuation” (buy/hold/sell) decisions is important and is distinct from that needed by lenders and creditors, and from the needs of other stakeholders.

We acknowledge that the term "Capital providers" is taken from paragraphs OB 5 - OB8 of the 2008 IASB/FASB Conceptual Framework Exposure Draft. However, paragraph OB 4 notes that the boundaries for financial reporting are to be addressed in a later phase of the conceptual framework project, and that paragraph OB 2 et seq. refer to "general purpose financial reporting" , even though the scope and boundaries of that reporting have not yet been determined. We suggest that IASB's position on "users" should not be unduly constrained by the terms used in an exposure draft for the current phase of an incomplete conceptual framework project.

Identification of Management Commentary (para. 6)

We do not support the proposal that management commentary should not be made available other than when it accompanies the financial statements. This would prohibit the common approach of issuing narrative together with summary financial statements.

Body responsible for development of MC Guidance

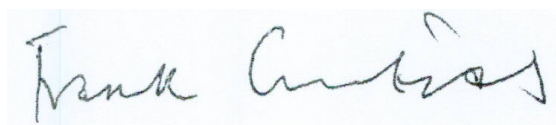
As pointed out in our April 2006 letter, we consider that the body responsible for development of the IASB's MC Guidance should include strong representation from investors and have the necessary expertise in measurement and disclosure issues beyond the scope of financial statements. This might call for the establishment of a new advisory committee on Management Commentary, whose composition should include IOSCO representation. As outlined in our general opening comments above, this should also take account of the proposed International Connected Reporting Committee initiative recently suggested by the Prince of Wales' Accounting for Sustainability project.

We hope our comments will assist the Board in its deliberations. If you would like to discuss any of these points, please do not hesitate to contact Frank Curtiss at +44 (0)207 256 8003 or Frank.Curtiss@rpm.co.uk, or Carl Rosén, our Executive Director, at +44 (0)207 612 7098 or Carl.rosen@icgn.org .

Yours sincerely,



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