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## DSR – öffentliche SITZUNGSUNTERLAGE

DSR-Sitzung:	140. / 01.02.2010 / 13:15 – 15:15 Uhr
TOP:	04 – Exposure Draft Management Commentary
Thema:	<b>IASB-Exposure Draft Management Commentary</b>
Papier:	140_04a_Praesentation MC



**Agenda**

**Teil I**

**Teil II**

**Teil III**

## Agenda

**Teil I**

Ausgewählte Inhalte des Exposure Draft Management Commentary  
(ED/2009/6)

**Teil II**

EFRAG`s draft comment letter

**Teil III**

Weitere Stellungnahmen



Agenda

**Teil I**

Teil II

Teil III

# Teil I

## Ausgewählte Inhalte des Exposure Draft Management Commentary

(vor dem Hintergrund wesentlicher Änderungen zum  
Discussion Paper MC und im Vergleich zur DSR-  
Stellungnahme vom April 2006)



## Management Commentary – status of final work product

	<b>DP</b>	<b>ED</b>	<b>DSR-SN (2006)</b>
<b>Status of final work product (Question 1 of invitation to comment)</b>	Standard	<p>Guidance</p> <ul style="list-style-type: none"> <li>-to apply to publicly traded entities (final decision of national authorities)</li> <li>-AV of 3 IASB-members: guidance will not improve financial reporting</li> </ul>	<p>Standard for listed companies / guidance for non-listed companies:</p> <ul style="list-style-type: none"> <li>-limited benefit in guidance</li> <li>-multiple filings for entities with multi-jurisdictional MC requirements could become obsolete if standard existed</li> <li>-numerous voluntary provisions exist, standard could enhance and harmonise MC information (also reduce need for regulators to develop or expand their MC requirements)</li> </ul>



## Management Commentary – status of final work product

### Gründe für Entscheidung des IASB zur Entwicklung einer “Leitlinie” (CG)

- Entscheidungen über Verpflichtungsgrad, Anwendergruppe, Berichtshäufigkeit, Prüfungsanforderungen oder notwendige Safe-Harbor-Rules sollen nationalen Gesetzgebern / Börsenaufsichtsbehörden obliegen
- Vermeidung inhaltlicher Konflikte zwischen MC Regelungen und bestehenden nationalen / regionalen Anforderungen
- MC ist daher keine Voraussetzung für die Compliance mit IFRS



## Management Commentary – Framework-project

	DP	ED	DSR-SN (2006)
<b>Integration of Framework-project (Phase A)</b>	n.a.	<ul style="list-style-type: none"> <li>- MC is within boundaries of financial reporting, therefore framework applicable</li> <li>- user: existing and potential equity and debt capital provider</li> <li>- qualitative characteristics: in line with FW-project, no MC specific characteristics</li> </ul>	<ul style="list-style-type: none"> <li>- n.a.</li> <li>- focus on investors appropriate (see also GASB`s CL on FW, ch.1 and 2 of 09/2008)</li> <li>- support for MC-specification: comparability difficult due to management view; different reliability (supportability) due to higher uncertainty in MC</li> </ul>



## Management Commentary – objective

	<b>DP</b>	<b>ED</b>	<b>DSR-SN (2006)</b>
<b>Objective</b>	No major difference compared to ED	<ul style="list-style-type: none"><li>- provide historical and prospective commentary on the entity's financial position, financial performance and cash flows</li><li>- provide context for understanding management's objectives and strategies</li></ul>	agree



## Management Commentary – principles (I)

	<b>DP</b>	<b>ED</b>	<b>DSR-SN (2006)</b>
<b>Principles</b>	No major difference compared to ED	<ul style="list-style-type: none"><li>- management`s view</li><li>- supplement and complement f/s</li><li>- orientation to the future</li></ul> <p>→ stärkerer Fokus auf dem “management`s view”</p>	agree





## Management Commentary – principles (II)

	DP	ED	DSR-SN (2006)
<b>Orienta- tion to the future</b>	General description (A17 f.)	<p>Konkretere Vorgaben (mit Hinweis auf erheblichen Einfluss des rechtlichen Umfelds, z.B. in Bezug auf narrative/quantitative Informationen)</p> <ul style="list-style-type: none"> <li>- objectives and strategies</li> <li>- trends, uncertainties and other factors influencing e.g. entity's liquidity</li> <li>- extent to which results are indicative of future results</li> <li>- discuss extent to which former forward-looking information were borne out</li> </ul>	<ul style="list-style-type: none"> <li>- clearer definition of this principle as to how and to which extent information is to be presented (e.g. financial and/or non-financial measures; targets and goals; narrative and/or quantified)</li> <li>- DSR-view: mainly narrative information</li> </ul>



## Management Commentary – qualitative characteristics

	DP	ED	DSR-SN (2006)
<b>Qualitative characteristics</b>	<p>A 19</p> <ul style="list-style-type: none"> <li>- understandable</li> <li>- relevant</li> <li>- supportable</li> <li>- balanced</li> <li>- comparable over time</li> </ul>	<p>in line with framework ch. 2:</p> <ul style="list-style-type: none"> <li>- relevance and faithful representation (fundamental)</li> <li>- comparability</li> <li>- verifiability</li> <li>- timeliness</li> <li>- understandability</li> <li>- materiality and costs (constraints)</li> </ul>	<p>support for MC-specification:</p> <ul style="list-style-type: none"> <li>- comparability difficult due to management view</li> <li>- different reliability (supportability) due to higher uncertainty in MC</li> </ul>



## Management Commentary – content elements (I)

	DP	ED	DSR-SN (2006)
<p><b>Content elements (Question 2 of invitation to comment)</b></p>	<ul style="list-style-type: none"> <li>- nature of business</li> <li>- objectives and strategies</li> <li>- key resources, risks and relationships</li> <li>- results and prospects</li> <li>- performance measures and indicators</li> </ul>	<p>No major difference compared to DP</p>	<ul style="list-style-type: none"> <li>- agree with principle based approach and content as proposed in “standard” in appendix A</li> <li>- very broad content elements should be mandatory</li> <li>- support developing examples</li> </ul>



## Management Commentary – content elements (II)

	DP	ED	DSR-SN (2006)
<b>Objectives and strategies</b>	A33-A37; (more detailed description of this content element)	<ul style="list-style-type: none"> <li>- priorities for action and resource management; measures of success; management insights on how to address market trends</li> <li>- para. 27 last sentence “Discussion of the relationships between objectives, strategy, management actions and executive remuneration is also helpful.”</li> </ul>	<ul style="list-style-type: none"> <li>- information about objectives and strategies useful</li> <li>- should provide information about management’s approach to the future and key success factors of the business</li> </ul>



## Management Commentary – content elements (III)

	DP	ED	DSR-SN (2006)
<b>Performance measures and indicators</b>	A49-A57; (more detailed description of this content element)	<ul style="list-style-type: none"> <li>- financial &amp; non-financial performance measures (quantified) and indicators (narrative or quantified) to assess progress against stated objectives (degree to which goals and objectives are achieved)</li> <li>- management's view</li> <li>- reconciliation from f/s (if applicable)</li> </ul>	<ul style="list-style-type: none"> <li>- suggestion to describe financial control systems, including key performance indicators used by management</li> <li>- key performance indicators (e.g. return on capital employed) should not be defined by standardsetters (see findings in DP.148) since they are entity specific</li> </ul>



## Management Commentary – content elements (IV)

	DP	ED	DSR-SN (2006)
<b>Resources risks and relationships</b>	<ul style="list-style-type: none"> <li>- “full range of risks” (no categories)</li> <li>- no reference to chances</li> <li>- reference to intangible resources</li> </ul>	<ul style="list-style-type: none"> <li>- different risk categories (strategic, commercial, operational and financial)</li> <li>- risk reporting includes potential opportunities</li> <li>- no reference to intangibles (only to non-financial resources, no examples like human or intellectual capital)</li> </ul>	<p><u>risk</u>: more information about financial and operating risk management systems and processes to identify risks and risk concentration; more specific requirements (e.g. risk categories, quantification of risks); include opportunities of the entity; include operational risk in MC as notified in IFRS 7.BC65</p> <p><u>resources</u>: support for including non-financial resources (e.g. human and intellectual capital)</p>



## Management Commentary – guidance and examples

	DP	ED	DSR-SN (2006)
<b>Application Guidance and Examples (Question 3 of invitation to comment)</b>	numerous examples	no application guidance or illustrative examples, BC.48 states <u>reasons</u> : <ul style="list-style-type: none"> <li>- undue emphasis on examples</li> <li>- misinterpretation as minimum or maximum requirements</li> <li>- development of guidance &amp; examples “best left to other organisations”</li> </ul>	<ul style="list-style-type: none"> <li>- support for principle based approach, but</li> <li>- recommendation to develop additional (non-mandatory) implementation guidance for principles, qualitative characteristics and content requirements</li> <li>- examples should not bear risk of boilerplate-language (e.g. DP p. 40, par. 120)</li> </ul>



## Management Commentary – placement criteria

	DP	ED	DSR-SN (2006)
<b>Placement criteria (notes vs. MC)</b>	suggestion in par 153 ff.	<ul style="list-style-type: none"> <li>- par. 23 (b): management should avoid duplicating in MC the disclosures made in the notes</li> <li>- development of placement criteria part of framework-project, phase E (BC 44 ff.)</li> </ul>	<ul style="list-style-type: none"> <li>- support for research on the issue in phase E of framework project</li> </ul>





## Management Commentary – further aspects

	<b>DP</b>	<b>ED</b>	<b>DSR-SN (2006)</b>
<b>Further aspects</b>	<ul style="list-style-type: none"> <li>- A13: MC should reflect segmentation</li> <li>- compliance statement</li> </ul>	<ul style="list-style-type: none"> <li>- presentation of MC (ED.19): MC should reflect segmentation</li> <li>- omitted</li> </ul>	<ul style="list-style-type: none"> <li>- limit segmentation in MC (only for content-differences for certain segment)</li> <li>- support for compliance statement</li> </ul>



Agenda

Teil I

**Teil II**

Teil III

## Teil II

# EFRAG`s draft comment letter



## **EFRAG`s draft comment letter (I)**

### **Question 1 – status of final work product**

- MC is important part of annual reporting
- agree with decision to develop guidance document (in line with EFRAG`s CL in 2006) – helpful for convergence of reporting requirements and for jurisdictions without MC-requirements

### **Question 2 – content elements**

- agree with high-level principle based approach, which avoids the risk of inconsistencies between existing requirements
- par. 24 (list of content elements) should not list the information to be provided but more about the information objectives and the need to develop MC with care



## EFRAG`s draft comment letter (II)

### Question 3 – application guidance and illustrative examples

- support for IASB`s approach not to include application guidance and illustrative examples

### Other issues

- agree with proposed objective and users of MC (in line with Framework-project),
- recommendation for MC qualitative characteristics different from framework-project, since MC cannot be expected to be comparable between entities, neutral and verifiable
- placement criteria should be developed before Phase E of framework-project



Agenda

Teil I

Teil II

Teil III

## Teil III

# Weitere Stellungnahmen: IDW's final comment letter on the ED MC



## **IDW`s final comment letter (I)**

### **Question 1 – status of final work product**

- in line with GASB CL of April 2006: standard instead of guidance

### **Question 2 – content elements**

- generally in line with GASB CL of April 2006: e.g. appreciate more detailed description of „risks“
- however, more detailed requirements necessary (then no further examples or guidance needed) and management should be permitted to omit elements of the strategy if their publication could result in a serious competitive disadvantage



Agenda

Teil I

Teil II

**Teil III**

## **IDW`s final comment letter (II)**

### **Other remarks – relation to framework**

- in line with GASB CL to framework project/CL to DP MC of April 2006:  
support for existing and potential capital provider as primary users of MC  
and support for MC specific qualitative characteristics



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