

ZENTRALER KREDITAUSSCHUSS

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Exposure Draft ED/2009/6: – Management Commentary
AZ ZKA: IASB

Dear Sir David,

Thank you for the opportunity to comment on the exposure draft *ED/2009/6: Management Commentary*.

A. General comments

Under the present exposure draft ED/2009/6, IASB proposes a framework concept for preparers of financial statements pursuant to which any IFRS statements would have to be complemented by an additional management commentary. Whilst we are aware of the fact that a full harmonisation of worldwide management commentary standards will not be feasible in the foreseeable future, we still welcome the proposals contained under the draft standard as a step in the right direction. The information on a company's situation and its risk position which is provided in the form of the management commentary provide decision-relevant information to potential investors as well as other interested parties. Hence, it offers a suitable basis for improved financial reporting.

By virtue of the management commentaries' non-binding nature, IASB takes account of the fact that the existing national provisions on management commentaries already feature great variations in terms of scope and design. We strongly welcome the proposals for a non-binding nature of the management commentary. This approach provides flexibility to companies from States that can look back to a long legal tradition of actionable management commentary allowing them to meet their national requirements without jeopardising their IFRS compliance.

At the same time, the present proposals provide sound guidance or, moreover, create a basis for the development of corresponding national provisions in those States where, to date, management commentary does not form part of financial reporting.

Since management commentaries and their various developmental stages vary greatly across the globe, we feel that only a modicum of harmonisation will be possible in the foreseeable future. This should also be reflected in corresponding IFRS rules. We therefore explicitly advocate in favour of keeping the non-binding nature of the IFRS rules for management commentary.

The proposals under ED/2009/6 concerning the envisaged disclosures on management's objectives and strategies on the stated targets for future performance compared to the entity's actual performance and on the effectiveness of risk management strategies not only exceed the scope of the disclosures required under Germany's Commercial Code, but are also well beyond the industry's customary voluntary reporting practices. We feel that the establishment of new content elements in the area of reporting would be inappropriate for States where regulatory provisions and common market practices for management reports, or moreover, management commentaries have already been firmly established for many years. We therefore strongly propose deleting any provisions that are more far-reaching than minimum reporting requirements or, moreover, existing national provisions.

Based on the foregoing, more general comments, please find our detailed answers to the questions contained in ED/2009/6 below.

B. Answers to the questions

Status of the final work product

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? If not, why?

We greatly appreciate the fact that the management commentary framework shall take on a non-binding nature.

In our view, at least in the foreseeable future, the host of input parameters that need to be taken into account (e.g. existing national requirements, capital market requirements and industry specific rules and regulations) does not allow any room for a change to the non-binding nature of the proposed provisions.

Content elements of a decision-useful management commentary

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?

The proposals with regard to the envisaged disclosures under ED/2009/6

on management's objectives and strategies,
on the stated targets for future performance compared to the entity's actual performance
and on the effectiveness of risk management strategies,

not only exceed the scope of the mandatory disclosures required under Germany's Commercial Code but also go well beyond the voluntary reporting practices (cf. above).

The requested information constitutes sensitive competitive information. Disclosure thereof should not become mandatory under any IFRS standard but should be left solely to the due discretion of the reporting entity. Especially the requested comparison between the stated targets for future performance and the entity's actual performance as well as the information on the effectiveness of the risk management strategies contains information which, due to competition aspects, does not lend itself to public disclosure. We strongly object to any mandatory disclosure of such sensitive information. Hence, we should like to clearly suggest deleting the corresponding disclosure requirements.

Application guidance and illustrative examples

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?

We welcome the fact that ED/2009/6 does not include any application guidance and illustrative examples. We feel that such an approach is consistent and appropriate as the framework has been designed as a non-binding framework.

However, we see as a cause for great concern that legislators, standard setters and other parties involved with accounting matters have been called upon to substantiate this framework.

We feel that this is slightly dangerous because it allows room for an inconsistent further development of the IFRS framework. In the long term, this patchwork evolution would be at odds with IASB's declared goal, i.e. a homogeneous, single management commentary on a global scale. In our view, it would be more consistent to leverage evolving best practice. This would mean putting up with a heterogeneous framework until a certain degree of minimum harmonisation has been reached.

Additional remarks on several paragraphs

para. 4

In Germany, the obligation to draw up mandatory management reports is not tied to the entity's status as a listed company. Hence, the rationale for the IASB framework proposals' exclusive focus on publicly traded entities is not immediately obvious to us. Yet, in view of the framework's proposed non-binding nature, we feel that this is still acceptable.

para. 6

Management commentary as contemplated by the German Commercial Code does not merely constitute complementary information to the finalised annual financial statements. Instead, it also provides an individual description of the company's business development from the point of view of its management. This description has to be intelligible even on a stand-alone basis, i.e. without taking recourse to the disclosures made in the financial statements. Hence, when an entity prepares management commentary to accompany IFRS financial statements, it should be allowed to include redundant information (i.e. provision of the same information both in the financial statements and in the management commentary) and it should be allowed to make that commentary available without those financial statements. An integration with the respective statement can be achieved without any problems by means of an incorporation by reference or, moreover, the obligation to carry out meaningful reconciliations.

para. 32

Furthermore, we suggest a precise definition of the term "stakeholder". By way of example, the Exposure Draft only mentions customers. In Germany, however, this term is commonly also used to refer to suppliers and employees in general parlance. Furthermore, we feel that the information on the significant relations of these stakeholder groups is too comprehensive for the management commentary. Our reservations stem from the fact that such disclosures affect highly sensitive information. Furthermore, part of this information is already liable for disclosure under IAS 24 (*Related Party Disclosures*). At this juncture, it would be helpful to allow an incorporation by reference of the management commentary into the financial statements so as to avoid repetitive information.

Should you have questions or require further discussions, we will be pleased to assist you at any time.

Yours sincerely,

For

ZENTRALEN KREDITAUSSCHUSS

Deutscher Sparkassen- und Giroverband

i. V.



Pia Jankowski