# The Association of Corporate Treasurers

## Comments in response to:
## *Discussion Paper: Management Commentary*

A Discussion Paper from the IASB, September 2005

April 2006

## The Association of Corporate Treasurers (ACT)

Established in the UK in 1979, The Association of Corporate Treasurers is a centre of excellence for professionals in treasury, including risk and corporate finance, operating in the international marketplace. It has over 3,500 members from both the corporate and financial sectors, mainly in the UK, its membership working in companies of all sizes.

The ACT has 1,500 students in more than 40 countries. Its examinations are recognised by both practitioners and bankers as the global standard setters for treasury education and it is the leading provider of professional treasury education. The ACT promotes study and best practice in finance and treasury management. It represents the interests of non-financial sector corporations in financial markets to governments, regulators, standards setters and trade bodies.

## General

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## Summary

As a long standing supporter of effective narrative reporting the ACT welcomes publication of the Discussion Paper and is grateful for the opportunity to comment on it. The ACT is broadly supportive of the proposals set out in the Discussion Paper and supports the IASB adding a project on this topic to its agenda with a view to developing a mandatory standard.

## Comments on specific questions raised in the "Invitation to Comment"

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

We consider management commentary to be an integral part of financial reports. With the increasing complexity of financial statements, MC is essential in order to place the figures in the appropriate context.

**Question 2: Should the development of requirements for MC be a priority for the Board? If not, why not? If yes, should the IASB develop a standard or non mandatory guidance or both?**

We agree that MC is a key element of business reporting and is therefore important. Given other demands on the resources of the IASB and the issues faced we do not believe that it should be considered a priority. Nevertheless, we take the view that in order to reflect the importance of a good narrative forming an integral part of the financial report it is preferable for the IASB to develop a mandatory standard. A mandatory framework using the objectives and core elements set out in the discussion paper will ensure that the concept of a MC is taken up and will provide a degree of comparability. However it is important that management be given discretion as to exactly what details they provide since they are in the best position to make the judgement as to what is material and indeed analysis of that judgement will provide a good indicator of the quality of management. It is therefore good that you state that the analysis of the entity should be "through the eyes of management".

**Question 3: Should entities be required to include MC in their financial reports in order to assert compliance with IFRS's? Please explain why or why not.**

Yes, although we agree that in the short-term it may be necessary for optional adoption by jurisdictions or for entities to be permitted to adopt.

**Question 4: Do you agree with the objective suggested by the project team or, if not, how should it be changed? Is the focus on the needs of investors appropriate?**

The project team also concluded that the MC should have three elements to its objective:

i. To interpret and assess the related financial statements in the context of the environment in which the entity operates
ii. To assess what management views as the most important issues facing the entity and how it intends to manage those issues
iii. To assess the strategies adopted by the entity and the likelihood that those strategies will be successful

We agree with these objectives suggested by the project team, with the focus on investors, being appropriate.

However we would recommend a clarification around the definition of investors. There are many stakeholders with an interest in reading the Management Commentary, employees, suppliers, taxation authorities etc but to give the clarity on the purpose of the management commentary it is important that the focus be directed towards the interests of investors, meaning the current shareholders. This should be made clear in any reporting standard. This is consistent with the accounts being addressed to the shareholders and will avoid ambiguities and potential liability claims from people who might have classed themselves as potential investors, but who are not actual investors. This is very important in securing meaningful commentaries, especially in so far as they include or could include forward-looking statements.

**Question 5: Do you agree with the principles and qualitative characteristics that the project team concluded are essential to apply 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?**

The key principles set out are to supplement and compliment financial statement information; to provide an analysis of the entity through the eyes of management; and to have an orientation to the future. We agree with these principles and with the qualitative characteristics proposed by the project team.

**Question 6: Do you agree with the essential content elements that the project team concluded that MC should cover? If not, what additional areas would you recommend or which ones suggested by the project team would you change?**

It is proposed that an entity should disclose information on the following:

i. The nature of its business
ii. Its objective and strategies
iii. Its key resources, risks and relationships
iv. Its results and prospects
v. Its performance measures and indicators

We agree with these essential content elements as proposed by the project team. While some additional guidance as to the sorts of information might be helpful, at this level it is much better not to be too prescriptive, lest the important disclosures become obscured by excessive detail on irrelevant factors. Indeed, any standard should be drafted positively to discourage the inclusion of non-material matter which can be used deliberately to hide more important points the authors wish to remain obscure.

**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?**

We agree with the approach suggested in the Discussion Paper and believe that the MC should only contain information which enhances understanding of the financial reports through coverage of the three essential elements mentioned in 4 above and that this should not be obscured by the inclusion of irrelevant and trivial information.

Leaving the exact matter to be included or excluded to management judgement gives the opportunity for exclusion of matter irrelevant in any particular case.

**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 are not consistent, what are the major areas of conflict or difference? If you believe that any of these differences should be included in an IASB model for MC please explain why**.

Whilst the UK position has changed recently, best practice is certainly consistent with the model set out by the project team.

**Question 9: Are the placement criteria 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?**

The placement criteria suggested by the project team are helpful and we agree that such criteria are necessary to determine whether information is provided in the MC or the financial statements.

## Other

The paper acknowledges the variability in “safe harbour” provisions across jurisdictions with respect to forward looking statements. Use of the term “safe harbour”, while convenient shorthand, needs care. In the jurisdiction with which we are most familiar, England and Wales, we would regard it as important not to specify a “safe harbour” for commentaries prepared with a particular process or made with particular cautionary statements – which would potentially imply potential obligations under other company law or securities law provisions for reporting. Accordingly we would prefer simple reiteration that liability will not be incurred for statements made in good faith and not recklessly.

Whilst such provisions are a matter for each jurisdiction, we believe that the IASB should be active in promoting consistent and reasonable “safe harbour” equivalent provisions in order to remove likely and reasonable concerns of company directors. A statement to this effect in future drafts would therefore be welcome in order to ensure any necessary action in jurisdictions which require it.


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