EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

Exposure Draft ED/2009/6
Management Commentary

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Comments by EFFAS European Federation of Financial Analysts Societies

Dear Sir David,

The European Federation of Financial Analysts Societies, EFFAS, is the European umbrella organisation of national analysts societies. It comprises 25 members representing more than 14,000 investment professionals in the areas of Equity and Bond Research, Asset Management as well as Investment Advice.

As the European Analysts' organisation we appreciate this opportunity to in response to the questions posed in the Exposure Draft on Management Commentary.

We are pleased to provide you with the following comments.

Q1. 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?

EFFAS would have preferred an IFRS, so that reporting entities would be required to disclose a Management Commentary as a part of their financial statements.

While we acknowledge that a voluntary approach may well serve the purpose of establishing a reporting routine for preparers and helps to build a roadmap towards a full-fledged adoption of the MC reporting vehicle, experience demonstrates that preparers will not take a non-mandatory approach as seriously as a mandatory one. We are concerned that insufficient guidance can lead to irrelevant reporting. In some countries reporting requirements for similar vehicles have already been implemented. Experience e.g. from the German market in which "Konzernlagebericht" (Management Report) under the directive DRS 15 from the German standard setter DRS has been in enforcement for more than 2 years has led to an adoption of reporting entities which we consider counter-productive as some German entities have been found reporting more than 70-80 pages of prose.

Q2. 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 content elements as stated in paragraphs 24-39 are necessary but insufficient.

First of all, we strongly suggest to include disclosure about environmental, social and governance risk which typically are summarised in capital markets under the term ESG. 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. An extended version further focussing on sectors is under preparation with a planned publication date in May 2010.

Between September 2009 and February 2010 the European Commission's Directorate General Enterprise and Industry hosted a series of workshops[1] with organisations qualifying as recipients of ESG data and thus qualifying as potential users of MC if ESG data were to be included as integral elements. Several stakeholder groups representing economic stakeholders (as opposed to civil societies, NGOs etc.) such as Eurosif, ICGN, Accounting 4 Sustainability, EFFAS and others clearly expressed the need to integrate ESG data in corporate valuation if data disclosed refer to material risks and opportunities arising from ESG.

We also consider that intellectual and human capital should be given some

specific recognition as a "content element". We would like to point towards WICI (http://www.worldici.com/) a global consortium promoting, among others, the idea of improved intellectual capital reporting. EFFAS is one of the founding members of WICI and represents the needs and expectations of intellectual capital reporting on behalf of its European constituents.

Moreover, we are concerned about the format of disclosure required from entities. Good quality corporate valuation requires comparable and reliable data. To this end data in the MC – regardless whether on risk, opportunities, ESG, intellectual capital or any other intangible issue – needs to be quantified. Currently, many initiatives and organisations propose to think of disclosure of intangible aspects in the format of KPI (Key Performance Indicators). However, it seems to us that there is a semantic fuzziness prevailing when it comes to speaking about KPIs. EFFAS has been working on KPIs for both financial and non-financial aspects for many years. A KPI in the definition of EFFAS is a measurable, quantifiable indicator, in simple terms: a number or a set of numbers[2]. Many parties to the

[1] http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?lang=de&tpa_id=171&item_id=3723

[2] KPIs should not be mixed up with success factors. E.g. the question "Does your company have a risk management system?" cannot possibly produce a KPI as answer. Both question and answer do not match our understanding of KPI. "Please name the biggest potential risk factor your company is exposed to including a) default probability in percentage and b) the most likely monetary impact in €" – this is a two-piece question asking for two distinct KPIs.

general financial reporting debate frequently use the term KPI interchangeably to refer to important aspects, success factors or quantified indicators. This adds confusion to the general debate.

EFFAS has been a strong supporter of XBRL eXtensible Business Reporting Language. EFFAS is also represented in the IASCF XBRL Advisiory Committee. We would strongly suggest to the IASB to a) consider those sets of KPIs for aspects to be disclosed in the MC including aspects as mentioned above which have been developed by organisations such as EFFAS or the Global Reporting Inititiative (GRI), and b) propose that entities consider the use of XBRL taxonomies for these issues. (NB. an XBRL taxonomy for EFFAS KPIs for ESG is available in the public domains.)

Q3. 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 agree with the Board's proposal not to include illustrative examples.

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 Ralf Frank at

+49 6103 5833 65 or rf@dvfa.de, or Giampaolo Trasi, Chairman of EFFAS at +390272612297 or giampaolo.trasi@intesasanpaolo.com.

Yours sincerely,

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Chairman EFFAS

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