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accrédités

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April 26, 2006

Alan Teixeira
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH, United Kingdom

Email: CommentLetters@iasb.org

Re: Discussion Paper: Management Commentary

Dear Mr. Teixeira:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Discussion Paper “Management Commentary.” The proposal for the addition of a narrative report to accompany the financial statements is of considerable importance and, as a leading accounting organization with 64,000 members and students in Canada and internationally, CGA-Canada considers it has a responsibility to contribute to discussions on the future disclosures that may be required of companies.

Your specific questions (*italics*) as presented in the Discussion Paper and CGA-Canada’s corresponding responses follow. Additional comments with reference to specific paragraphs are given at the end.

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

CGA-Canada considers that the Management Commentary (MC) should be an integral part of financial reports; not to treat it in this way would lead it to be considered by users and preparers as a document of lesser value. Moreover, the intended purpose and benefit of providing the MC would be acutely relegated.

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 consider that the MC should be a priority for the Board. As stated in the Discussion Paper (paragraphs 3 and 6), both the IASC Foundation’s Constitution and the IASB *Framework for the Preparation and Presentation of Financial Statements* refer to the importance of “other financial reporting.” The IASB is now well established in the process of convergence to treat the MC as a priority. If the MC is accepted as such, it follows that it should have the status of a standard. We do not consider that, at this stage in the development of international standards, there is any value to be gained in offering non-mandatory guidance. As further experience in the publishing of MCs

is gained, we are convinced that professional accounting bodies such as ours and firms will generate guidelines and models that will incorporate best corporate practices.

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

As part of a comprehensive package of information, the MC should be included in an entity's financial report for compliance with IFRSs. Our position on this is largely premeditated on the rationale that the MC should be a standard if it is to denote the requisite level of importance, diligence, and conformance envisioned.

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 question on the objective of the MC presents some difficulties as we do not consider that the objective in Section 2 has been sufficiently elaborated. Paragraph 19 draws on the *Preface* to offer a definition of what an MC *is* but does not give the objective. Paragraph 32 refers to the purpose of an MC given in the SEC Interpretative Guidance but does not explicitly state that the project team shares this opinion. The confusion is not otherwise diminished by paragraph 33, which refers to concepts in other jurisdictions. CGA-Canada considers it essential that the project team unambiguously give its opinion on the objective, and it is recommended also that this be inserted after paragraph 33 as a new paragraph 34 with subsequent paragraphs renumbered. We are of the opinion that the SEC view is acceptable and appears to be the one implicitly shared by the project team.

The focus must be on the needs of the investors as the MC is part of the reporting package and the current draft IASB/FASB *Conceptual Framework* identifies investors as the primary user group for financial statements. As the Discussion Paper states in paragraph 25, the IASB *Framework* refers to seven classes of users, but as this is in the context of general-purpose statements, it is not relevant. We concur with the arguments in paragraph 30, that the MC should not be regarded as a vehicle for meeting the needs of other classes of users. This does not mean that other users will not find the report informative.

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?

We consider that paragraphs 41–57 provide valuable discussions on important issues although we are not convinced that the opinions stated are principles. Paragraphs 41–45 and paragraphs 52–57 are essentially an elaboration and explanation of the purpose of the MC as the wording of the final paragraph evidences. We consider that this material could be placed in the section discussing the objective.

Paragraphs 46–51 make reference to different terms for the concept of “through the eyes of management.” We acknowledge the difficulties arising through jurisdictional differences and the use of language, but we are concerned that the definition of the term “management” given in paragraph 51 lacks specificity. We would prefer the phrase “those with the prime responsibility for the preparation and presentation of the entity’s financial statements and reports.”

Paragraphs 58–72 provide useful discussions on qualitative characteristics and reflect the substantial work that has been conducted by the project team. Some new terms such as *sustainability* and *balance* are introduced and it is possible that these conceptual terms may be misunderstood and that translation into other languages will produce problems. We would recommend that the project team examine the Qualitative Characteristics in the draft IASB/FASB *Conceptual Framework* and discuss their application to the MC. In our opinion, these characteristics are desirable for both financial and non-financial information and it reduces the confusion that might arise by introducing new characteristics for one particular document.

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?

This section could be improved if the commencement paragraph was that used earlier in the Qualitative Characteristics section, namely paragraph 67 that states “The onus is on management to determine what information is important enough to be included in MC to enable an investor to understand the financial statements and meet the objective of MC.” This is an admirable principle and we suggest that it would remove some of the concerns expressed by the project team. There is a danger that too much attention on the details of disclosure would lead to a “rules-based approach,” and we welcome the project team’s disclosure framework in paragraph 100. This sets out a structure and main contents that meet the objective of the MC.

There is no research that will currently answer the question posed in paragraph 101 “Does this present the information that investors need?”, although the PwC survey does offer some form of benchmarking. We consider that the project team has laid a good foundation with its disclosure framework. If the MC is to become a standard, we are confident that there will be numerous research studies that will embody comparative assessments of disclosure and which will also investigate the use of MC information by users. This work will help improve the information value, credibility, and reliability of the report.

Although the Discussion Paper incorporates good illustrative examples, it may be helpful for the discussion paper to make clear that an MC contains quantitative, narrative, financial, and non-financial information.

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 to ensure that the most important information is highlighted? If not, why not? If yes, how would you suggest this is best achieved?

Although the concerns of the project team on information overload are understandable, CGA-Canada does not consider it desirable or practical to attempt to limit the amount of information. It is undesirable because this would encourage a rules-based approach and reinforce the tick-box mentality mentioned in paragraph 97. The principle of disclosure is stated in paragraph 67, quoted above, and this should be sufficient. It is also undesirable as, by its own admission, the project team does not know the needs of the users and therefore any limitations on disclosure would be very arbitrary.

On a practical level, CGA-Canada is unable to envisage how such limitations may be achieved. The illustrative examples given in this section demonstrate the range of information that can be

made available. These are fairly simple examples and in larger and more complex entities the range of potential data is substantial. CGA-Canada does not consider it practical to attempt to limit the information that may be disclosed. We are reminded that we are dealing with a sophisticated user group that should be capable of extracting the information relevant to its needs.

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 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?

Canada's position is well covered in the Discussion Document, therefore no elaboration/comments are provided.

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?

We agree with the project team's assessment in paragraphs 159–160 that there is information in several IFRSs that could be placed appropriately in the MC and vice versa. Although the GASB's proposals (paragraph 164) and the criteria for delineation offered by the project team (paragraph 169) are helpful, we suspect that in practice many examples will arise that do not fall into these two categories. This could lead to inconsistencies in presentations and possibly duplications where entities have the same, or very similar, information in both the notes and the MC.

We agree that both the notes and the MC supplement the primary financial statements (paragraph 174), but we are not fully convinced that a bi-category division based on the criteria of "essential to an understanding of the primary financial statements" (paragraph 175) is operational. Understanding is not discrete but continuous and a hard line cannot always be drawn. Additionally, an attempt at a rigid distinction may hamper future developments in standard setting.

CGA-Canada recognizes that this is a far from easy issue to resolve, but proposes that some consideration might be given to incorporating of the MC and the Notes into one document. This could lead to an easier flow in the narrative, and specific information that is required to be given by standard or other regulation could be cross referenced to the financial statements. Such an approach could reduce the need for users to refer to the notes for the specific information and the MC for the contextual explanation while at the same time serving to reconcile and integrate all the information rendered. There is an implication in paragraph 186 that the project team may have considered such a possibility in its reference to assurance and perceived reliability.

Other points

- We agree with the argument in paragraph 192 that lack of observed assurance of the MC is more likely due to absence of requests for auditors to undertake this type of work rather than technical or conceptual hurdles to performing it. With this in mind we would prefer the wording of paragraph 194 to read, "We recommend that the IASB request the IAASB to address the attestation of MC."
- The cost and benefit analysis in paragraphs 198–206 is very helpful and we concur that the incremental benefits are likely to outweigh the incremental costs.

- The project team raises the question of whether the perceived costs of the MC will introduce an “adoption hurdle” that might deter countries from adopting IFRSs. There is evidence that some countries are only applying partial adoption or semi-harmonization at this stage, and we believe that those countries determined to adopt IFRSs will not be deterred. Indeed, some companies may adopt an MC standard as it is a potentially highly valuable information source for users and may be regarded as more relevant to their needs than some IFRSs.
- CGA-Canada considers that greater emphasis should be given to segmental information. This is highly valued by the user group but its importance is not promoted in the Discussion Paper, although it is covered in the illustrative examples of disclosures.

In conclusion, CGA-Canada welcomes this informative Discussion Paper on an important subject. We look forward to participating in future discussions.

Should you wish to discuss or require elaboration on any of the items presented above, please do not hesitate to contact Rock Lefebvre at rlefebvre@cga-canada.org or Amar Goomar at agoomar@cga-canada.org.

Sincerely,

[Original signed by:]

Anthony Ariganello, FCGA, CPA (Delaware)
President and CEO