



AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

Comment Letter

**“Discussion Paper: Management Commentary”**

The Austrian Financial Reporting and Auditing Committee (AFRAC) is the privately organised standard-setting body for financial reporting and auditing standards in Austria, and is supported by the competent Austrian authorities. The members of the Austrian Financial Reporting and Auditing Association, AFRAC's parent organisation, are several Austrian Federal Ministries and a number of public institutions. The members of AFRAC represent preparers of financial statements, certified accountants, academics, investors, analysts, and oversight bodies of capital markets and regulated industries.

The AFRAC International Financial Reporting Standards Working Group prepares comment letters on recent IASB publications for final approval by AFRAC. Principal authors of this comment letter were Michael Rab, Andreas Rauter, and Roman Rohatschek. More information about the Working Group and AFRAC is available under [www.afrac.at](http://www.afrac.at).

AFRAC is available for further questions, which should preferably be sent by email to [office@afrac.at](mailto:office@afrac.at) or addressed to Austrian Financial Reporting and Auditing Committee (AFRAC), Schönbrunner Strasse 222–228/1/6, A-1120 Vienna, Austria.

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## 1. General comments

The Austrian Financial Reporting and Auditing Committee (AFRAC) welcomes the opportunity to comment on *Management Commentary – discussion paper prepared for the IASB by staff of its partner standard-setters and others* of October 2005.

AFRAC appreciates the harmonisation efforts on Management Commentary and supports the aim of achieving greater convergence in existing MC practice. Nevertheless we do not see MC as a top priority in comparison with other IASB projects, and therefore do not support a mandatory standard in the immediate term.

As the EU Directives already provide for a particular form of management reporting, we should also appreciate a clear view on the orientation of the project with respect to existing reporting requirements (e.g., US-oriented, focusing on management discussion and analyses (MD&A), EU-oriented, or both).

## 2. Specific questions

**Q1.** *Do you agree that MC should be considered as an integral part of financial reports? If not, why not?*

We consider the MC information as an integral part of financial reports, but not as an integral part of the financial statements. The boundaries of financial statements should not be extended to include MC information as well.

**Q2.** *Should the development of requirements for MC be a priority for the IASB? If yes, what form should the requirements take?*

No; given the existing agenda of the IASB, we think that the MC should not be a top priority.

**Q3.** *Should entities be required to include MC in their financial report in order to assert compliance with IFRSs?*

Inclusion of EU-type management reporting is already required under existing Austria law. Creating guidelines for MC is a more promising approach to enhancing and harmonising MC information. The inclusion of MC together with financial statements in the financial reporting to assert compliance with IFRS should only be mandatory for listed companies.

**Q4.** *Do you agree with the objectives suggested by the project team or, if not, how should they be changed? Is the focus on investors appropriate?*

We agree with the objectives suggested by the project team, but would emphasise that the MC should not simply be a supplement to the financial statements. Within the framework of the EU Directives, management reporting addresses not exclusively investors' interests but also those of other stakeholders. We therefore recommend considering a broader scope for MC.

**Q5.** *Do you agree with the principles and qualitative characteristics that the project team believes are essential 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 agree with the principles and qualitative characteristics as set out by the project team. As far as quantitative information is concerned, we propose to consider only the principal KPIs. In our view companies should not be obliged to present quantitative forecasts or give projections, but they should present information about those aspects and events for the year under review that could be relevant in assessing future prospects. Forward-looking information should focus on qualitative information.

**Q6.** *The DP outlines the essential content areas that MC should cover. Do you agree with these? If not, what additional areas would you recommend or which ones suggested by the project team would you change?*

Yes, we agree with the essential content areas, but do not consider them to be an exhaustive list.

**Q7.** *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?*

The presentation of information is primarily management's responsibility. However, we think it should be stressed that the information presented should be well balanced and focused on the most relevant aspects. MC is misused if it becomes merely a public relations tool.

**Q8.** *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 would the major areas of conflict or difference be?*

Austria has a very long tradition of mandatory MC requirements, at least for corporations of a certain size and irrespective of whether listed or not. The Austrian requirements as set out in the Austrian Commercial Code already embody all the relevant EU provisions, which we consider to be very similar to MC as proposed by the working group.

**Q9.** *Are the placement principles suggested by the project team helpful, and, if applied, are they likely to lead to a more consistent and appropriate placement of information within financial reports? If not, what is a more appropriate model?*

In the light of the ongoing IASB–FASB framework project, we believe it is too early to discuss placement criteria at this point. As outlined in our answer to question 1, we would emphasise the need for a clear distinction between financial statements and

MC, because MC includes subjective and forward-looking information from management. Consequently, such information, to the extent that it is currently required in the notes, should be transferred to MC. Furthermore, references from the notes to MC should not be allowed.