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WICI EUROPE's COMMENTS on the IASB's Exposure Draft (ED) on "Management Commentary"

General comments

The IASB ED on the Management Commentary (MC) is certainly a significant document that marks an important path to improve disclosure on relevant company resources and processes that are left at the margin in today's financial reporting regulatory context, notwithstanding their undeniable importance. In particular, intangibles and the relationships with the stakeholders and the environment are currently not dealt with in a satisfactory way in annual accounts nor in company disclosure.

It is clearly stated that this is essentially a *Framework of Guidance*, and as such it should not be seen as an IFRS. Being presented as an option, then we should avoid being far too specific or exact on what companies could/should elaborate on, since many may balk at starting any new endeavours if it looks like a big and complex investment that is not required to comply with IFRS. Nonetheless, hinting at some examples of possible disclosures with specific intangibles could provide momentum for some to follow suit as they can feel it makes sense for themselves without the need to unleash their imagination about what to do.

Therefore, we think we can then answer positively to Question 1 (page 5) and to Question 2 (page 6) and only partially positively to Question 3 (page 6). Indeed, on Question 2, illustrative examples on Human Resource capital or Brand capital in the final ED could entice some companies to delve into such discussion without feeling compelled to do so under a strict methodology.

We found the paragraphs 24 - 39 well designed and relevant on most aspects addressed. We particularly appreciate the 24 (c) on "the entity's most significant resources, risks and relationships", which could be the starting point for Management Commentary about Intangibles/Intellectual Assets. Paragraph 20 is useful as well, putting to the fore MC characteristics such as relevance, faithful representation, comparability, materiality, verifiability". Materiality is of course the key element to us and should be even more stressed.

If there is one element missing in the overall discussion about MC that we could suggest, it is on shareholder value and more globally stakeholders value. The Management Commentary is the most natural and legitimate reporting space to discuss how the architecture for Shareholder value creation is designed. Since the "Users" of financial statements are the Capital Providers, it should be only obvious that the Management Commentary tackles here the complex issue of how they plan to create value for their shareholders, while keeping due respect and fairness to creditors, employees, clients, suppliers, communities and the likes. A well articulated shareholder value creation process can offer great opportunities about: how the company position itself within its own Value Chain; what are the key business drivers that it sees as critical in this process; how does the company manages those key business drivers and how those drivers have evolved over time through some kind of quantitative or qualitative measurement.

For instance, an invitation to discuss how management encourages and leverages the innovation capability of its company to strengthen competitive advantages could be a very decision-useful information. Those discussions tend to lead to a consideration of various intangibles (cf. sections 27 through to 39, with an emphasis on sections 29 and 32 in particular).

Talking about "Resources, Risks and relationships", it should be stressed that Intangibles and ESG (Environmental, Social, Governance) issues can be addressed in the same MC, as both fall under the extra-financial umbrella and both ESG & Intellectual Capital are interlinked and to some extent overlapping. The ED should be used as a platform to voice the vision of an informationally relevant and effective convergence between IC and ESG. Unfortunately, intangibles are currently only quoted in a note on page 20 of the ED.

Since the philosophy of the ED is to let companies choose their objectives and KPIs according to their own circumstances, some broad and general domains should be at the very least suggested for comments like: "How to generate and anticipate demand?", "How to rapidly and efficiently align supply with demand?", "What factors can explain the divergence between one's performances and the performances of one's competitors?".

In summary, there is a risk related to the status of the document: the nature of the document (not an IFRS but simply a guidance, non binding document) may induce in fact limited implementation ("management commentary only by the best-in-class").

A further risk is the lack of more detailed guidance with some examples: the document is certainly general, but it also risks being too generic. A clear indication that Intangibles/Intellectual Assets as well as ESG aspects relevant to value creation processes should be required.

Another point is to ensure that the information disclosed is not misleading and is subject to a certain level of assurance (undergo an audit process). Given sections 6 and 7, it is unclear whether the management commentary should be audited or not and how can the criteria mentioned in section 20 (relevance, faithful representation, comparability, verifiability, timeliness and understandability) are to be assessed (in case it should be audited).

Specific comments

- Section 26: nature of the business. Reference to the innovativeness character of the environment in which the organisation operates may be useful to depict the nature of the business and how the organisation positions itself. This could be added in point c) (for general understanding of the context) and in point d) in terms of company's strategy on innovation (either product/service innovation and organizational innovation).

- Section 29: although it is clearly mentioned that this document does not aim to produce illustrative examples and application guidance, introducing only the distinction between financial and non-financial resources may not provide enough indication on what to disclose/comment. It may be useful to introduce basic categories of non-financial resources (Human Capital, Structural Capital/Organisational Capital and Relational Capital or broad categories such as individual

resources, organisational resources, market-oriented resources, etc.). This would also be consistent with the level of detail provided in article 31 about risks, where several types of risks (financial, commercial, strategic) are mentioned.
Resources, as defined in section 29, seem to restrict Management Commentary to "stocks" (static aspects) and to neglect dynamic aspects. Introducing the concept of capabilities or at least mentioning the activities that sustain the ongoing development of resources may broaden the scope.

- Section 31: risks should not only be described, but the way the principal risks are faced should be elaborated (e.g. risk analysis, assessment, treatment, etc.) . In a similar way, if opportunities are mentioned, how they are to be addressed should be delineated.

- Section 32: there is a strong emphasis on the "customers" to the detriment of other stakeholders and more specifically, partnerships, agreements, alliances or any other stakeholder that may significantly affect the future performance (in either ways) of the organisation.

- Section 37: reference to industry-specific KPIs that may support comparability purposes. Also an "inverted pyramid" approach should be suggested (a reduced number of general and common KPIs, and a more expanded number of sector specific KPIs).

- There is no reference at all to IT "resources", which are increasingly critical in many sectors.

Frankfurt-Ferrara, 1st February 2010