

**Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)**

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EFRAG Supervisory Board
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Re: Management Commentary – Discussion Paper

Dear Sirs,

We are pleased to provide our comment on the “Management Commentary – Discussion Paper”.

The OIC believes that for a full and proper understanding of company accounts, and considering the complex and detailed information required by the various IFRS principles, it would be useful to have a commentary on the main facts that have affected the management of the enterprise. In order to be understandable, said commentary must focus on the significant factors and be closely linked to the results and data presented in the financial statements and accompanying notes. Therefore, it must be an explanatory complement to the activities undertaken and the results achieved.

To date, this commentary has been prepared in many different ways according to the various and varyingly specific regulations in the various countries.

Therefore, the OIC believes that it would be very useful to agree on a defined standard for preparing the management commentary (MC). As to whether it should be mandatory or not, the OIC believes it is too early to express a judgement. Probably, the document could be optional in a first phase and then, after a period of experimentation, it could subsequently become mandatory.

As it is outlined in Attachment A, the standard seems to provide a good compromise between that essential flexibility, as such a document is closely tied to the operational management of each individual enterprise, and the necessary specification of the main elements and factors to be considered in the preparation of the document, so making it possible to attain greater harmony compared with the current situation.

Requirements of the management commentary

The project team concluded that an entity's financial report should be viewed as a package comprising the primary financial statements, accompanying notes and MC (section 1). They also concluded that the quality of MC was likely to be enhanced if the IASB issued requirements relating to MC (section 6).

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

Question 2: Should the development of requirements for MC be a priority for the IASB? If not, why not? If yes, what form should any requirements take?

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

The OIC believes that a management commentary (MC) that is tightly focused on the significant aspects pertaining to the accounting period under consideration is important to the goal of providing appropriate accounting information.

At present, there is no specific guidance concerning the preparation of such comments (which are thus prepared in many and very different ways by European companies). However, there are widely varying local national rules governing the content of the MC. Therefore, it would be useful to have an international guiding principle to harmonize this integral part of company accounts.

Therefore, the OIC believes it to be important that: the IASB proceed swiftly with the production of the document; and the MC should be an integral part of financial reporting in the same way as the financial statements and accompanying notes are.

Aim of the management commentary

The project team concluded that, rather than having one dominant objective, MC has three principal objectives (section 2). The project team also concluded that the primary focus of MC is to meet the information requirements of investors.

Question 4: 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?

With regard to the main users of the MC, the OIC does not believe that it should focus solely on issues of interest to investors. Of course, as the MC will explain the significant aspects that have affected performance, investors will be among the most interested users. However, much of the information to be included in the MC may also be useful, together with the information in the accompanying notes, to other groups of users. Naturally, the OIC agrees that national regulations may require specific information (aside from the MC) on aspects of performance that go beyond the commentary as such (e.g. social accounts).

Concerning the objectives, the OIC supports the view that the MC should constitute a complementary document to present the results according to the management's perception of the performance and indicate the strategies pursued thus far and those to be pursued in the future. Probably, it will be necessary to specify the "management view" principle more clearly in order to

prevent the document from presenting an overly positive picture that does not correspond to the results achieved.

Principles, characteristics and content of the Management commentary

The project team concluded that it is not appropriate to specify the precise information that must be disclosed within MC, or how it is presented. Rather, they believe that any requirements for MC should set out the principles and qualitative characteristics, as well as the essential areas of MC, necessary to make the information useful to investors. It is up to management to determine what information is required to meet these requirements, and to determine how the information is presented. The project team has also suggested that it is appropriate consider ways to limit the amount of information management is allowed to disclose, as a way of ensuring that it is the most important information which is presented to investors. (See sections 3 and 4)

Question 5: 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?

The OIC agrees with the characteristics presented in the DP. They are in line with the general characteristics that the financial statements and accompanying notes also have to possess. The question of meaningfulness and reliability is of particular importance, as one wishes to avoid the MC being overly weighty (with unavoidable effects on ease of understanding) and being purely theoretical with little relation to results. We agree that it may be difficult to achieve full comparability between enterprises, while it is essential that there be consistency over time within the same enterprise.

Question 6: 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?

We agree that the MC cannot be disciplined in a rigid fashion and that it is closely linked to the specific operational management of the enterprise. Therefore, we agree with the approach presented in the DP, which confines itself to identifying the “key” elements to be included in the MC. Among these, which in terms of breadth appear reasonably complete, we would highlight – in line with the EFRAG – the importance of the strong link between information on objectives and strategies and that on results achieved and future prospects.

However, we do not agree with the greater emphasis called for by the EFRAG on the segmentation of the comments by business unit. While segmentation is important for some types of information, it must not be forgotten that an enterprise or group always has to be managed in a unitary, coherent and synergistic way. Each business unit within an enterprise or group has to adopt those strategies that are best suited to that unit. However, above all, such strategies must be fully integrated with those of the other business units and they must be focused on achieving the best possible result for the company or group.

Furthermore, regarding the comment by the EFRAG concerning the greater significance of information on risk management, it is necessary to avoid duplicating information that, in technical

terms, is already required by the principles governing the accompanying notes (especially the recent IFRS 7).

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?

In accordance with the previous statements, believing it to be relevant for ease of understanding that the MC focus on significant management aspects, we agree with the idea of providing guidance concerning the comments. However, such guidelines need to be sufficiently broad so as not to limit excessively the managers' comments.

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 would the major areas of conflict or difference be?

The Italian requirements pertaining to MC, which stem from the EU Directives, do not present any areas of conflict with the general principles set out in the DP.

Placement of the information

The project team concluded that it would be helpful to establish principles to guide the IASB in determining whether information it requires entities to disclose within financial reports should be placed in MC, on the face of the primary financial statements or in the notes to the financial statements. The project team has suggested some principles (section 5).

Question 9: Are the placement principles 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 OIC believes that the basic principles set out in the document, especially para. 169, constitute the starting point for assessing the correct placement of the information.

The notes must enable full understanding of the content of the items in the financial statements and of their variation from one period to the next. The information in the MC should provide an overall vision of performance, of the most important factors affecting it and of the strategies pursued by the enterprise, as well as providing indications concerning future prospects (which clearly cannot be included in the notes).

Yours sincerely
Prof. Angelo Provasoli
(OIC – Chairman)