

28 April 2006

Alan Teixeira
Senior Project Manager
30 Cannon Street
London EC4M 6Xh
United Kingdom

Re: Discussion Paper: Management Commentary, October 2005

Dear Mr. Teixeira,

The Canadian Advocacy Committee (CAC) of the CFA Societies of Canada¹, appreciates the opportunity to comment on the International Accounting Standards Board's ("IASB") *Discussion Paper: Management Commentary, October 2005* (the "DP"). The CAC represents the views of investment professionals to standard setters, regulatory authorities, and legislative bodies in Canada.

General Comments

The CAC Position on Disclosures

The CAC is aware of the recent letter sent to IASB by the CFA Center, in fact one of own members is also a member of the Corporate Disclosure Policy Council (Council). We fully support the view of the CFA Centre. The CAC would like to comment on aspects of the discussion paper that would, we feel have important consequences in Canada.

Question 1:

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

Yes. CAC like the CFA Centre, considers MC an integral part of a company's overall business reporting.

¹ The CAC represents the 13,000 Canadian members of CFA Institute² and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada.

² In August of 2004, the Association for Investment Management and Research (AIMR) changed its name to the CFA Institute.

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?

Yes. From a global point of view, we believe that MC is an integral part of a company's business reporting to investors. From a Canadian point of view, MC disclosure is already mandated by the members of the Canadian Security Administrators. The current Canadian disclosure generally meets the requirement of users in Canada. Although, the CAC has recently suggested additions to the current MC disclosure requirements relating to disclosure for fixed income investors.

The CAC recommends that IASB develops a standard that would be mandatory for all firms claiming compliance with IRFS. A mandatory standard would improve comparability of disclosure across jurisdictions. The CAC believes that voluntary standards have little value. A mandatory standard could have significant implications for Canadian firms both in the public markets and for small and medium enterprises that follow will be following IFRS. (Please see our comments to **Question 8**.)

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?

Yes. We agree that the primary objective of MC is to provide context – explanation and meaning - to the financial statements.

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?

Yes. We agree with the principles and qualitative characteristics outlined in the DP. However, we would put more emphasis on providing disclosures which have economic relevancy and are neutral in focus, thus providing a balanced discussion and analysis of the company's financial performance and condition.

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?

Generally, yes. We agree that the following five elements of MC contents are appropriate:

- o Nature of business
- o Objectives and strategies
- o Key resources, risks and relationships
- o Results and prospects
- o Performance measures and indicators

However, we share the CFA Centre's concern with how these elements are illustrated in the DP. In particular the use of boilerplate wording which provides little to no additional explanation and discussion of the company's business activities and performance during the reported period.

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?

Yes, but with a very strong qualification. Investment professionals, such as financial analysts, can more easily deal with too much information than insufficient information. We feel strongly that companies should be able to provide any amount of information that might be required to understand, appreciate and evaluate a firm's financial result as presented in the financial statements and associated notes. Any guidance should only be directed at the issue of poor communication of important information, such as the use of boilerplate wording, which provides too little detail or too much detail with little substantive or value added information.

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 the 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 currently has extensive MC requirements. It is the CAC's belief that current requirements would be compatible with the model the project team has set out with one important proviso, that national security commissions could **add but not reduce** to the disclosure requirements.

In Canada, accounting standards are set by the Accounting Standard Board (AcSB). Canada is moving to IFRS through the AcSB adopting IRFS. The AcSB will remain and formally must adopt each new IRFS for the standard to become GAAP in Canada. MC disclosure is set by the provincial securities administrators. However, neither group is under the other's jurisdiction. In Canada, the ultimate authority from MC is and will remain outside the AcSB or the IASB. Therefore, if the Canadian MC standards were to

become incompatible with the IRFS MC standard, no Canadian enterprise could claim IRFS compliance.

The CAC members would prefer that the Canadian security administrators continue to monitor actual MC disclosure for compliance, completeness and understandability and where appropriate add new disclosure requirements to address emerging issues or specific Canadian disclosure issues.

Contact Information:

If you or your staff have questions or seek further elaboration of our views, please contact Robert Morgan CFA by phone at +1 514.342 2384 or by e-mail at morgan@forbes-morgan.ca.

Sincerely,

Robert Morgan CFA,
Co-Chair CAC

Blair Carry CFA
Co-Chair CAC