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SIX Exchange Regulation  
SIX Swiss Exchange AG  
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By e-mail to: vernehmlassung@six-group.com

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### **Consultation on Directive regarding Management Commentary (DMC)**

Dear Gentlemen,

We welcome the opportunity to provide commentary and potential suggestions to the proposed requirements set forth in the above Directive regarding Management Commentary.

The Roche Group has a turnover in 2010 of 47.5 billion Swiss francs derived from our worldwide healthcare business - pharmaceuticals and diagnostics - and employs 80,000 people. We have been preparing our consolidated financial statements in accordance with IFRS/IAS since 1990 and therefore have a substantial interest in how these will develop. Roche complies with the regulations of the SIX Swiss Exchange which cover Corporate Governance reporting and the related disclosures as well as, providing extensive information on Corporate Social Responsibility Reporting in our Annual Report.

Overall we support the proposals and we welcome the initiative from the Swiss Exchange Regulation group to address this topic. We believe that the successful implementation of such proposals will strengthen the credibility of financial reporting in the Swiss market. There are nevertheless certain areas that are of concern to us or where we think clarifications would be helpful. In particular we believe the inclusion and nature of any forward-looking information should be very carefully considered.

## **Specific comments**

### **1. Current Situation and Objective**

#### *a. Alignment of the DMC to the IFRS Practice Statement on Management Commentary*

We agree that the IFRS Practice Statement on Management Commentary (hereafter ‘the Practice Statement’) is the correct starting point for the development of management commentary practice in the Swiss market. This would improve international comparability and global transparency. We prefer this approach to the development of a separate detailed Swiss-market solution. In general we would not support large numbers of opt-outs, dilutions and exemptions from the Practice Statement.

We are confused however about the relationship between the DMC and the Practice Statement, particularly the Appendix to the DMC. For example on the topic of ‘Objectives and Strategy’, do the requirements set out in 2.1 and 2.2 of the Appendix replace paragraphs 27 and 28 of the Practice Statement? Since the Practice Statement already includes relatively detailed recommendations, we are not clear why the DMC does not simply use the same text.

We believe that it would be helpful to follow the same terminology used in the Practice Statement, unless something different is intended.

#### *b. Forward looking statements*

In our view any requirement to provide long-term “strategic” or short-term “outlook” forward looking statements regarding future trends and developments needs to be very carefully considered. Points we think should be taken into account include the disclosure of confidential or commercially sensitive information. In addition we note that in some jurisdictions where such information is given it creates risks of potential litigation. We further suggest that there should be some “disclosure exemption” which would apply relating to impending developments or matters in the course of negotiation, where disclosure could be seriously prejudicial to the interests of the company.

#### *c. Results and Outlook*

We are somewhat concerned about the differences between Appendix 4 of the DMC and paragraphs 34, 35 and 36 of the Practice Statement.

We assume that by “outlook” in Appendix 4.2, the DMC has in mind the short-term outlook/guidance that some companies publish on certain key metrics such as revenues, profits and EPS for the current or next financial year. It would be helpful if the DMC clarified what is meant by “outlook”. There are different views about the value of such outlook/guidance, which can potentially encourage an over-emphasis on short-term quarterly results, and how detailed such outlook/guidance should be. We believe that it should be at the discretion of the company about whether to issue such outlook/guidance

and that this should not be a requirement in the DMC. We think that the requirements in paragraphs 34, 35 and 36 of the Practice Statement would adequately address the reporting of such outlook/guidance for those companies that choose to make such statements.

We are not clear why Appendix 4.1.2 of the DMC mentions “the development of these measures throughout the financial year”. We would expect that the DMC relates mainly to Annual Reports, and we would not anticipate providing a review of the company’s strategic goals and progress at each interim period. Clearly any significant changes arising would be mentioned, but this would be by exception. We would suggest some clarification about which parts of the DMC should apply to the reporting of interim results.

Paragraph 36 of the Practice Statement states that the analysis of prospects ‘...may include targets for financial and non-financial measures.’ Appendix 4.1 of the DMC could be read to mean that it is a **requirement** to provide such information, although we are not clear if this is the intention of the DMC. We would recommend keeping to the approach outlined in the Practice Statement, which is quite carefully worded in this sensitive area.

#### *d. Risks*

We support the proposal to provide a description and evaluation of the important strategic, operational and financial risks. We believe that it is important to provide clarity on the exact proposals through Application Guidance. There is a risk that such disclosures can become lengthy legalistic texts and include standardised wordings. In many cases it is difficult to identify which risks are critical and which are remote.

We note that IFRS 7 already imposes a high level of discussion and disclosure on financial risks, and would recommend that these disclosures are not duplicated in the Management Commentary.

## **2. Scope**

We support the proposed scope.

## **3. Effective Date**

The potential effective date of 1 January 2015 is feasible from our side. A phased introduction over a three-year-period is a sensible proposal that would allow both issuers and the regulator to provide further best practice guidance from the experience gained over these years.

#### **4. Enforcement**

We note that the SIX Exchange Regulation group would undertake enforcement activities on the information provided in the Management Commentary. We would suggest that the SIX Exchange Regulation group develop implementation guidance similar to the current Circular No.2 (CIR2) on IFRS. Similarly we would propose that companies are notified of annual Areas of Focus in the same way that is currently done for IFRS.

#### **5. Consultation**

We appreciate that the SIX Exchange Regulation group have undertaken this consultation process. We would suggest that for future consultations in this area, a longer comment period is allowed.

We trust you will find our considerations useful. If you would like to discuss our comments in further detail, please do not hesitate to contact us.

With best regards

A handwritten signature in black ink, appearing to read "Alan Hippe".

Dr Alan Hippe  
Chief Financial Officer  
Member of the Corporate Executive Committee

A handwritten signature in black ink, appearing to read "Ian Bishop".

Ian Bishop  
Head of Accounting, Consolidation  
and External Reporting