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Forward-looking quantitative information in Italian Listed Firms: empirical evidence in 2006-2010

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ABSTRACT

The management report has always been the most de-structured element within the set of documents that traditionally Italian-listed companies must produce in compliance with mandatory rules, codes of conduct or practice tips. The main reason is that the primary function of the management report is to introduce and represent the business performance of the fiscal year without considering *specific* economic and financial results achieved but, rather, illustrating general business context with the support of qualitative data on the environment. In this context, the Legislative Decree n. 32/2007 took a step forward. Since the management report is still a document presenting “general aspects” of the firm’s business, some specific elements have been underlined as “mandatory” by decree 32. Nevertheless, none of them has ever had a specific way to be interpreted and disclosed. In fact, for example, one of the major points of “generality” is reported in Civil Code, art 2428, paragraph 6, comma 2, which introduces the “predictable outlook of operations” as mandatory information. In the accounting domestic theoretical framework, the Annual Report is not only a statement of “past operations” since it is prepared from a “going concern perspective” (this attention is, of course, strengthened in IAS-IFRS). Consistency with this evidence can be useful so that even the management report can be prepared from the same perspective. However, no detail about this type of information has been expressly provided either by legislation or by the national standard setter, the OIC. Differently, the IASB document “*Management Commentary. A framework for presentation*” (December 2010) – a guide for Preparation of the Management Discussion and Analysis (MD&A) that is a similar document of management report prepared by Italian listed companies – the theme of the “forward-looking information” is carefully analyzed. IASB framework underlines that “Explanations of management’s perspective of the entity’s direction, targets and prospects, in addition to explanations of past events, can help users of the financial reports to develop expectations about the entity from its past performance and current state” (IASB 2010, p. BC 38). In the traditional view of the IASB – that is, a shareholder perspective – firm disclosure has to be useful and verifiable by investors. So, since “*forward-looking information might present an over-optimistic picture of the entity*” (IASB 2010, p. BC 39), the document states that “*Management should disclose the assumptions used in providing forward-looking information*” (IASB 2010, p. 18).

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