



EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
Accounting

Brussels, 30 May 2007

F3/RB D(2007)

**Endorsement of IFRS 8 *Operating Segments*
Analysis of potential Impacts (API)**

Questionnaire

Please submit your response, which should be as precise and short as possible, to the European Commission, DG Internal Market and Services, Mr. Piotr Madziar, Head of Accounting Unit F3, B-1049 Brussels and/or to the following e-mail addresses:

Piotr.Madziar@ec.europa.eu and Reinhard.Biebel@ec.europa.eu

by no later than **29 June 2007**.

Please provide the following details together with your response:

- The name of your organisation:
United Kingdom Accounting Standards Board (ASB).
- Short description of the general activity of your organisation
The main role of the ASB is to issue accounting standards. The ASB collaborates with accounting standard-setters from other countries and the International Accounting Standards Board (IASB) both in order to influence the development of international standards and in order to ensure that its standards are developed with due regard to international developments.
- Country where your organisation is located
United Kingdom
- Contact details incl. e-mail address
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In case we would need further details on the submitted information we would take the liberty to contact the relevant respondent.

Question 1:

Please indicate whether you submitted comments to IASB and/or EFRAG during their consultations.

Yes, the ASB responded to the IASB's consultation on the Exposure Draft (ED) 8 'Operating Segments' on 3 May 2006. On the same day, the ASB responded to EFRAG's draft comment letter on the IASB's ED. On 5 January 2007, the ASB responded to EFRAG's draft endorsement advice letter on IFRS 8, in which the Board expressed its support for EFRAG's proposed conclusion that the standard should be adopted for use in the EU.

Question 2:

- a) Do you think information prepared under the management approach on which IFRS 8 is based is more relevant, reliable, comparable, understandable and useful than information prepared under IAS 14?
- b) Do you think that information prepared under the management approach improves the true and fair representation of business activities?
- c) Are you of the opinion that segment information based on the management approach provides greater accuracy for measuring individual segments and ultimately results in greater forecast precision than segment information based on IAS 14?

On (a) and (b), the ASB has not undertaken a comparative analysis of the relative merits of IFRS 8 and IAS 14. The relevant criteria for EU endorsement are those set out in Regulation 1606/2002. EFRAG assessed IFRS 8 against those criteria and, with ASB support, concluded in its letter of 16 January 2007 to the Commission that it is in the European interest that IFRS 8 should be adopted. On that basis, the ASB believes that IFRS 8:

- (a) *does meet the criteria of relevance, reliability, comparability and understandability. On the issue of the usefulness of the information prepared under the management approach, the ASB believes that users of financial reports will benefit from an enhanced insight into the approach taken to managing the business. EFRAG made a similar comment in its adoption letter of 16 January (see paragraph 8 of that letter); and*
- (b) *is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EC.*

On (c), the ASB notes (as has EFRAG) that, under IAS 14, an entity could under certain circumstances have had to segment its business in a way that did not reflect how the business was run, resulting in the need to produce segmental information that was not used for any other purpose. Segmenting the business in the way that management runs the business should provide more meaningful and accurate information, including the provision of information that will allow users to assess the stewardship of management.. While the ASB is not in a position to assess whether the management approach will ultimately result in greater forecast precision, if the segmental information is more meaningful and accurate, this should assist in determining better forecasts. This could be assessed as part of a post-implementation of IFRS 8. The review is a suggestion that the Chairman of the ASB has made in his letter of 8 June (see the answer to Question 8).

Question 3:

- a) Do you assess that cost for preparation of information is lower under IFRS 8 than under IAS 14?
- b) Do you think that the cost/benefit balance of replacing IAS 14 by IFRS 8 is positive (e.g. lower cost outweighing the potentially lower quality of information provided or potentially higher quality of information provided outweighing higher cost)?

- (a) *Yes, given that IFRS 8 requires that information about operating segments be provided on the same basis that it is internally.*
- (b) *Yes.*

Question 4:

Do you consider that the principles on which IFRS 8 is based, in particular the fact that information for segment reports should be prepared through the eyes of the "chief operating decision maker", would pose problems on established EU practices, e.g. in the area of corporate governance?

No. The ASB finds it difficult to conceive of a situation where the information given on segments given to a board of directors would be different from that used by management for internal decision-making purposes, given that Directive 2006/46/EC places a duty and liability for drawing up and publishing the annual accounts and annual report on the board of directors.

Question 5:

Do you agree with the argument that IFRS 8 requires smaller listed companies to report a segment by segment analysis of their business including commercial sensitive information with the effect that competitiveness of smaller listed companies in the EU will be harmed? Please provide reasons for your view and indicate how far that constitutes a change compared to the requirements of IAS 14.

No. The ASB believes in fact that the requirement could encourage competition within the EU. The ASB also notes that the IASB addressed the issue of competitive harm in the Basis for Conclusions accompanying IFRS 8 (paragraphs BC 43-BC45 and BC Appendix A paragraphs 109-111). It was concluded that it was not necessary to provide an exemption for single-product/single-service segments because enterprises that produce a single product/service that are required to issue general purpose financial statements have the same exposure to competitive harm. Four changes made in deliberations addressed the issue. These are: (a) modifying the aggregation criteria (b) adding quantitative materiality thresholds for identifying reportable segments (c) eliminating the requirements to disclose research and development expense and liabilities by segment and (d) changing the second level disclosure requirements about products and services and geography from a segment basis to an enterprise-wide basis.

Question 6:

a) Do you believe that the lack of mandatory requirements for full segment information on a geographical basis in IFRS 8 gives sufficient reason for a non-endorsement decision?

b) Do you believe that other mandatory requirements for segment information are missing in IFRS 8 (compared to IAS 14)? If yes, which ones?

- (a) *No.*
- (b) *No.*

The ASB also notes that directors are free to provide additional information if they believe it will be useful to users.

Question 7:

Can you provide any information that has been generated by field studies, research work, internal analysis carried out in your organisation, jurisdiction?

The ASB notes that – at its January 2005 meeting - the IASB considered a review of academic literature on segment reporting, which largely covers research studies in the USA after the implementation of SFAS 131. The observer notes concluded that, on balance, the studies revealed improvements in financial reporting. The observer notes also reported the summary of a meeting held with the IASB’s Analysts Representative Group (ARG), where most of the analysts present supported the management approach, because it enables timely information to be given reflecting a management perspective.

Question 8:

If you have any further comments on this consultation please provide them to us .

The ASB Chairman, Ian Mackintosh, wrote to Commissioner McCreevy and Madame Berès on 8 June (copied to the Commission), to make clear the view of the ASB (and a number of other UK constituents) that IFRS8 should be adopted by the EU with the proviso that a post-implementation review of it is carried out after a complete reporting season of its use. The review could be carried out by a single organisation or a combination of organisations with the necessary expertise such as standard setters, regulators, users’ groups, preparers’ groups or EFRAG.

Thank you very much for providing your contributions!

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