



EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
Accounting

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

Public consultation: Please send back responses by no later than 29 June 2007.

The European Commission is seeking further input regarding the endorsement of IFRS 8 *Operating Segments* before finalising a report on the potential impact of endorsement for submission to the European Parliament in September 2007.

We seek input from a broad range of constituents (incl. preparers, users, auditors, standard setters, academics) to the **Questionnaire (see ANNEX)**.

The issue – Adoption of IFRS 8 *Operating Segments* for use in the EU

IFRS 8 *Operating Segments* (IFRS 8) has been published in its final version by the International Accounting Standards Board (IASB) on 30 November 2006. IFRS 8 is a disclosure standard replacing IAS 14 *Segment Reporting* (IAS 14), which is the standard currently endorsed for use in the EU. IFRS 8 introduces the "management-approach", which means that the defining of segments as well as the preparation of information used for segment reporting is based on information prepared for internal management decisions. IFRS 8 has no implication on reported profit or loss; it is a pure disclosure standard. In other words, it has no impact on the way income, expenses, assets, liabilities or equity are recognised, measured or presented in financial statements. However, segment information is a highly relevant source for users of financial statements to get a better understanding of the overall performance of a company.

Background of Segment Reporting

In 1997 there was an international discussion about the future direction of segment reporting. The revision of the segment reporting requirements in the US resulted in the introduction of the management approach for identification of segments as well as measurement principles and the revised standard SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). The predecessor of the IASB, the International Accounting

Standards Committee (IASB), and the US Financial Accounting Standards Board (FASB) at that time could not agree on a common way forward. As an outcome, the US Standard SFAS 131 and the IASB standard IAS 14 differed in their basic approach. It was clear that at a certain point in time the debate had to be re-opened with the aim to converge the standards based on experience gained so far. Segment Reporting therefore when the elements of the "roadmap" have been agreed was identified as one specific area for convergence.

Main changes from IAS 14

The key change introduced by IFRS 8 is the move to the management approach for identifying segments and for the measurement of segment information. The main changes are:

- IFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker. IAS 14 requires identification of two sets of segments, one based on related products and services (primary segments) and the other based on geographical areas (secondary segments).
- IFRS 8 requires the amount reported for each operating segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance. IAS 14 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group.
- In contrast to IAS 14, IFRS 8 does not define segment revenue, segment expense, segment result, segment assets and segment liabilities, but requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment.
- In addition IFRS 8 introduces some additional disclosure requirements (also for interim reports) compared to IAS 14.

The context of this Questionnaire

After having received positive advice from the European Financial Reporting Advisory Group (EFRAG), Member States in the 2 February 2007 Accounting Regulatory Committee (ARC) meeting supported unanimously the Commission proposal to adopt IFRS 8 in the EU. In discussions with the Committee on Economic and Monetary Affairs (ECON) of the European Parliament (EP) it became evident that there were sufficient concerns which would lead the EP to the conclusion not to support endorsement of IFRS 8. The Commission agreed therefore that IFRS 8 will not be endorsed before 30 September 2007. Further, the Commission agreed that in the meantime it will continue to consult interested parties and will carry out an analysis of potential impacts of adopting IFRS 8. The Questionnaire annexed to this paper is part of the analysis. Responses and additional input received will be analysed and used for the final assessment.

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
- Short description of the general activity of your organisation
- Country where your organisation is located
- Contact details incl. e-mail address

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.

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?

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)?

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?

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.

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?

Question 7:

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

Question 8:

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

Thank you very much for providing your contributions!

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