Date

23 May 2006

Le Président

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Sir David Tweedie
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Dear Sir David,

Re: IASB Exposure Draft ED 8 *Operating Segments*

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its comments on IASB Exposure Draft Operating Segments. FEE as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting our views on their preliminary comments. We refer to the EFRAG preliminary comments (draft letter of 28 February 2006) where we are in agreement with their comments; where we are in disagreement our own views are put forward. However, we have not considered the final EFRAG submission to IASB in our own response.

2. We share the concerns of EFRAG regarding some proposals in the exposure draft. We support the use of management approach to identify the operating segments because it enables users to see an entity through the eyes of management. However we oppose the use of internal accounting policies to measure the segment information, where those policies are different from IFRS accounting policies used in the entity's financial statements.

3. We are not convinced by the reason for changing the standard on segment reporting. The subject is part of the short-term convergence topics in the Memorandum of Understanding between IFRS and US GAAP (27 February 2006). However, we are not aware that segment reporting impacts the reconciliations requirement for US registrants. Achieving convergence on this issue is not a priority for us. The Basis for Conclusions has not proved why IAS 14 is in need of significant changes. We agree with the alternative view in AV6.

4. As stated in our Position Paper "Financial Reporting: convergence, equivalence and mutual recognition", FEE recognises the need for robust, high quality global financial reporting standards and supports the objective of creating a single set of global standards which, however, must ultimately be subordinate to the objective of preserving and improving the quality of principle-based IFRS financial reporting. High quality financial reporting is the overarching objective of standard setting. Long term convergence of standards is desirable but convergence must involve an approach of seeking the best solutions for accounting issues. We believe that the best solution for segment reporting is to identify the segments on the basis of internal reports used by management and to report the information of those segments based on IFRS measures. Therefore, if there is to be a change, we suggest that both IAS 14 and SFAS 131 be amended in this way to converge towards the best solution.

5. Furthermore, we fear that adopting SFAS 131 in IFRS standards may not be sufficient to achieve convergence as this FASB statement is supplemented by detailed guidance to implement it under US GAAP (for example EITF, Staff positions, Action alerts).

6. We have the following comments on the answers to the questions raised in the Exposure Draft.

Question 1 – Adoption of the management approach in SFAS 131

The draft IFRS adopts the management approach to segment reporting set out in SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* issued by the US Financial Accounting Standards Board.

Is this approach to segment reporting appropriate? If not, why not? What, if any, alternative approach would you propose?

As mentioned in our general remarks, we believe adoption of the management approach to determine the reportable segments will improve financial information provided to users. However, we do not support the use of management internal reporting data for segment reporting in IFRS accounts.

We support the alternative view expressed in AV5: proper external reporting of segment information should not permit the use of non-GAAP measures because they might mislead users. Using two bases for reporting will confuse users and will impair the usefulness of the information. Furthermore, such approach is contrary to the Framework characteristic of comparability. Reconciliations would not be more useful than appropriate information. Furthermore, it is contradictory when the Board itself brings forward the argument that segment information based on internal reporting data instead of IFRS figures is more decision useful, when the objective of IFRS financial statements (including segment information) is to provide information that is useful in making economic decisions according to the Framework.

The paragraph BC 10 is not a convincing argument for the management approach. If it is unlikely that there would be significant differences between IFRS accounts and internal reporting data, the use of IFRS compliant data would not be burdensome.

We acknowledge that information on the assessment by management of their financial position and performance is useful for the readers of financial report in order to better assess the entity's prospects and the resulting future cash flows. However, this information is better placed in a Management Commentary or Director's Report than in the IFRS financial statements.

Question 2 – Divergence from SFAS 131

Do you think that the draft IFRS should depart from the management approach in SFAS 131 by setting requirements for

(a) the measurement of specified items or

(b) the disclosure of specified amounts that might otherwise not be given?

If so, identify the requirements you would add and indicate what you see as the relative costs and benefits of any such requirements.

We agree with EFRAG's draft response and believe it is more beneficial to use IFRS measures for segment information than to converge with US GAAP on this point. We think the draft IFRS should depart from SFAS 131 for the measurement of items reported.

Question 3 – Scope of the standard

The existing standard IAS 14 requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets to disclose segment information. The draft IFRS extends the scope to include also entities that hold assets in a fiduciary capacity for a broad group of outsiders.

Do you agree with the scope of the draft IFRS? If not, why not?

We agree with EFRAG's draft comment that the extension of the scope is not clearly justified in the Basis for Conclusions. It is not clear why holders of fiduciary assets would be interested in segment reporting. We believe they are usually more interested in information on the value of their assets and the fluctuation. We have the impression that fiduciary is understood to include "on-balance positions". We would be really concerned if assets under management of banks and insurance entities would need to give rise to separate segment reporting requirements and encompass such assets in positions. We would prefer the scope of the standard to remain as it is in IAS 14.

Regarding paragraph 3 of the scope, we question whether financial information on segregation of the activities disclosed in the notes, which is not labelled 'segment information', must be in compliance with the IFRS on segment reporting.

Question 4 – Level of reconciliations

The draft IFRS requires an entity to provide, for specified items, reconciliations of total reportable segment amounts to amounts recognised by the entity in accordance with IFRSs. It does not require such reconciliations for individual reportable segments.

Do you agree with the level of reconciliations required in the draft IFRS? If not, indicate what you see as the relative costs and benefits of any other level of reconciliation.

We agree with the level of reconciliation. If individual segments are prepared under IFRS measures, it is not necessary to require reconciliation for individual reportable segments. However, if the proposals in ED 8 are kept in the final standard, reconciliation for individual reportable segments should be required.

Question 5 – Geographical information about assets

The draft IFRS requires an entity to disclose geographical information about non-current assets excluding specified items. It does not require disclosure of geographical information about total assets.

Do you agree with the requirement to disclose geographical information about non-current assets excluding specified items? If not, for which assets would you require geographical information to be given?

We agree with the approach proposed. We welcome the inclusion of intangible assets in the requirement for disclosure of geographical information about assets, through the use of the term "non-current assets" in ED 8 instead of the term "long-lived assets" in SFAS 131 as explained in BC15. Furthermore, we note that the exposure draft does not provide any basis for requiring disclosure on non-current assets and not all assets. Since it is a change compared to IAS 14, it should be explained in the Basis for Conclusions. We suggest IASB to include the argument in the Basis for Conclusions.

Question 6 – Consequential amendments to IAS 34 *Interim Financial Reporting*

The draft IFRS requires an entity to disclose more segment information in interim financial reports than is currently required, including a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss.

Do you agree with the consequential amendments made to IAS 34? If not, why not?

We agree and with the proposed amendment to IAS 34.

Other comments

We do not share EFRAG's draft concern about the quantitative thresholds in paragraphs 12-18 of the draft IFRS. This guidance was already part of existing IAS 14 (paragraphs 35-38) and we do not believe it represents a threat to principle-based standard or a risk of abuse. The thresholds have been used by existing preparers of segment information.

We suggest that information on geographical areas be described by the term "economic area" instead of "country of domicile". To require disclosure of revenues and assets for the home country and for all foreign countries appears to be very US oriented. In the EU, an entity could have very low revenues from its country of domicile, but the economic area, i.e. the EU, would be an important part of its revenues. We believe it would be more relevant in an international standard to make this geographic distinction by economic areas instead of countries.

We suggest to IASB to clarify whether the currency used to present segment information should be the functional currency of each individual segment or the presentation currency of the group.

The example in the implementation guidance could be improved. We point out for example the table on page 6 cannot be easily linked to the reconciliations on page 7. The total revenues and the total profit and loss for the reportable segments on page 7, IG 4, cannot be found directly in the table on page 6, IG 3.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

David Devlin
President