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IASB

30 Cannon Street

London EC4M 6XH

UK

Paris, November 16, 2012

***RE : Post-implementation Review: IFRS 8 Operating Segments***

We are pleased to respond to your request for information (RFI) about our experience in implementing and using IFRS 8 Operating Segments. ACTEO, AFEP and MEDEF are French organisations whose members are companies of widely diverse size and area of activity. For the purposes of the RFI our comments reflect the experience of our listed member-companies as preparers of reporting under IFRS 8.

The general view of our members is that IFRS 8 has been a successful standard, primarily as a result of its focus on the management perspective of the business. This has, our members have observed, generally facilitated and enhanced communication between the management and investors.

We are aware of some perceived problems with the standard which have been raised by users, such as, for example, difficulties in understanding what comprises a segment, difficulties in understanding reconciliations between the reported results of segments and the consolidated results and difficulties encountered in comparing the results of different entities. Our members acknowledge some of these, but believe that such problems are caused by the application of the standard by individual entities rather than an indication of a serious flaw in the standard itself. A further potential cause of confusion is the use of full IFRS for the entity-wide disclosures, whereas the segment presentation uses the measurement approach corresponding to the management view. To avoid this potential confusion, we think that the management view should be used for both in conjunction with appropriate reconciliation to full IFRS.

Our verdict on IFRS 8 is that it is a good standard which is need of little amendment, other than a reconsideration of the basis used for the entity-wide disclosures and perhaps some reflection on the format of the reconciliation between segment disclosures and global IFRS data.

Below we provide responses to the individual questions set out in the RFI, although we have grouped some responses in order to avoid redundancy.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.



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**Appendix to our letter on IASB :**

**Post-implementation Review: IFRS 8 Operating Segments**

**Answers to the specific questions raised in the invitation for comments.**

**Question 2**

***What is your experience of the effect of the IASB’s decision to identify and report segments using the management perspective?***

*Preparers: please include information about whether your reporting of operating segments changed when you applied IFRS 8. If it did, what effect did that change have on the efficiency of your reporting processes and your ability to communicate with investors?*

**Question 3**

***How has the use of non-IFRS measurements affected the reporting of operating segments?***

*Preparers: it would be helpful if you could provide information about whether you changed your measurement basis for operating segment information on the application of IFRS 8 and, if so, what effect this has had on your ability to communicate information about operating risks and performance with investors and other users of your financial statements.*

None of our members have experienced any change in the number or components of operating segments reported as a result of the transition to IFRS 8. It was however pointed out that it was difficult to apply the CODM approach in cases where the activity of the entity was managed on a matrix basis, whereby certain activities were managed along business lines whereas others were managed on a different basis, such as geographical or functional lines. This difficulty has been resolved by the adoption of clear internal guidelines and consistent application within the entity.

A further observation we would make is the following: Where there are difficulties in identifying the CODM as required by the standard, it is helpful to align reporting with the financial communications that the entity provides already. In most cases, such communication is the result of dialogue between users and the management and represents an accepted compromise made between the information used internally by management and that which users have identified as being required by them. Communication of this type was often in place before the adoption of IFRS 8.

However, most believe that the requirement to report the measure used by the chief operating decision maker to assess and make decisions about the allocation of resources had facilitated and enhanced communication with external analysts, because management could “speak the same language” both internally and externally. Members believe that business management and external users alike are better served by the use of simpler accounting approaches reflecting the reality of the business, thus leaving the more esoteric accounting approaches to be isolated and dealt with by specialists.

We think that the prescribed management approach does not give management complete liberty to present results as it pleases, but rather introduces a structure which forces management to consider carefully the impact of its actions on the financial performance of the entity and to account appropriately for its stewardship to the investors in the entity.

The principal differences in information between that used internally and that used under full IFRS are of two main types:

1. those where it is not felt to be appropriate to render segment management responsible for certain effects deemed to be the responsibility of the entity management, or where it is deemed unproductive to try to allocate items between segments. Examples of this include items such as goodwill and depreciation of the excess of fair value over book value of assets purchased in an acquisition, or where management is held responsible for the management of a component of a segment classified as a business held for disposal; and
2. those where the IFRS measure is not felt to be appropriate to the entity’s business model, such as assets/liabilities required to be measured at amortised cost but managed at fair value, or vice-versa, and hedging activity. In the future this may include proportional consolidation of joint ventures in which an important part of the entity’s primary business activity is carried out.

Our members report that at present there are few such differences to be reconciled.

**Question 4**

***How has the requirement to use internally-reported line items affected financial reporting?***

*Preparers: please provide information about any changes in reported line items that resulted from the application of IFRS 8.*

Our members do not believe that there have been any significant changes to their reported line items.

**Question 5**

***How have the disclosures required by IFRS 8 affected you in your role?***

*Preparers: please consider whether operating segment disclosures are more or less burdensome when based on information prepared in accordance with your own internal reporting requirements. If any requirements are burdensome, please provide details of those disclosures and explain why they are costly or time-consuming to prepare. Do you think that the information you present now about operating segments conveys better information to investors and shareholders? It would be useful to indicate whether you regularly report any segment information in addition to that required by IFRS 8.*

As stated above, we believe that IFRS 8 has resulted in the provision of better information to users as it has enhanced the alignment between the way the entity is managed and the way its performance is reported externally, and has thus facilitated the dialogue between users and management.

The principles behind the identification of reported segments and their measurement mean that no additional work is required compared with the requirements internal reporting. The reconciliation to the full-entity reporting would be required in any event for the purposes of internal control and governance.

As a corollary to this, it would be more relevant and also less of a burden for entities to be able to report the entity-wide disclosures on the same measurement basis as the reportable segments, that is, using the measurement used by management and then reconciling to the figures in the entity’s financial statements.

**Question 6**

***How were you affected by the implementation of IFRS 8?***

*Preparers: in answering this question please focus on whether you incurred significant unexpected costs, either as a one-time expense when implementing the Standard or as a recurring cost at each reporting cycle. If you did incur unexpected costs, please explain what these were and in what way they were required to comply with IFRS 8.*

*In addition, we would like to know what practical difficulties you encountered, if any, when applying IFRS 8. Did you find that IFRS 8 is clear about all aspects of the requirements, such as the identification of operating segments, aggregation of segments and the nature of the CODM? If IFRS 8 is not clear, please provide details of your experience.*

As mentioned above, some have found it difficult to identify the CODM in the context of a matrix organisation. In such organisations reporting to top management can be along different routes simultaneously.

Some think there is a tension created by the use of the CODM approach, in that it is clearly the case that in the normal course of its role the management of the entity will receive more detailed information than just the key performance measures identified in IFRS 8 and some users appear to interpret the requirements of IFRS 8 to be that all such information should be reported. We think that paragraph 23 makes it clear which information should be disclosed. However, in order to avoid the tension referred to, it may be helpful for the standard to state that not all the information the CODM receives is to be disclosed, even if that information informs his or her decisions about resource allocation.

Judgement has to be applied by the entity in determining the information which is essential for the user. We think that a good starting-point for identifying what is essential to the user is to consider what is provided in regular external communication about financial performance, such as earnings statements and presentations to analysts, the content of which evolves as a result of the dialogue between management and analysts. It may be useful to incorporate this as a reference in guidance in the standard.

As a final comment, we repeat a comment we have made in the past, which is that the entity’s management must retain the ability not to disclose information of a commercially or economically sensitive nature, if it judges that detailed disclosure might be prejudicial to the entity’s business.

**Other comments**

IFRS 8 is a standard which is largely convergent with the equivalent US standard, SFAS 131. Our members generally are not aware of any widespread major divergences with application of that standard.

Finally, we do not think that IFRS 8 should be amended to accommodate detailed information required by regulators or by pressure-groups. In our view, such targeted items should not be incorporated in the accounting requirements for general financial statements as this will inevitably increase the cost of, and cause and delay in, the production of the financial statements.

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