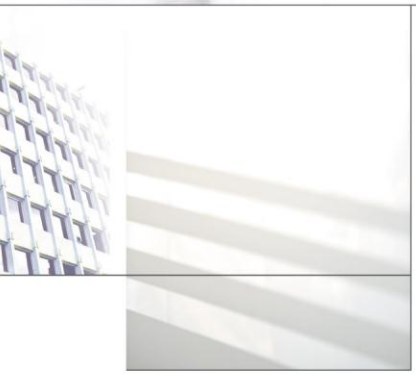

EFRAG

European Financial Reporting Advisory Group

EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

Joint Feedback Statement

EFFAS Financial Accounting Commission
Brussels - 28 September 2012

Introduction and outline

EFRAG Outreach events

EFRAG holds outreach events in partnership with National Standard Setters and user groups across Europe on a regular basis on topics of general interest to constituents.

For more details of the Autumn 2012 series of events, please see the EFRAG website.

EFFAS

The European Federation of Financial Analysts Societies was founded in 1962 and now comprises 27 member societies representing more than 14,000 investment professionals. Its Financial Accounting Commission regularly meets to discuss accounting standards and feedback received from EFFAS members across Europe and comprises members representing the National Analysts Societies of Austria, France, Holland, Italy, Norway, Spain, Sweden, Switzerland and Ukraine.

Members of EFRAG and IASB staff, accompanied by a member of the EFRAG Technical Expert Group, attended part of a meeting of the EFFAS Financial Accounting Commission to gather evidence as part of the post-implementation review of IFRS 8 *Operating Segments*.

Summary of contents

Purpose and use of this feedback statement

This feedback statement has been prepared to summarise the messages received from EFFAS FAC members.

Evidence on experiences with IFRS 8 *Operating Segments* will be used in the preparation of EFRAG's response to the IASB's *Request for Information*

This feedback statement has been prepared by the EFRAG secretariat for the convenience of constituents. The content of the report has not been subject to review or discussion by the EFRAG Technical Expert Group.

IFRS 8 post-implementation review

Information to be considered together with this document

This document should be considered together with the IASB's *Request for Information*, issued as part of the post-implementation review. This, and other information on the project, are available on the EFRAG website.

Background to the post-implementation review

IASB project manager April Pitman briefly described the post-implementation review process, and noted that the number of responses to the request for information was currently limited. She also mentioned the more common issues that were raised around the standard:

- Identification of the Chief Operating Decision Maker – could it be more than one individual or group; and
- How and when to aggregate and disaggregate segments for reporting purposes.

There had been an expectation that IFRS 8 would result in an increase in the number of segments reported, and this was partially the case. In some jurisdictions, the change was limited but this could potentially be explained by the fact that entities had aligned their internal reporting to the external segment reporting.

Post-implementation reviews are a new part of the IASB's due process, and apply to new standards or major amendments that have taken effect since 2009. The post-implementation review of IFRS 8 is the first to be carried out. IFRS 8 was adopted in 2006, replacing IAS 14, and increased convergence between IFRS and US GAAP.

The outcome of the post-implementation review will be considered when the IASB decides on its future agenda, and options could include:

- Further monitoring should the post-implementation review be inconclusive;
- Retaining IFRS 8 as issued; or
- Revising IFRS 8 to remedy any problems identified.

Areas being investigated

The themes for investigation as part of the post-implementation review are the key decisions taken when adopting IFRS 8 as well as implementation experiences. These key decisions, and how they differ to those underlying IAS 14, are set out on the next page.

A review of existing academic literature and publically available material from accounting firms, regulators and investors has also taken place.

Changes from IAS 14 to IFRS 8

Management basis of identifying operating segments

IAS 14 required segments to be identified either on the basis of businesses or on the geographical environments where the business operated. IFRS 8 requires segments to be defined ‘through the eyes of management’, so segments are those used internally and reported to the chief operating decision maker (CODM).

Management determined measurement basis

IAS 14 required the amounts disclosed for each line item and segment to be on a measurement basis consistent with the rest of the financial statements (i.e. IFRS measurement basis). IFRS 8 requires the amounts to be on the same basis as the one used by the CODM when allocating resources.

Internally reported line items

IAS 14 required a company to disclose specific line items for each reported segment. IFRS 8 requires disclosure only if those line items are regularly reported to the CODM.

Disclosure requirements

As well as requiring reconciliations between the operating segment information required and IFRS numbers for certain line items, IFRS 8 also requires certain information across the entity, including revenue by type and country (where material).

Evidence from EFFAS FAC Research

Summary of evidence received from EFFAS FAC members

EFFAS FAC Research

Three members of the EFFAS Financial Accounting Committee presented the outcome of their research on the implementation of IFRS 8 in their home countries and their experiences using the information. An open discussion then followed.

Results of research and general comments
The members of the EFFAS FAC see the purpose of segment reporting is to be able to break down consolidated accounts into smaller pieces. IFRS 8 does not necessarily help in that, so it is not an improvement from IAS 14.
As financial analysts they understand and are interested in separate businesses, not groups of businesses. This is why clear definitions of segments (not just titles or a single word) is requested. Consistency is also important, as a changing context makes it difficult to analyse trends.
Segment reporting is very important to analysts because segmental information is used to understand businesses and assess management performance to come up with a value. This is especially true during an economic downturn.
An example of an industry where the information was difficult to use was telecommunications, especially for companies that defined operating segments as ‘residential’ and ‘corporate’. This made it difficult to assess value, especially because there has never been a sale or purchase of a business on that basis.
Comparing segments between companies is and will always be difficult. However, financial analysts have a need for information that is relevant to them. Reconciliation with the consolidated financial statements is key in order to make comparison at a later stage: e.g. determining the operating cash flows of each segment and reconciling with the consolidated cash flows.

Management basis for identifying operating segments

Summary of evidence from research and comments from EFFAS FAC members on the impact of the management approach to identifying operating segments

Area	Comment
Identifying the Chief Operating Decision Maker	From a sample of 67 companies in one country, the CODM was generally the Chief Executive Officer or the group management team. In 15% of cases, the CODM was not identified.
	The 'quality' of the decision making in identifying operating segments was more important than identifying who the CODM is. Therefore, there appears to be a need for better information on what the standard requires.
Number and consistency of reported segments	From the sample of 67 the average number of segments was three or four, but it was not considered how this has changed since IAS 14. 15% of these companies only had one segment.
	A comparison with information in management discussion and analysis identified that there was sometimes a different focus, which raised concerns and questions about compliance with the standard. However, it was very difficult to question the composition of the segments from the outside.
	A concern was raised in relation to the definition of segments, for example a vertically integrated clothing and branded goods company with multiple retail brands (e.g. clothing, homeware). The two reported segments were production and retail, without any information that allowed users to analyse profit margins by type of product.

Internally reported line items

Summary of evidence research and comments from EFFAS FAC members on the impact of only requiring disclosure of internally reviewed line items

Area	Comment
Definition of profit and reconciliations to IFRS results	Of a sample of 53 companies segment information included non-IFRS line items at profit level in about 50% of the cases. Fifteen among those did not even define profit. In 45 % of the cases, there was no reconciliation with the IFRS measurement of profit. As a result, 25% of the sample could not be used for comparison purposes.
	From a sample of 67 companies discussed earlier, one third defined their segment result as being before extraordinary items.