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Request for Comments, Improvements to IFRS-8 Operating Segments

Comments by the European Federation of Financial Analysts Societies (EFFAS) Commission on Financial Accounting (FAC)

Dear Sir / Madam,

The Commission on Financial Accounting of the European Federation of Financial Analysts' Societies is pleased to share with you the views of European users of financial statements regarding the *Proposed Amendments to IFRS-8 and IAS-34*. In preparing this letter FAC has relied on discussions held between its members and analysts of different constituencies.

Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accountings standards. As we did previously, we continue encouraging the IASB to develop and revise the Standards avoiding complexity. Clear and comparable examples are always useful for users.

FAC has focused on what it considers to be the key points that need to be addressed and for which users would contemplate improvements.

Operating segment information is among the most used information by users of financial statements and therefore is of utmost importance for investment professionals. Understanding segment performance allows a better analysis of revenue generation margins, cash flow and capital utilization. When this information is presented in a single set of financial statements it can hardly be identified and, without segment information, it can be very misleading.



Additionally, segment information permits users to compare information in the financial statements with outside data such as official statistics related to the various business and with similar information provided by other groups involved in similar activities. This information allows users to understand the underlying economics of the various components of a group.

We believe that segment information is most useful when used in comparison with other groups. Such information along with investors' sector knowledge is a key tool to help investors allocating capital in the most efficient manner.

EFFAS sent comments to the original Exposure Draft in 2006 and to the Post-Implementation Review in 2012. EFFAS, together with the French association SFAF also sponsored some research on segment reporting practices both in France and Europe. Lastly, EFFAS also took part to the public consultation on the proposed IFRS-8 standard organized by the European Commission and EFRAG in June 2007¹.

DESCRIPTION OF THE CODM

We fully support the proposed improvement regarding the better identification of the Chief Operating Decision Maker and related disclosures. This strengthens and clarifies whom is responsible and accountable for providing information. In our comment letter to the Post Implementation Review of IFRS 8, dated November 16th 2012, we already stressed that the current practice may lead to poor practices and disclosures. As a reminder, ESMA made similar comments.

We also believe that the enhanced clarification may help auditors in doing their job in an appropriate manner.

CONSISTENCY AND AGGREGATION OF REPORTABLE SEGMENTS

We believe that inappropriate identification and aggregation of reportable segments is a major source of frustration for users. We have actually encountered cases where the segment reporting used in the financial statements is inconsistent with the one used in the MD&A or the slides used in analysts' meetings.

We thus fully support the new requirement that management should explain why this inconsistency occurs. We nevertheless believe that the requirement of explaining inconsistencies should be carefully articulated to avoid boilerplate comments, and finally prevent companies to report irrelevant segments.

We have heard the argument that, as the IASB is not in charge of defining information provided outside of the financial statements (i.e. the "annual reporting package"), it

¹ All these contributions are available at <http://effas.net/about-us/commissions/fac-financial-accounting.html>.



cannot link the information provided in segment reporting with the information outside of the financial statements. We believe that the fact that IFRS-8 is based on a management approach, already means that there is a link with some non-IFRS information with the financial information as required by IASB.

We fully support also the better definition of the aggregation criteria. Adding “*and only if*” in paragraph-12 is reinforcing the strength that should be given to the list of criteria of paragraph-12. We also support the paragraph 12-A that makes clearer of what means “*similar economics characteristics*”. We would nevertheless suggest that the Board adds in this paragraph 12A a reference to similar capital intensity.

We also encounter a lot of problems with sub-segments. In particular, we sometimes encounter a lot of changes over time in the identification of sub-segments (sometimes representing as much as 20 or 30% of consolidated revenues or EBITDA), without any substantial change in the same segment. This makes comparison over time very difficult.

INFORMATION TO PUBLISH

We, of course, fully support the possibility to publish additional information with the segment reporting beyond the one that is reviewed by the CODM on a regular basis (paragraph 20A). It might be helpful for users to better understand the situation or the evolution of some segments.

RECONCILIATION

We consider that the new writing on the reconciliation of published segment information is improved.

We nevertheless believe that the proposed requirement is short of the real needs of users. We have always required to have a detailed reconciliation with an IFRS measure, at each segment level. This is key for users in order to make comparisons with other groups with similar segments. Not providing this kind of reconciliation at segment level reduces users understanding of the situation might lead to significant misallocation of assets by investors.

We note that this requirement for reconciliation at each segment level is widely supported by users, as exemplified by the comments made by the EFRAG Users Panel.



INTERIM INFORMATION

We fully support the requirement to publish pro-forma interim information for segment reporting when segments definition is changed. This might help investors to better understand the possible seasonality effects of the newly identified segments.

ADDITIONAL COMMENTS

We think that these amendments are important improvements, yet fail to resolve a flaw in *IFRS-8*: the management approach. We have repeatedly underlined that the management approach in segment reporting is difficult to match with the goal pursued of providing information to users that is understandable for an external viewer without being misleading. From a European and international perspective, the adoption of IFRS is supposed to bring enhanced comparability, not less.

As segment information is really key for users, we believe that changes have to be incorporated and even further improvements, as noted above, to be considered. Segment reporting should remain at the top of the Board's agenda.

We thank you for this opportunity to provide our views on such important aspects of financial reporting. We hope that the views of users will drive the work of the IASB and remain available for any further information.

Yours faithfully,

Javier de Frutos, Chairman EFFAS
Commission on Financial Accounting

EFFAS was established in 1962 as an association for nationally-based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 22 member organizations representing more than 16,000 investment professionals. The Commission on Financial Accounting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. FAC members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Rolf Rundfelt (SFF, Sweden), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) and Luca D' Onofrio (AIAF, Italy).