Date

3 July 2007

Le Président

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Mr. Piotr Madziar
Head of Unit F3 Accounting
DG Internal Market
European Commission
B-1049 Brussels

Dear Mr. Madziar,

Re: Need for Positive Endorsement Advice on IFRS 8 "Operating Segments"

1. FEE (European Federation of Accountants, Fédération des Experts Comptables Européens) is pleased to have the opportunity to explain its full support for a positive endorsement decision on IFRS 8 "Operating Segments" and to respond to the EC's request to complete the Questionnaire on the Analysis of the Potential Impacts of IFRS 8. The appendix to this letter provides the answers to this questionnaire. Below we set out our general comments on the importance of the endorsement of IFRS 8.

2. FEE has circulated the questionnaire to all its Member Bodies highlighting the issue of endorsement of IFRS 8, both the wider context and the Analysis of Potential Impacts Questionnaire.

<u>General</u>

3. 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 principles-based IFRS financial reporting. FEE believes that the practical implications of non-endorsement by the EU of IFRS 8 clearly outweigh any perceived disadvantages of endorsing IFRS 8.

4. The need for a single set of global standards is very important not only for global players, companies that are listed on several stock exchanges, but also for other companies that trade internationally or that wish for other reasons to enhance the transparency of their financial reporting. Comparability between entities, or within industries, plays an important role and can be achieved by one single set of global standards. In adopting the IAS Regulation Europe embraced IFRS to achieve this objective.

5. There is a competitive disadvantage for companies if they cannot claim to be in full compliance with IFRS. Were IFRS 8 not to be endorsed, companies wishing to claim compliance with both "endorsed IFRS" and "full IFRS" would be put in the difficult position of making two sets of segment disclosures (IAS 14 for "endorsed IFRS" and IFRS 8 for "full IFRS"). In some cases, this might even be impractical.

6. The European influence is expected to be exercised at, or before, exposure draft stage. EFRAG was created for that purpose and has the full support of FEE. For Europe EFRAG is the most important player whereas many other European and national organisations and stakeholders provide input to both EFRAG and IASB. SARG was created as a separate EC advisory committee to ensure that EFRAG respects its due process. As the due process is in place, both at IASB and EFRAG level, they are expected to result in standards that are suitable for positive endorsement.

7. Non-endorsement would call into question the EU's commitment to international convergence and may lead to less rather than more EU influence in the standard-setting process. The prospects for acceptance of IFRS (without reconciliation) in the United States, and for possible use of IFRS by US domestic companies, would greatly diminish.

IFRS 8

8. EFRAG, fulfilling its responsibility to provide advice to the European Commission, has given a positive endorsement advice on IFRS 8 after consultation with stakeholders as part of its due process. The Accounting Regulatory Committee (ARC) also voted unanimously in favour of positive endorsement. Rejection of IFRS 8 would undermine the EU's process for endorsement of IFRS, especially if it appears EFRAG's and the ARC's advice can be readily ignored.

9. Non-endorsement of IFRS 8 at the end of the process risks setting, despite of a positive endorsement advice, a precedent in that any new standard can be blocked at the end of the process by a relatively small group of stakeholders. Comments on the draft standard should be provided to EFRAG and IASB at, or before, exposure draft stage, not at the end of the endorsement process.

10. IFRS 8 is a simpler standard and fits within Europe's desire for simplification and reduction of administrative burden. IFRS 8 is a disclosure standard and has no impact on the determination of the performance of the entity.

11. Considering that the principles of IFRS 8 have been in use in Canada and the US for many years, an understanding needs to be gained in case of non-endorsement of IFRS 8 why the needs of investors and users in Europe are so different.

12. In case of late endorsement of IFRS 8, companies will be prevented from using full IFRS in their 2007 financial statements if they wish to apply the standard early. The current uncertain situation is unhelpful for preparers and their auditors.

13. In those countries where US GAAP, was allowed during the transition period, this causes extra difficulties and costs for the entities involved. These entities wish to present segment information based on IFRS 8 to avoid changing their segment reporting twice: from SFAS 131 to IAS 14 and from IAS 14 to IFRS 8.

For the reasons provided above and the additional reasons as set out in the responses to the questionnaire in the appendix, we call for a positive endorsement for IFRS 8.

In case you have any questions, or wish to discuss the issue further please contact FEE Technical Director Saskia Slomp (tel: 02 285 40 74, email: saskia.slomp@fee.be).

Yours sincerely,

Jacques Potdevin
President

Ref.: ACC/SS-EF/JP

APPENDIX

Question 1: Please indicate whether you submitted comments to IASB and/or EFRAG during their consultations.

FEE submitted comments to EFRAG on ED 8 on 12 May 2006 and to IASB on 23 May 2006. FEE also supported the positive draft endorsement advice of EFRAG on IFRS 8 in a letter to EFRAG on 17 January 2007.

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?

We support the use of the management approach to identify the operating segments because it enables users to see an entity through the eyes of management. We are of the opinion that the best solution would have been for segment reporting 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. Further information on the selection of segments and other aspects can usefully be provided in the Management Commentary whereby the Management Commentary can provide a linkage between the segment information and the financial statements.

The use of internal accounting policies and internal reporting data to measure the segment information, If those policies are different from IFRS accounting policies used in the entity's financial statements, could make the financial statements less understandable. However, we are not aware that many entities use for internal management purposes accounting policies and data different from IFRS. Furthermore, we are of the opinion that the disclosure requirements in IFRS 8 are appropriate on the identification of reportable segments and the determination of segment figures including the reconciliation requirements where internal reporting differs from IFRS.

We believe that the advantages of the management approach outweigh the possible negative effects of impaired comparability of segment figures between entities. Developments in practical application will determine whether companies will tend towards (although not be obliged to) "de facto" conformity with the accounting policies used to present the financial statements.

The adoption of the management approach to determine reportable segments will increase the usefulness of financial information provided to users. It is useful for investors and other users to understand and have access to the key information that is used by senior management in operating the business. Additional insights into the measures used by management will enhance the overall usefulness of the financial statements. Information on the assessment by management of their financial position and performance is useful to readers of financial reports in order to better assess the entity's prospects and the resulting cash-flows.

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)?

Segment information provided under the management approach of IFRS 8 will probably result in reduced cost for the preparers, because it is based on existing internal reporting data, available within the entity. For the discussion of the quality of information we refer to our answer to Question 2.

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?

We do not consider that the provisions of IFRS 8 concerning the implications of "chief operating decision maker" will pose problems for the established governance practices of EU companies. IFRS 8 has no governance impact in that the process of preparing and approving financial statements is unchanged. IFRS 8 also does not change the position regarding liability of those who have to approve financial statements. The fact that governance systems in the US and in Europe (but also within Europe) are different is not relevant.

IFRS 8 does not, contrary to what question 4 suggests, say that information on these matters should be "prepared through the eyes of the chief operating decision maker". IFRS 8 only requires that the information which companies should disclose be drawn from that information which is reviewed by that entity or otherwise regularly provided to it.

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.

Operating segments are often aggregated depending on an aggregation criteria and quantitative thresholds. Therefore, IFRS 8 does not necessarily require an entity to report separately information about <u>each</u> operating segment because of the aggregation possibilities.

Any listed company, regardless of size, must be prepared to accept increased transparency requirements as a condition of being listed. Depending on the structure of the business and the internal reporting of the respective entity there might be some smaller listed companies that would have to report segment information of their business which gives some insights that are commercially sensitive because of the management approach. But, in our opinion, if a competitive disadvantage arises, this is a consequence of an obligation that the entity has accepted to gain greater access to capital markets, which enables it to reap certain advantages over non-public entities. Furthermore, most competitors might have other sources of more detailed information about an entity than that disclosed in the financial statements. In addition, the information that is required to be disclosed about an operating segment is no more detailed or specific than the information typically provided by a smaller entity with a single operation. Consequently, even for segment information stemming from single-product or single service segments the exposure to competitive harm is just the same as for entities that produce a single product or a single service and are required to issue general-purpose financial statements.

However disclosure of sensitive information is not a valid reason for non-endorsement where increased transparency is aimed at.

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?***

No. IFRS 8 requires separate geographic disclosure if revenue/assets attributable to a particular foreign country are material (IFRS 8, paragraph 33). This assists the users of financial statements in understanding concentrations of risk, which is quite relevant information in this context. The disclosure requirements regarding geographical information in IFRS 8 are adequate and, in our opinion, do not give reason for a non-endorsement decision.

We do not believe that other mandatory requirements for segment information are missing in IFRS 8 compared to IAS 14.

Question 7: Can you provide any information that has been generated by field studies, research work, internal analysis carried out in your organisation, jurisdiction?

We have no material to provide.

Question 8: If you have any further comments on this consultation please provide them to us.

We refer to our covering letter.