la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

November 30th 2012

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Post Implementation Review:
IFRS-8 Operating Segment

Comments by the French Society of Financial Analysts (SFAF)
Financial Analysis and Accounting Commission

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is pleased to submit its contribution as part of the consultation undertaken by the International Accounting Standards Board (IASB) on its Request for Information – Post-implementation Review: IFRS 8 Operating Segments.

SFAF represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 27 member organizations representing more than 16,000 investments professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards. 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.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on this subject.

We believe that the operating segment information is among the most used information by financial statement users, and, for that reason, segment information 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, and even more importantly, segment information allows users to compare information in the financial statements with outside data such as official statistics related to the various business activities and 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 and for this reason we believe that segment information is at the very center of how analysts and other users rely on information provided by issuers. We would like also to stress that segment information is most useful when used in comparisons with other groups. In a nutshell, such information along with investors' sector knowledge significantly helps investors allocating capital in the most efficient manner.

When the proposal to move from IAS 14 to IFRS 8 was announced, many analysts believed that the real aim was to reach convergence standards with US GAAP (SFAS 131). As stated in the conclusion of our comment letter to the IASB in May 2006[1], we stressed that accounting standard setting should first focus on improving financial reporting for users before thinking about convergence. We latter noted that the main American association of users[2] stated in its comment letter that the "*decision to converge to SFAS 131 is premature and that convergence is happening in the wrong direction*"[3]. The key point of our letter regarding the standard itself was that the introduction of the management approach may not provide users with relevant, consistent and comparable information, because of its flexibility, and may provide misleading information in an international perspective. SFAF Accounting and Financial Analysis Commission repeated in details its worries during the public consultation on IFRS 8 conducted by the European Commission in June 2007[4].

Regarding Chief Operating Decision Maker (CODM), we observe that it has delivered diverging interpretations, even among companies with the same legal organization within the same country. In some cases, it is even impossible to identify the CODM. We note that this problem has also been identified by ESMA[5].

In addition, based on both the experience of members of the SFAF Accounting and Financial Analysis Commission and as a result of meetings with members of our society, it can be said that the management approach leaves room for great flexibility in segment identification. We have been presented with cases where users would not recognize the segments identified as relevant and thus not providing useful information regarding the performance of the various components of the groups. We have also reviewed cases where groups have changed the identified segments for unexplained reason, at least not discussed in their management report. In some

---

[1] Available at http://www.sfaf.com/index.php?option=com_docman&task=cat_view&gid=23&Itemid=465

[2] The CFA Institute, formerly AIMR.

[3] Comment letter number 99, on page 4. See also the closing remarks (page 13) *« Overall, we are disappointed in the segment information currently available under SFAS 131 and believe it to be inferior to the information required by IAS 14*"

[4] Available at http://ec.europa.eu/internal_market/accounting/ifrs8_en.htm under the reference Société Française des Analystes Financiers - SFAF

[5] Review of European enforcers on the implementation of IFRS 8 – Operating Segments available at www.esma.europa.eu/system/files/2011_372.pdf

cases, the segments were changed because some sub-segments had been reallocated to other segments without sufficient disclosure and reconciliation help. As an illustration, we have in mind a major European company that opted for early adoption of IFRS 8 and has changed the definition of segment and sub-segment every year preventing users from doing any meaningful time series analysis.

Regarding information provided at segment level, we believe that the introduction of the management perspective has significantly impaired comparability between companies. As segment reporting is a major subject for users, SFAF Accounting and Financial Analysis Commission has initiated over the last year two research papers, in order to provide reliable information for the Post-implementation Review. The first research was based on a sample of the largest 53 French companies (excluding financial)[6] for fiscal year 2010 while the second research covered a sample of 50 of the largest European groups[7] for fiscal year 2011.

Key findings of the French report were the following:

- There was a general cohesiveness between the definition of segments in the annual report, the MD&A and the slides used for investor presentations.
- There was about 15 different definitions of "profit" (EBITDA, adjusted EBITDA, EBIT before PPA, operating profit before exceptional items,…) for the segment, most of which were based on non-IFRS definitions.
- About 50% of the group using a non-GAAP measure of profit did not provide any reconciliation of this "profit" with a IFRS GAAP measure of profit.

Key findings of the European report were the following:

- 76% of the sample published non-GAAP measures (sometimes several) of segment profit.
- There are more than ten different definitions of "profit": EBITDA, adjusted operating income, underlying profit, core profit, business operating profit,… .
- 28% of the sample did not provide any reconciliation at segment level between the non-GAAP measures for segment profit and IFRS operating income.
- The probability to have a significant amount of unallocated costs is significantly higher for companies using non-GAAP measures and no reconciliation.

[6] Report published November 2011.
http://www.sfaf.com/index.php?option=com_docman&task=cat_view&gid=23&Itemid=465

[7] SFAF report published December 2012.

http://www.sfaf.com/index.php?option=com_docman&task=cat_view&gid=23&Itemid=465

The two SFAF research papers show that moving from IAS 14 to IFRS 8 has created a proliferation of definitions of segment profit and in most cases without reconciliation to an IFRS GAAP. This means that comparability between companies has decreased and segment reporting is not as useful when comparing companies within similar sectors. In fact, we think that this challenges a key argument for IFRS adoption particularly in the European Union namely comparability.

.

It should be mentioned that we support the publication of non-GAAP information at segment level as it might enhance the understanding of the various business activities. However, publishing non-GAAP information should be only be possible if reconciled at each segment level to facilitate comparability with other groups involved in similar activities. This is a key concept to ensure segment information to be relevant for users.

We are not convinced by the argument, heard in many occasions, stating that the identified problems created by implementing IFRS 8 are due to the lack of enforcement. We believe that a standard based on the management approach inherently embeds the risk to be less transparent presenting segment information and in return provides less-usable and non-useful information. We are also questioning ourselves whether a standard built around the management approach concept could deprive auditors of their necessary power to ensure that information published follows a solid (and stable) principle.

We are also not convinced by the argument used in the request for information regarding the improved quality of information for interim financial reporting: as users, we have not noticed any real improvement in interim segment reporting since IFRS 8 was implemented.

We believe also that the geographic information not only limited to sales (previously available under IAS 14), is of great importance for users. As illustrated in some past instances (Russian, Asian, Eurozone crisis) it can be the most important and the most relevant information for the investor.

Therefore, we are convinced that IFRS 8 should be adjusted and revisited to:

- include *a de minimis* a reconciliation, at segment level, between non-GAAP management measures and IFRS measures;
- any difference between segments and group profit should be reconciled and explained in detail, stating in particular why these incomes and expenses are unallocated;
- definition of segments: there should a detailed definition of the segment (just a single name can be misleading);
- any change in segments should be accompanied by a detailed explanation for the changes.

Users will welcome information illustrating reconciliation between segment reporting and financial statements that permits comparability. Management changes in how businesses are operated should also be explained to understand changes in segment reporting.

We believe that the IASB might also consider returning to IAS 14, as convergence is now less an emergency[8]. Another possibility is to issue a new standard, replacing IFRS 8, that will overcome the identified drawbacks of IFRS 8.

If you have any question and/or would like to comment on specific points, our Commission will be more than willing to do so.

Best regards,

Jacques de Greling
Co-Chairman of Accounting and Financial Analysis Commission
jdegreling@sfaf.com

Bertrand Allard
Co-Chairman of Accounting and Financial Analysis Commission
ballard@sfaf.com

Jean-Baptiste Bellon
Deputy Chairman of Accounting and Financial Analysis Commission
jbellon@sfaf.com

SFAF – Société Française des Analystes Financiers
24, rue de Penthièvre
75008 PARIS
France
Tél : +33 (0) 1 56 43 43 10
www.sfaf.com

[8] As stated by the Chairman of the IASB in the July 15th press release: « *The era of convergence is coming to an end*".