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Mr Kil-woo Lee
Project Manager
International Accounting Standards Board
30 Cannon Street,
London EC4M 6XH, United Kingdom
commentLetters@iasb.org

Dear Sir,

RE: ED8 "OPERATING SEGMENTS"

UNICE welcomes the opportunity to comment on the IASB exposure draft: "ED8: Operating Segments".

We agree with the tentative decision made by the IASB to transpose SFAS 131 requirements into a new IFRS on segment reporting. In our view and as proposed in the ED, the management approach as detailed in SFAS 131 should be adopted without any supplementary requirement or restriction.

We would like to emphasize the two following elements of analysis:

- Improvements in segment information content, frequency and timeliness remain conditional to the entity providing, if applicable, non-IFRS compliant internal information without any reconciliation made at segment level. If the level of constraint were to be increased, the entire benefit would be lost;

- SFAS 131 has been in use for quite some time now and has proven entirely satisfactory.

A more detailed analysis is provided as an appendix and includes answers to the detailed questions raised in the invitation to comment.

Should you wish to comment on the above further, please do not hesitate to contact us (jpc@unice.be).

Yours sincerely,

(original signed by)
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Appendix

Question 1 – Adoption of the management approach in SFAS 131

The draft IFRS adopts the management approach to segment reporting set out in SFAS 131 Disclosures about Segments of an Enterprise and Related Information issued by the US Financial Accounting Standards Board.

Is this approach to segment reporting appropriate? If not, why not? What, if any, alternative approach would you propose?

Yes, we believe this approach is truly appropriate. Users are known to be interested in seeing business "through the eyes of management". Segment information prepared on the basis of internal reporting and reflecting the basis on which resource allocation is being made by group management is indeed more meaningful. This segmentation is consistent with information presented in management commentary and helps give the user great insight into the entity's operations.

Question 2 – Divergence from SFAS 131

Do you think that the draft IFRS should depart from the management approach in SFAS 131 by setting requirements for

(a) the measurement of specified items or

(b) the disclosure of specified amounts that might otherwise not be given?

If so, identify the requirements you would add and indicate what you see as the relative costs and benefits of any such requirements.

No, we do not think the IFRS should depart from the management approach in any way. We note that SFAS 131 has been in use for some time now and information provided on the basis of its requirements satisfies users. This assessment is well detailed and explained in BC6-8.

(a) *the measurement of specified items*: One of the benefits of the management approach is to reduce the cost of the information provided to users, while releasing more detailed and more reliable information to the public. Indeed information is all the more reliable than it is widely used for management purposes. Also we note that segment information to be released is segment information used for resource allocation at the group's level. Consistency of management decisions call for some homogeneity in the data used internally, so that departures from IFRS measurement requirements are likely to be limited to areas where IFRS requirements conflict with the business model and risk and management policies that an entity is expected to set (hedging, for example). IASB has therefore in its hands to ensure that amendments to existing standards or new standards or interpretations which are made of them do not conflict with management needs, so that segment information does not need to depart from IFRS.

(b) *The disclosure of specified amounts that might otherwise not be given*: We note that the list detailed in ED8.21-23 is a strong indication of what information is expected as a minimum. Although the information is required only if it is available for management purposes, we believe very unlikely that it would not be provided. The level of information mentioned in the ED is the minimum necessary to make valid resource allocation decisions. The absence of such information would probably not give the right signal to users. If however such a detail is not relevant in a specific set of circumstances, entities will easily and voluntarily explain why it is so.

Furthermore, we object to the alternative views presented by three Board members. The requirement that *existing* information, being *in use by management* for resource allocation purposes excludes, but for material errors, situations in which assets and liabilities disclosed at segment level would not match revenue and expenses reported under each segment.

Question 3 – Scope of the standard

The existing standard IAS 14 requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets to disclose segment information. The draft IFRS extends the scope to include also entities that hold assets in a fiduciary capacity for a broad group of outsiders.

Do you agree with the scope of the draft IFRS? If not, why not?

No, we do not agree with the proposed scope extension. BC 16 is the only paragraph in which the extension is supposedly being debated, without giving the least insight into why the Board would make such a decision at this stage. We agree with the Board that the issue of extending the list of entities required to provide segment information should remain pending until the exposure draft on IFRS for SME is being debated and the definition of public accountability finalised. For the time being, the scope of segment reporting requirements should remain limited to entities whose equity or debt securities are publicly traded or in the process of an IPO.

Question 4 – Level of reconciliations

The draft IFRS requires an entity to provide, for specified items, reconciliations of total reportable segment amounts to amounts recognised by the entity in

accordance with IFRSs. It does not require such reconciliations for individual reportable segments.

Do you agree with the level of reconciliations required in the draft IFRS? If not, indicate what you see as the relative costs and benefits of any other level of reconciliation.

We agree with the level of reconciliations required in the draft IFRS. As mentioned in our answer to Question 2 above, the IASB is about to adopt a standard which has been widely used for some time now and has been assessed as satisfactory. One of the main benefits of adopting a management approach is the reduction of cost while increasing the timeliness and reliability of the information provided to users. Asking for reconciliation at segment level is killing such a benefit, and not different in constraint from requesting segment information be in conformity with IFRS. For the reasons also detailed in answer to Question 2, we do not support such a requirement. As we have explained, we do not expect severe and numerous non-compliance issues. Every significant source of reconciliation is to be explained as a narrative (ED8.27). Such narratives are bound to bring strong information content.

Question 5 – Geographical information about assets

The draft IFRS requires an entity to disclose geographical information about non-current assets excluding specified items. It does not require disclosure of geographical information about total assets.

Do you agree with the requirement to disclose geographical information about non-current assets excluding specified items? If not, for which assets would you require geographical information to be given?

We agree with the requirement to disclose geographical information about non-current assets, without extending the requirement to total assets. Current assets, such as accounts receivable, for example, may be very difficult to locate indeed.

We believe however that the reference to "the country of domicile" should be either deleted or replaced by a more relevant label. We understand that SFAS 131 has been designed for entities based in the US. Their "country of domicile" is in itself a significant geographical area. This is not verified every else in the world.

Question 6 – Consequential amendments to IAS 34 Interim Financial Reporting

The draft IFRS requires an entity to disclose more segment information in interim financial reports than is currently required, including a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's profit or loss.

Do you agree with the consequential amendments made to IAS 34? If not, why not?

We agree with the consequential amendments made to IAS 34, provided the requirements are unchanged. We believe these amendments embody one of the main benefits for users of the adoption of a management approach to segment reporting. However any increase in IFRS compliance or reconciliation requirements would prohibit, because of costs and time constraints, such a benefit to be obtained.

Other comments

1- Quantitative thresholds
We support EFRAG's comments referring to the quantitative thresholds specified in the draft IFRS. Although we believe these quantitative thresholds are helpful, we support their application on a rebuttable presumption basis, rather than as "bright lines". This leaves room for judgement and therefore ensures that the standard is applied in conformity with the general presentation principles set in IAS 1

2- Exemption for the parent company
We believe the parent company exemption present in IAS 14.6 should be retained in the final standard.