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Le Président

AB/PS

N°

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CL 66

Kil-Woo Lee
Project Manager

International Accounting Standards Board
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ED8 OPERATING SEGMENTS

Dear Mr Lee,

I am writing on behalf of the Conseil National De la Comptabilité (CNC) to express our views on the above-mentioned exposure draft. Our detailed comments are set out in Appendix 1.

We support the main features of ED8 and in particular its proposal, as part of the process of convergence with US GAAP, to present internal management reporting information by operating segment for the purposes of both annual and interim accounts .We believe that the segmental reporting actually used by management in the decision-making process provides the most reliable and relevant information for investors. Because the information comes from existing internal reporting procedures it should be available on a timely basis and produced without extra cost.

We are however concerned, where management reporting is not IFRS compliant, that the presentation of information from two different sources(internal and IFRS) with reconciliation in total might be confusing for the user. Nevertheless, it seems likely that management will be under pressure from investors and the financial markets to reduce any differences between internal and IFRS reporting, considering that total differences have to be disclosed and explained in a reconciliation.

In addition, we do not think that the exposure draft explains and justifies the proposed scope extension of reporting by segment to some unquoted publicly accountable entities (in particular those that hold assets in a fiduciary capacity for a broad group of outsiders).

As the Board considered extending the scope of the proposed IFRS to all entities that have public accountability and as the definition of public accountability entities is being considered in the current project on SMEs, we think it would be more appropriate that this issue should be dealt with in the SMEs project.

Consequently we propose that the scope of the proposed standard should not be amended.

I hope you have found our comments useful and would be pleased to provide any further information or explanations you may require.

Yours sincerely

Antoine BRACCHI

APPENDIX 1

ED8 OPERATING SEGMENTS

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?

CNC's reply

We agree with the proposal to adopt the management definition of operating segments for financial reporting under IFRS because:

- Users will benefit from the management's view of the business
- It will encourage management to provide more segmental information
- It will improve the coherency between the financial statements and the management commentary
- Adopting the same information structure for internal and external purposes should simplify and accelerate financial reporting, in particular for interim reports.
- It is a step towards convergence with US GAAP

However we have reservations where management reporting is not IFRS compliant because the differences between internal and external reporting may cause difficulties in understanding the results.

In practice, we believe that management is likely to be under pressure from investors, analysts and other users to present IFRS compliant reporting by segment or at least reduce differences between internal and IFRS reporting.

We are therefore in favour of the adoption of the management approach with respect to both the definition of reporting segments and the measurement bases used.

We do, however, consider that there may be a confidentiality issue where management segmental information is to be published. This problem might to some extent be overcome by using the aggregation criteria set out in §11, which allow segments having common economic characteristics to be cumulated.

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.

CNC's reply

We support the "management approach" to segmental information with respect to

(a) measurement

(b) disclosures

We therefore disagree with requiring remeasurement of specific items or additional disclosures .

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?

CNC's reply

We do not think that the exposure draft explains and justifies the proposed scope extension of reporting by segment to some unquoted publicly accountable entities (in particular those that hold assets in a fiduciary capacity for a broad group of outsiders).

We think it would also be useful if the standard could explain exactly what is meant by "fiduciary".

As the Board considered extending the scope of the proposed IFRS to all entities that have public accountability and as the definition of public accountability entities is being considered in the current project on SMEs, we think it would be more appropriate that this issue should be dealt with in the SMEs project.

Consequently we propose that the scope of the proposed standard should not be amended.

We are concerned that unquoted banks might be required to provide information which could be confidential and in conflict with the bankers secrecy obligations.

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.

CNC's reply

We agree with the items specified for reconciliation in §27(revenue, profit before tax, assets, other material items).

We note that the reconciliations are required between the total of segments per management reporting and external IFRS reporting.

We understand that there will be a difference between reported operating segments and reported IFRS made up of:

- Items which do not constitute an operating segment (e.g.admin.costs)
- Operating segments not considered material enough to be reported (where applicable)
- Differences between internal reporting standards and IFRS(where applicable)

We are however concerned about the understandability of the financial statements where the above –mentioned differences are significant.

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?

CNC's reply

We agree with the proposals in the Exposure Draft.

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?

CNC's reply

One of the advantages of using management reporting data is that it would facilitate and accelerate the production of segmented information for interim reporting. It is therefore a logical consequence that this creates a requirement for reconciliation to IFRS reporting.

We therefore agree with the proposed consequential amendments to IAS 34.