Société
Française
des Analystes
Financiers
Membre de l EFFAS

LE PRESIDENT

28th June 2007

Mr Piotr Madziar
European Commission
DG Internal Market and Services
Head of Accounting Unit F3
2, rue de Spa
B-1049 Bruxelles
Belgique

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is pleased to submit its contribution as part of the public consultation undertaken by the European Commission on the potential impact of endorsement IFRS8 *Operating Segments* for submission to the European Parliament in September 2007.

SFAF represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS). 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 Operating Segments.

We thank you for the opportunity given to us to provide our view on such important aspects and remain available for any further information.

Sincerely,

Jacques de Greling
Co-Chairman of Accounting
and Financial Analysis Commission

Bertrand Allard
Co-Chairman of Accounting
and Financial Analysis Commission

Patrick Leguil
Chairman Société Française des Analystes Financiers

Questionnaire

Please submit your response, which should be as precise and short as possible, to the European Commission, DG Internal Market and Services, Mr. Piotr Madziar, Head of Accounting Unit F3, B-1049 Brussels and/or to the following e-mail addresses:

Piotr.Madziar@ec.europa.eu and **Reinhard.Biebel@ec.europa.eu**

by no later than **29 June 2007.**

Please provide the following details together with your response:

- The name of your organisation
- Short description of the general activity of your organisation
- Country where your organisation is located
- Contact details incl. e-mail address

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers) represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS). Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards.

SFAF's address is 24 rue de Penthièvre, 75008 Paris, France.

The two co-Chairmen of the Accounting and Financial Analysis Commission can be reached at bertrand.allard@credit-agricole-sa.fr and jgreling@ixis-sec.com .

In case we would need further details on the submitted information we would take the liberty to contact the relevant respondent.

Question 1:

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

On May 18th, 2006, the attached letter was sent by the SFAF's chairman and by the two co-chairmen of its Accounting and Financial Analysis Commission

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?

We consider that the management approach is much less relevant, reliable, comparable, understandable and useful than information prepared under IAS 14 for the following reasons :

We understand that the management is accountable for the financial statements of the related company and will therefore present the financial information associated to segment reporting in a way that will provide the necessary confidence to analysts and investors.

The management approach is indeed less reliable as it allows a lower level of stability in the definition of reporting segment definition over time. We believe, that this approach may lead to more often changes in the segment definition, which is rather disturbing for financial analysts and investors. We have observed in the past numerous changes in the definition of reporting segments for some listed entities and are therefore highly concerned by their stability, even if we understand that over the years, a company may have to adjust its segments. We would expect that segments defined on similar risks and rewards would be less subjective, and would change less often.

This approach leads also to less reliable information than the one prepared under IAS 14. The management approach reflects indeed the way in which management assesses performance. Consequently, the information disclosed would be subjective, less reliable and may change over time depending on the internal management organisation policies.

In addition, reporting for each segment a measure of profit which is not GAAP-defined may be rather misleading for users, and will make comparison from segment X of a company A to the same segment X of company B difficult at best, and even misleading and dangerous in some cases. We also note that this absence of comparability is contrary to the initial goal of IFRS and may conduct investors to wrong assets allocation.

We also consider that the disclosures proposed in the Standard may not be easily understandable and usable by the external users of the financial statements since a non-IFRS GAAP measures has been adopted. It could also be misleading if segment information use local GAAP measures which would differ from one segment to another. Additionally, the use of non-IFRS GAAP measures will reduce significantly the interest of segment information while making comparisons between companies. These points are critical for users.

Therefore, we strongly believe that information provided under the management approach is less relevant, reliable, comparable, understandable and useful than information prepared under IAS 14 and does not meet with the IASB conceptual framework principles which are relevance, comparability, reliability and intelligibility. The adoption of IFRS8 standard, as it is, would cause tremendous risks to the financial analysts and investors community.

b) Do you think that information prepared under the management approach improves the true and fair representation of business activities?

We understand that the management approach is intended to represent the way the management drives its business and reports its performance. In this way, it may be of interest to the user of financial statements when trying to understand the behaviour of the company. It seems however that this approach is less rigorous than the approach used in the IAS14 standard, as it offers more flexibility to change the definition of reporting segments or performance measures according to the management wishes.

One could easily remember the times where the Value creation or the EBITDA were the almost only performances indicators to be presented by the management of some companies. Such indicators were also internally used for the management reward. Did such indicators, if used by the management, fairly represent the situation of the company and its reporting segments ?

More than one could question it. Interestingly, such indicators have disappeared over time, but they could be used again. GAAP measures and "risk and reward" criterias, as required by IAS 14 standard for the definition and implementation of the reporting segments, are much more stable and therefore offer a better representation of business activities.

Moreover, we consider that, as companies have just implemented IFRS and analysts are getting used to this new environment, it may be contradictory to explain them that non-IFRS GAAP measures may be more relevant than IFRS ones.

Having outlined this, we understand that internally used performance indicators may be of interest, and could thus be provided as additional information, but it should not replace GAAP measures.

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?

For the here above reason, we consider that segment information based on IAS 14 offer greater accuracy and results in greater forecast precision than segment information. In addition, as the disclosures proposed in the IAS 14 provide comparable information between companies, they allow a better assessment of an entity's segments expected performance, as financial analysts and investors will be in a position to assess the company performance by comparison to its peers and to the market in which the company is conducting its business.

Question 3:

a) Do you assess that cost for preparation of information is lower under IFRS 8 than under IAS 14?

As the quoted companies already had to make the internal work to be compliant with IAS14, the gap between IAS 14 and IFRS8 preparation cost should not be high in disfavour of IAS14, if there is a gap. In addition, we consider that using GAAP measures for reporting segments performance should not be a major concern when the company has to present its consolidated results according to IFRS standards.

Moreover, IAS 14 assumes that in most of the companies, the main source for risk and reward determines the organizational structure of the company. Therefore, the organizational structure of an entity and its financial internal reporting system are the primary sources for determining the entities risks and rewards to be used for segment information. In most of the cases, the segment information will be based on the same basis as the information provided to its management (except when the entity's internal organizational and management structure and its system of financial reporting are based neither on individual products and services or on groups of related products / services nor on geography), thus reducing the potential the gap between IAS 14 and IFRS8.

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)?

We consider that IFRS8 isn't an improvement versus IAS14. Maintaining IAS14, as this standard has been used by quoted companies for over 2 years, should not be a cost / benefit issue.

From our point of view, the benefit associated to the implementation of IFRS 8 are much lower than with IAS14 so that, from the financial analysts community, there isn't any cost benefit issue when maintaining IAS 14.

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 really feel that, as explained above, the fact that the segment reporting prepared through the eyes of the "chief operating decision maker", offers lower stability and reliability, and finally increases flexibility in the way to present the segment performance. From a corporate governance point of view, it is a concern as it opens to the management of the company the possibility to present itself under a favourable, if not, the most favourable view.

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.

As IFRS in the EU are compulsory for listed companies, these companies, even the smaller ones, should accept that transparency is a prerequisite for investors.

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?

We consider that a well documented segment information on a geographical basis is missing in IFRS 8. In many occasions this information is of high importance, as it it was demonstrated in some regional crisis. In these occasions, the geographical information turned out to be the most important one. Nevertheless, we believe sufficient reason for non-endorsement already lies in the above comments on the weaknesses of IFRS 8 vs IAS 14.

b) Do you believe that other mandatory requirements for segment information are missing in IFRS 8 (compared to IAS 14)? If yes, which ones?

In addition to the above points, we consider that IFRS8 does not require a clear definition of segment profit and loss consistent with the attribution of assets to reportable segment. Moreover, according to IFRS8 "an entity might allocate depreciation expense to a segment without allocating the relating depreciation assets to that segment", which is strange to financial analysts, even if the entity shall, at a minimum, disclose the effect of such an allocation.

Question 7:

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

SFAF attached comment letter to the IASB was the result of a thorough discussion among members of its Accounting and Financial Analysis Commission: the position exposed in the letter is thus really representative of the analysts' views on his subject.
This position have been made available to a wider audience through the publication of articles on this matter in our professional review Analyse Financière (specifically in the special issue about IFRS).

Question 8:

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

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Thank you very much for providing your contributions!

*****end of document*****

Questionnaire
Follow up on Question 2 for users

This follow-up questionnaire supplements the general questionnaire already published on the EC website (http://ec.europa.eu/internal_market/accounting/news/index_en.htm). The follow-up questions seek to get more specified input regarding the benefits and usefulness of information prepared under IFRS 8 compared to IAS 14 in particular from users' perspective.

Please submit your response to the following e-mail addresses:

Reinhard.Biebel@ec.europa.eu and Philippe.Bui@ec.europa.eu

by no later than **29 June 2007.**

Please provide the following information:
Name of the organisation: **SFAF / Accounting and Financial Commission**
Contact details**: co-Chairman Bertrand Allard** (bertrand.allard@credit-agricole-sa.fr) **and Jacques de Greling** (jgreling@ixis-sec.com)
Description of main activities: **French professional association for financial analysts and fund managers.**

Question 1:
Do you agree that the determination of segments under the management approach as required by IFRS 8 provides a better basis than IAS 14 for the understanding of a company's activities and performance?

Agree □ Neutral □ **Disagree ☑**

Comments:

Firstly, the risk and rewards approach is assumed to be independent from the management, which would make it more stable over time. More importantly, we believe that this approach would result in segments being more comparable between companies.

Question 2:
Do you agree that the management approach for segment reporting will increase consistency with management commentary and other management information, which will help to better understand the outcome of the management strategy and help to better assess their stewardship?

Agree □ **Neutral ☑** Disagree □

Comments:

Consistency and relevancy is more related to good faith / willingness of the reporting companies than to any methodology.

Question 3:

Do you expect information based on the management approach to be richer (more segments) and more timely than under IAS 14?

Yes □ No □ **Neutral ☑**

Comments:

As in the previous question, we believe that in most cases the determination of the total number of segment partly reflect the willingness of each company to present themselves in a transparent manner.

Question 4:

Do you fear that definition of segments by preparers would be less stable over time?

Yes ☑ No □

Comments:

We believe it is far harder to argue that risk and reward have changed (it is out of control of the management and require deeper auditors' involvement) than to announce a new company organisation, and then change the reporting segments.
Changes in reporting segments is the major frustration for investors in terms of segment information.

Question 5a:

Do you think that use of non-IFRS measurement approaches in segment will provide more relevant information on segment performance than IFRS measurement?

Yes □ **No ☑**

Comments:

For analysts, the segment information is key to compare the performance of each segment with market or industry statistics and with other companies involved in similar businesses. To make this possible, we absolutely need to have IFRS measures and not management ones that would inevitably differ from one company to another.
Segment performance is today one of the most valued information because it allows analysts to assess the performance with our knowledge of the sector or industry, and to make much more reliable assumptions about the future.
We are quite reluctant to use non-GAAP measures as it has been demonstrated that this measures is changed almost each time the company reorganises itself, thus preventing even comparability in the European Union.

Lastly, we believe that the management may provide non-IFRS measures of performance: in some cases, they might be more interesting (or fashionable?) but <u>only as additional information, after having published IFRS based indicators, with reconciliation with the last one's (see next question)</u>.

Question 5b:

What level of details do you expect in reconciliation between non-IFRS measurements and IFRS measurements? What kind of information could prevent possible abuse/hidden losses?

Comments:

One basic way to limit abuse/ hidden losses (or gains) would be to publish also cash flow from operations (before financial costs ant taxes) for each segment because it excludes, capital gains, fair value adjustments, depreciation policy, provisions, impairments…
If a non-IFRS indicator is published it should be reconciled both at each segment level and at group level to an IFRS indicator. Any change in non-IFRS indicator would have to be justified, and reconciliation between the former and the new non-IFRS should be provided.

Question 6a:

Are you of the opinion that using segment disclosures under the management approach as required by IFRS 8 enables greater **greater forecast precision** than using segment disclosures required by IAS 14?

Yes □ **No** ☑

Comments:

First, segment reporting under the "similar risk and rewards" should lead to closer segments from one company to others involved in some of the same businesses.
Second, having performance measured at each segment level with an IFRS indicator, would avoid any misunderstanding when making comparisons between companies.
If non-IFRS indicators are published as additional information, with a precise definition and reconciliation, it would also help while making comparisons between companies.
Finally, within this framework, we are certain that it would lead to a much better understanding of the various segments situation and performance than under IFRS 8, and thus to a greater forecast precision.

Question 6b:
How do the following changes affect the forecast precision:

	positive	***unaffected***	***negative***
a. Change in requirements to define a reportable segment (management approach under IFRS 8 vs. risk-and-rewards approach under IAS 14)	☐	☐	☑
b. Change in the requirement to disclose a profit/loss-measure according to internal accounting policies under IFRS 8 instead operating profit/loss according to IFRS under IAS 14 (please take into account that reconciliations to the financial statements have to be disclosed under IFRS 8)	☐	☐	☑
c. Change in number of profit-elements to be disclosed (several elements under IFRS 8 instead of revenue and profit under IAS 14 only)	☑	☐	☐
d. Reduction in secondary format disclosures (e.g. geographical information has to be disclosed on a domestic country – foreign country basis only under IFRS 8)	☐	☐	☑
e. Other (please note:_**no reconciliation at segment level**)	☐	☐	☑

Question 6c:
Which of the changes in question 6b is most relevant for your answer to question 6a?

(Please mark one or two):
a. ☑
c. ☑
d. ☐
e. ☐

Question 7:
Any other comments

Convergence with US GAAP is a laudable goal, that most users would agree on, even though we believe it is more a preparer priority. But it is <u>acceptable only if it is done by improving</u> the current standard in use in the EU, and certainly not by lowering the reporting standard in use in the EU.

Thank you for your input.

LE PRESIDENT

18th May 2006

Mr Kil-woo Le
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

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 ED8 - Exposure Draft on Operating Segments (Draft).

SFAF represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS). 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 Operating Segments.

General comments:

First of all, we would like to stress that segment reporting is a key element in the work performed by financial analysts and that the related standards are therefore of high importance to them.

The draft IFRS adopts the management approach to segment reporting set out in SFAS 131 "Disclosures about Segments of an Enterprise and Related Information". We consider however that the so called management approach may not provide users with relevant and comparable information for the following reasons:

- We understand that the management is accountable for the financial statements of the related company and will therefore present the financial information associated to segment reporting in a way that will provide the necessary confidence to analysts and investors. However, having dealt in the past with numerous changes in the definition of reporting segments for some quoted companies, we stress the necessary stability of reporting segment definition over time as far as it is possible. We would expect that segments defined on similar risks and rewards would be less subjective, and would change less often.

- The management approach reflects the way in which management assesses performance. Consequently, the information disclosed would be subjective, less reliable and may change with time depending on the internal management organisation policies.

- We also consider that the disclosures proposed in the Draft may not be easily understandable and usable by the external users of the financial statements if a non-IFRS GAAP measures would be adopted. Additionally, the use of non-IFRS GAAP measures will reduce significantly the interest of segment information while making comparisons between companies. These points are critical for users.

- Moreover, we consider that, as companies are still implementing IFRS and analysts are getting used to this new environment, it may be contradictory to explain to them that non-IFRS GAAP measures may be more relevant than IFRS ones.

Thus, we consider that the management approach does not meet with the IASB conceptual framework principles which are relevance, comparability, reliability and intelligibility.

We support the effort undertaken by the IASB in order to perform disclosures about segments. However, we believe that the disclosures proposed in the IAS 14 are more relevant for the financial analysts as they provide information comparable between companies. It allows a better assessment of an entity's segments performance.

Concerning assets allocated to reporting segments, we unfortunately note that a large number of quoted companies don't provide sufficient information (e.g. economic assets), such information being of very high importance to financial analysts. Mixing goodwill, brands, and plant property and equipment can be misleading. We consider that this information is necessary either for Annual Financial Statements or Interim Financial Statements (IAS 34).

Regarding geographical information, we consider that the disclosure about the total cost incurred during the period to acquire assets that are expected to be used during more than one period (property, plan, equipment and intangible assets) are of high importance, as it provides information about the countries / areas where the entity is focusing its development.

We also consider that the Draft does not require a clear definition of segment profit and loss in order to be consistent with the attribution of assets to reportable segment. Moreover, "an entity might allocate depreciation expense to a segment without allocating the relating depreciation assets to that segment", which is strange to financial analysts, even if the entity shall, at a minimum, disclose the effect of such an allocation.

We support the idea that an entity should disclose more segment information in interim financial reports than is currently required as long as it provides users with comparable and relevant information.

<u>Conclusion:</u>

The Exposure Draft on Operating Segments reflects the effort undertaken to achieve convergence of accounting standards between IFRS and US GAAP.

SFAF believes that disclosures about segments is one of the main projects in term of interest for financial analysts. We consider therefore that the proposed changes from IAS 14 should focus on the user's perspective and not only on convergence.

We thank you for the opportunity given to us to provide our view on such important aspects and remain available for any further information.

Yours faithfully,

Franck Ceddaha
Chairman of the Accounting
and Financial Analysis Commission

Alain Cazalé
Chairman of SFAF