



la SOCIÉTÉ FRANÇAISE  
des ANALYSTES FINANCIERS



June 14th, 2013

**Press release from the Financial Analysis and Accounting Commission**  
***Applying IFRS 8:***  
***Insufficient sector information for end users***

SFAF gives utmost importance to the quality of financial information published by listed companies. For this reason, the society, represented by its Financial Analysis and Accounting Commission, took part in the debates that preceded the introduction of the IFRS 8 standard on segment reporting (which became compulsory in 2009).

Along the same lines and investigating the effects of this standard, the Commission, chaired by Bertrand Allard, Jacques de Greling and Jean-Baptiste Bellon, undertook a study on this standard on CAC 40 and NEXT 20 companies for the 2010 fiscal year.

In 2013, a new study, realized by two members, Philippe Tournon and Stéphane Bellanger, for the Commission, reviewed the application of this standard by a European sample (50 companies chosen from the 100 leading European companies, excepting financial institutions). For each of these companies, 2011 financial statements and associated press releases were methodically analyzed to identify the practices in terms of sector information.

#### **Conclusion**

**This second study, once again, confirms the limits in terms of relevance and comparability of the segment reporting as published under IFRS 8. This further underpins SFAF's reservation when the standard was being discussed. In the name of users of financial information, SFAF is therefore reiterating its request for an improvement in segment reporting.**

These studies are available in full on the SFAF website

[Etude juin 2013](#) - [Etude novembre 2011](#)

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#### **The study reveals the following points:**

**The IFRS 8 standard, based on the management approach, allows a great deal of flexibility in presenting financial information for segments.**

This translates into the presence of management indicators defined by companies (non GAAP) in almost 2/3 of cases.

More generally, the flexibility given to companies lets them present specific (non GAAP) measures, different from those resulting from IFRS accounting.

**This flexibility translates into a profusion of non-GAAP indicators.**

Analyzing the documents of the 50 companies in the sample reveals about 15 indicators differing from those recommended by IAS 1.

**This diversity does not come with sufficient information** to allow someone reading the accounts to effectively compare the ("in house") measures with the "IFRS" measures.

Reconciliation between the non-GAAP measures with the IFRS measure at the segment level is impossible for almost 30% of the companies in the panel (14 out of 50).

**Some companies fully make use of the freedom permitted by IFRS 8.**

This behavior is verified whether in the number of adjustments, the exclusion of business disposals or in the publishing of so called “economic” or “underlying” profit.

The **weight of “Unallocated”**, significant for some issuers, **lowers the quality of financial information**.

For some companies in the sample, the share of “Unallocated” amounts to more than 20% (in absolute value) of the measure used to assess segment performance. This is mainly due to a significant part of the costs not being allocated. This has a major impact on the performance measure which can negatively affect the relevance of segments results under IFRS 8.

**However, the information given in segment reporting is generally consistent within the different documents used to publish sector information** (notes, auditors' report and management's discussion and analysis, presentations).

We can observe that the measures used in the comments of the report are always consistent with the information provided in the appendices.

Finally, we note that very few companies provide information on capital employed. Furthermore, the inconsistency between reported capital employed and performance measures usually doesn't allow investors to calculate the return on capital employed.

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#### ***About the SFAF financial analysis and accounting commission***

This commission comprises about 40 members and meets every month, discussing current accounting matters, and is chaired by:

- **Jacques de Greling**, co-Chairman of the SFAF financial analysis and accounting commission, he is also: member of the consultation committee of the French Accounting Standards Board (Autorité des Normes Comptables); member of the IASB - International Accounting Standards Board Capital Markets Advisory Committee ; member of the EFRAG - European Financial Reporting Advisory Group - User Panel; vice-president of the EFFAS - *European Federation of Financial Analysts Societies*- Financial Accounting Commission.
- **Bertrand Allard**, co-Chairman of the SFAF financial analysis and accounting commission. He is also a member of the consultation committee of the French Accounting Standards Board (Autorité des Normes Comptables), member of the ESMA – European Securities and Markets Authority - Corporate Reporting Standing Committee Consultative Working Group.
- **Jean-Baptiste Bellon**, vice-Chairman of the SFAF financial analysis and accounting commission, he is also a member of the French Accounting Standards Board (Autorité des Normes Comptables) Commission on International Standards and of the EFRAG User Panel.

#### ***About SFAF***

For over fifty years, the French Society of Financial Analysts (member of the European Federation of Financial Analysts Societies – EFFAS) has worked to improve financial analysis techniques and develop quality financial and economic information.

##### **Its missions:**

- **Represent the profession**  
SFAF, chaired by Marie-Pierre Peillon, has over 1.600 members, specialising in equity investment. It maintains a strong presence with Market Authorities in debates regarding the improvement of the quality of financial information and the development of the role of financial analysts. It also represents the profession in national, European and international bodies.
- **Maintaining the French Market calendar**
- **Professional training**
- **Accompanying its members**