CMFB
COMMITTEE ON MONETARY, FINANCIAL AND BALANCE
OF PAYMENTS STATISTICS

OPINION OF THE COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENTS STATISTICS ON IASB EXPOSURE DRAFT 8 ON OPERATING SEGMENTS

1. As on previous occasions, the CMFB stresses that its recommendations are primarily aimed at limiting the overall reporting burden on business caused by the reporting requirements for investors, the supervisory data requirements and the statistical requirements of economic and monetary policies.

RESPONSES TO ED 8 QUESTIONS

2. 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?

Reply: The CMFB agrees with the management approach and considers that, with two amendments, this approach may also be useful for statistical purposes and may reduce companies' reporting burden. These amendments are the following.

First, the management approach would need to be complemented by a fixed classification of items and a fixed reporting format, in order to permit meaningful comparisons across companies, and data aggregations. In this way, the information requirements of ED 8 would cover also macro uses, including to help companies to position themselves in the market. This is in line with the principles stated in the IASB Framework, whereby comparability is one of the four principal qualitative characteristics of financial statements. Indeed, according to para. 39 of the Framework "*users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position*".[1] In practice, for EU official statistics geographical segments are only relevant if companies conduct business abroad. While a breakdown into the "domestic", "other euro area" and "rest of the world" meets most statistical needs, a further breakdown by

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[1] The four principal qualitative characteristics of the IASB Framework are understandability, relevance, reliability and comparability.

main countries would be preferable. In line with the practical limit mentioned in paragraph 18 of the ED 8, the number of statistical segments should not exceed ten.

Second, it should be borne in mind that companies are required to meet two types of reporting requirements, i.e. financial statements for investors, creditors and regulators, and statistical information for regulators and policy makers. Since the statistical requirements follow well-defined reporting schemes and classifications, which are harmonised world-wide, reconciliation between financial statements and these statistical schemes and classifications, would minimise the reporting burden of companies. In sum, the core principle of ED 8 should clarify that users of financial statements are not limited to a company's internal management or to investors, but also includes further external uses, e.g. macro statistical uses.

The CMFB expects that by combining the management approach with the statistical formats and classifications applied in Europe (as contained in the ESA 95 and NACE, respectively)[2], the overall reporting burden would be reduced

3. Question 2 – Divergence from SFAS 131. The wording of the draft IFRS is the same as that of SFAS 131 except for changes necessary to make the terminology consistent with that in other IFRSs. 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.

Reply: As mentioned above, the draft IFRS should be slightly amended in order to ensure that the management approach produces benefits in streamlining companies reporting burden. In particular, it would be useful to complement the requirements of the current ED 8 with the geographical, sector and activity items specified by ESA 95 and NACE. In particular, the balance sheet (b/s) and profits and losses (p/l) items should offer a geographical breakdown of counterparties into, at least, 1) domestic, 2) other euro area countries, and 3) rest of the world; b/s and p/l counterparties should be broken down by institutional sector into 1) non-financial corporations, 2) financial corporations, 3) general government, 4) households and 5) non-profit institutions serving households; finally, the reporting by main economic activity should be in line with the segments specified in the following table.

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[2]   ESA 95 (European System of Accounts 1995) and NACE (Nomenclature générale des Activités économiques dans les Communautés Européennes) are in line with the corresponding international statistical standards, SNA 93 and ISIC. ESA 95 has been adopted in the form of a Council Regulation dated 25 June 1996 (OJ L 310, 30.11.1996). NACE has been adopted as Council Regulation dated 9 October 1990 (OJ L 293, 24.10.1990), as amended by Commission Regulation (EEC) No 761/93 of 24 March 1993 (OJ L 83, 3.4.1993).

	NACE segments	Description
1	A	Agriculture, forestry and fishing
2	B, C, D and E	Manufacturing, mining and quarrying and other industry
2a	C	Of which: manufacturing
3	F	Construction
4	G, H and I	Wholesale and retail trades, transport, accommodation and food service activities
5	J	Information and communication
6	K	Financial and insurance activities
7	L	Real estate activities*
8	M and N	Business services
9	O, P and Q	Public administration, defence, health and social work activities
10	R, S, T and U	Other services

of which imputed rents of owner-occupied dwellings

4. 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?

Reply: In the EU, IAS/IFRS are compulsory only for consolidated accounts of listed companies. The CMFB reiterates that it would welcome if a single set of accounting standards is applied by all companies, including for their individual accounts. The extension of the scope of ED 8 to include also entities that hold assets in a fiduciary capacity for a broad group of outsiders is welcome because this means inter alia that servicers of securitised loans (and other assets) on behalf of securitisation vehicles will be subject to the same accounting rules., The CMFB welcomes the harmonisation of accounting information stemming from servicers since the financial sector increasingly relies on servicers in its daily business and the harmonisation of accounting information stemming from servicers may contribute to the reduction of the reporting burden, for example with respect to any harmonised statistics on securitisation that might be collected from servicers of securitised loans (and other assets).

5. 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.

Reply: Reconciliations are welcome as they ensure internal consistency of the disclosed information. However, the ED 8 also requires the disclosure of differences between the measurements used in reporting segment information and those used in the entity's financial statements. This disclosure requirement could be avoided if the choice of segments was fixed ex ante by the IASB. In fact, the CMFB advises that the statistical classification standards are used as a common reference for segments.

6. 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?

Reply: The CMFB agrees with the requirement to disclose geographical information about non-current and current assets; however it reiterates its preference to identify geographical segments ex ante in accordance with the global statistical standards

7. 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?

Reply: Yes, consequential amendments to IAS 34 are necessary, as this is important also for infra-annual reporting. In general, the CMFB would welcome a wider harmonisation of IAS/IFRS with ESA 95 as this was proposed in previous CMFB comment letters sent to the IASB. Many of the considerations made in this comment letter also apply to the proposed amendments to IAS 1 Presentation of financial statements.