International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

Paris, 16 November 2012

RE: Request for Information – Post-implementation Review: IFRS 8 Operating Segments

Dear Madam/Sir

Mazars is pleased to comment on the above mentioned Request for Information (RFI) published by the IASB to assess the implementation of IFRS 8 on operating segments.

First of all, we reiterate our support to that new mandatory step of the IASB’s due process requirements. We welcome the Board’s initiative to conduct its first post-implementation review (PIR) on a standard whose endorsement was widely discussed in Europe. This PIR is a unique opportunity to take stock of how preparers have applied the requirements included in IFRS 8 and how users assess the quality of the segment reporting information provided in accordance with this standard.

Overall, we are of the opinion that there is no need today to fundamentally revise IFRS 8 since the core principles of the standard are well-understood and well-applied. Besides, IFRS 8 results in useful and relevant information.

However, as mentioned in our detailed answers below, we consider that IFRS 8 could be improved as regards two main aspects:

- the aggregation criteria which are in our opinion too strict. In practice those criteria can never be met if they are literally applied. We believe IFRS 8 requirements should be relaxed so as to give pre-eminence to factors that really matter when an entity considers aggregating operating segments that is mainly risks and profitability;
- the clarity and quality of the information disclosed when explaining the differences between the reportable segment amounts and the entity’s primary financial statements.
Our answers to the specific questions raised in this RFI are presented in the appendix attached below.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarifications or additional information.

Yours sincerely

Michel Barbet-Massin

*Head of Financial Reporting Technical Support*
Appendix 1: detailed answers to the questions raised in the RFI on the IFRS 8 PIR

Question 1

Are you comparing IFRS 8 with IAS 14 or with a different, earlier segment-reporting Standard that is specific to your jurisdiction?

In providing this information, please tell us:

(a) what your current job title is;

(b) what your principal jurisdiction is; and

(c) whether your jurisdiction or company is a recent adopter of IFRSs.

If you work in a non-IFRS environment your input is still useful to us – but we would like to know about your current reporting of operating segments so that we can assess your information in that context.

Mazars is an international, integrated and independent organisation, specialising in audit, accountancy, tax, legal and advisory services. Our firm primarily audits financial information prepared in accordance with IFRSs.

Mazars can rely on the skills of 13,000 professionals in the 69 countries which make up its integrated partnership worldwide.

Since our clients’ head offices are mostly located in the European Union, we are comparing IFRS 8 with IAS 14 which had been applied from January 1, 2005. As such, we recall the lengthy debates that took place especially in Europe at the time the new standard on segment reporting was endorsed.

The following questions raised by the IASB are primarily aimed at receiving both investors and preparers’ feedback, with specific questions for each type of stakeholder. As auditors, we will answer those questions from our perspective, which is necessarily different from the one of an investor or a preparer.

Question 2

What is your experience of the effect of the IASB’s decision to identify and report segments using the management perspective?

Investors: please focus on whether our initial assessment – that the management perspective would allow you to better understand the business – was correct. What effect has IFRS 8 had on your ability to understand the business and to predict results?
Preparers: please include information about whether your reporting of operating segments changed when you applied IFRS 8. If it did, what effect did that change have on the efficiency of your reporting processes and your ability to communicate with investors?

As auditors, we did not notice that the reporting of operating segments significantly changed for many preparers because of the first application of IFRS 8. In our opinion, the main reason why segment reporting has not been deeply modified is because preparers had already adapted their internal reporting to match with IAS 14 requirements in terms of segment presentation. In doing so, preparers cared about not disconnecting the internal assessment of the performance of each segment with the external financial communication of such performance. Notwithstanding the limited impact at its first application date, we consider that IFRS 8 has had a positive impact as it changed the criteria for defining operating segments and permitted financial information to become in line with the entities’ internal organisation rather than forcing the entities to organise in a way that is compatible with the accounting standards.

Among the few changes we noticed when IFRS 8 was first applied, we identified the following situations:

- the reporting of operating segments under IFRS 8 may have taken the form of a mixed presentation of business and geographical segments whereas under IAS 14, an entity had to identify its primary and secondary segment reporting formats which could be respectively its business and geographical segments or vice-versa;
- segment reporting under IFRS 8 may have led to identify geographical segments as reportable segments because this is how the chief operating decision maker principally views the activities in which its group is engaged (historical approach in terms of development, mature hierarchical organization, etc.) whereas under IAS 14, business segments had been identified as the primary segment reporting format considering the dominant source and nature of the entity’s risks and returns.

Besides, we notice that current requirements under IFRS 8 lead preparers to continuously adapt segment reporting to the way the chief operating decision maker assesses segment performance and allocates resources to each segment. At a time when reorganizations may be frequent, this sometimes creates a relative instability as regards segment reporting, even though restatement of previously reported information should help users of the financial statements to link with segment information as previously presented.

**Question 3**

**How has the use of non-IFRS measurements affected the reporting of operating segments?**

Investors: please comment on the effect that the use of non-IFRS measurements has had on your ability to understand the operating risks involved in managing a specific business and the operating performance of that business. It would be particularly helpful if you can provide examples from published financial statements to illustrate your observations and enable us to understand the effects that you describe.
Preparers: it would be helpful if you could provide information about whether you changed your measurement basis for operating segment information on the application of IFRS 8 and, if so, what effect this has had on your ability to communicate information about operating risks and performance with investors and other users of your financial statements.

Considering our experience, few preparers use “non-GAAP measures” to report the amounts related to each reportable segment. This means that in practice the measures reported to the chief operating decision maker for the purposes of making decisions about allocating resources to segments and assessing their performance are not adjusted and result from financial reporting under IFRSs. Nevertheless we noticed some differences, especially when accounting standards are not felt able to adequately translate the entities’ business model (e.g.: some situations of hedge accounting, some business combinations ...) or give results too volatile or too complex to authorise using them when assessing segments’ managers (e.g.: share based payments ...) – see question 4 for further details.

Having said that, we anticipate a growing disconnection between the way operating segment amounts are measured/reported and the regular basis of accounting under IFRSs for the same segment transactions. In particular, the forthcoming implementation of IFRS 11 on joint arrangements – which is much criticized especially in Europe and particularly for groups doing business in the BRICS countries – may lead some chief operating decision makers to make decisions about allocating resources to segments and assessing their performance based on amounts that result from maintaining the use of proportionate consolidation for joint ventures (although IFRS 11 prohibits the use of such method for joint ventures, imposing the use of the equity method). This is because some chief operating decision makers may consider that proportionate consolidation better reflects the way business is conducted when many joint ventures have been created to run/develop such business. However, we consider that it is generally in the preparers’ best interest to limit the gap between financial statements prepared according to IFRSs and internally-reported amounts. This is because managers should always have in mind IFRSs impacts while running their segments to ensure both a prudent and sound approach of business.

Question 4

How has the requirement to use internally-reported line items affected financial reporting?

Investors: please focus on how the reported line items that you use have changed. Please also comment on which line items are/would be most useful to you, and why, and whether you are receiving these.

Preparers: please provide information about any changes in reported line items that resulted from the application of IFRS 8.
As auditors we have noticed that many preparers use IFRSs measures for the purpose of segment reporting that have been adjusted/restated compared with the reported line items on the face of the statement of comprehensive income. We can also point out that an increasing number of preparers present directly on the face of the statement of comprehensive income adjusted line items not defined in IAS 1 (such as EBIT, EBITDA, operational income before specific non-recurring items, etc.).

Internally-reported line items that affect segment reporting are usually adjusted compared with IFRSs financial statements to isolate the effects of:

- business combinations;
- restructuring;
- share-based payments.

It is not always easy to link the measures reported for segment information with the measures reported on the face of the statement of comprehensive income. The reconciliation column is not sufficient in most cases to understand the differences between the two sources of information since IFRS 8 requires reconciliation only of total amounts disclosed for reportable segments to corresponding amounts in the entity’s financial statements. In our opinion, more details should be given to make those reconciliations explicit and fully understandable.

Besides we are of the opinion that the use of highly heterogeneous measures of operating segments performance prevents users from comparing entities' performance even in the case where those entities belong to the same industry or type of activity. Nonetheless, it seems reasonable to think that in the latter case the main measures of operating segments performance specific to that industry or type of activity are used by most companies.

**Question 5**

**How have the disclosures required by IFRS 8 affected you in your role?**

**Investors:** please provide examples from published operating segment information to illustrate your assessment of the disclosures relating to operating segments. Do you now receive better information that helps you to understand the company’s business? Please also comment on the specific disclosure requirements of IFRS 8 – for example, those relating to the identification and aggregation of operating segments; the types of goods and services attributed to reportable segments; and the reconciliations that are required. It would also be useful to indicate whether you regularly request other types of segment disclosures.

**Preparers:** please consider whether operating segment disclosures are more or less burdensome when based on information prepared in accordance with your own internal reporting requirements. If any requirements are burdensome, please provide details of those disclosures and explain why they are costly or time-consuming to prepare. Do you think that the information you present now about operating segments conveys better information to investors and shareholders? It would be useful to indicate whether you regularly report any segment information in addition to that required by IFRS 8.
According to us, the disclosures required by IFRS 8 are not always well presented when it comes to explaining the differences between the amounts disclosed for reportable segments and the total amounts presented in the entity’s financial statements. More specifically, we consider that preparers should pay attention to more clearly explain the differences that result from:

- the ‘all other segments’ category which discloses information about other business activities and operating segments that are not reportable and that are thus combined according to IFRS 8;
- reconciling items arising from different accounting policies between reportable segment amounts and the entity’s primary financial statements;
- the allocation of centrally incurred costs;
- intra segment reconciliations.

In practice, we have noticed that such information is not always separately identified and described which does not make it easy to understand segment reporting as a whole. This lack of transparency is also prejudicial to comparability. We also consider the entities should disclose the allocation of reconciling items arising from different accounting policies by reportable segment, in order to permit a better comparability of segmental results by users.

Besides, information about major customers, which is critical considering the current economic conditions, is not always disclosed.

Moreover, we consider irrelevant the information about geographical areas that shall be reported as to revenues from external customers that is (i) attributed to the entity’s country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues.

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Question 6

How were you affected by the implementation of IFRS 8?

Preparers: in answering this question please focus on whether you incurred significant unexpected costs, either as a one-time expense when implementing the Standard or as a recurring cost at each reporting cycle. If you did incur unexpected costs, please explain what these were and in what way they were required to comply with IFRS 8.

In addition, we would like to know what practical difficulties you encountered, if any, when applying IFRS 8. Did you find that IFRS 8 is clear about all aspects of the requirements, such as the identification of operating segments, aggregation of segments and the nature of the CODM? If IFRS 8 is not clear, please provide details of your experience.

Investors: please focus on whether the way in which you use financial reports has changed as a result of applying IFRS 8. Please explain to us what that effect was and the consequences of any changes to how you analyse data or predict results.
Our experience as auditors is that preparers did not encounter many practical difficulties when IFRS 8 was applied for the first time. Consequently, we have not noticed that huge costs were incurred by preparers on transitioning to IFRS 8.

The main issues we had to discuss with our clients and which we may face again in case an entity decides to change the structure of its internal organisation in a manner that causes the composition of its operating segments to change are those related to the application of the aggregation criteria set forth in paragraph 12. Thus, we reiterate the criticisms already expressed in our comment letter on the exposure draft issued in May 2012 (Annual Improvements to IFRSs 2010-2012):

"(...) we would like to bring to the Board’s attention the operational issues resulting from the very strict aggregation criteria set forth in IFRS 8 § 12. According to this paragraph, aggregation can be achieved only if: “the segments have similar economic characteristics, and the segments are similar in each of the following respects: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.”

We doubt that this paragraph is actually operational: a strict application of these criteria could make situations where aggregation is possible very rare, and therefore require an entity to disclose an excessive number of operating segments in order to reach the quantitative thresholds established in IFRS 8 § 13. The number of operating segments to be disclosed may be such that segment information becomes too detailed and unpractical to display.”

Another practical issue resulting from the application of IFRS 8 is the identification of the chief operating decision maker. In complex organizations, such identification is not always easy thus resulting in diversity in practice.

Finally, we consider that the link between IFRS 8 and IAS 36 according to which, for the purpose of impairment testing, goodwill acquired in a business combination shall be allocated to each of the acquirer’s cash-generating units, or groups of cash-generating units that shall not be larger than an operating segment as defined by paragraph 5 of IFRS 8 before aggregation, may create structuring opportunity from the chief operating decision maker’s point of view. Actually, when the economic context is gloomy, the chief operating decision maker may be tempted to change the structure of its entity’s internal organization in a manner that causes the composition of the reportable segments to change so as to hide goodwill impairments that would otherwise have to be accounted for.