Hilary Eastman, CFA
IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

4th November 2012

Dear Hilary,

The Financial Reporting and Analysis Committee (FRAC) of The Chartered Financial Analyst Society of the UK (CFA UK) welcomes the opportunity to respond to the post-implementation review on segment reporting.

CFA UK represents more than 10,000 investment professionals working across the financial sector. For advocacy purposes in the field of financial reporting, these members are represented by the Financial Reporting and Analysis Committee.

**Post-Implementation Review: IFRS 8 Operating Segments**
Financial Reporting and Analysis Committee (FRAC),
CFA Society of the UK
Response to IASB request for information

The FRAC welcomes the chance to respond to this first post-implementation review. The comments below on IFRS 8 are informed both by a survey of CFA UK members who have expressed a special interest in financial reporting (45 respondents) and by meetings of the committee. We particularly welcome the open-ended nature of the consultation, which has enabled us to suggest improvements as well as commenting on whether the standard has worked as intended.

**Question 1**
**Are you comparing IFRS 8 with IAS 14 or with a different, earlier segment-reporting Standard that is specific to your jurisdiction?**

Response: Mainly with IAS 14, some residual memory of previous UK GAAP.

**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?*

Response: The CFA UK survey showed that just over half of respondents believed that IFRS 8 had enabled them to understand companies better. However, only a third agreed that the disaggregation of segments was sufficient (the most popular response here was "neutral"). Among those that commented, the majority had reservations about relying on management perspective, citing "too much discretion" and "arbitrary…decisions". Leaving the decisions on segment identification and line items to management does not necessarily give analysts the information they need. So some more prescription seems desirable.

The FRAC committee reinforced the view that some companies lumped business lines together inappropriately e.g. restaurants with hotels, different types of pharmaceutical product, or all in one category when peers break activities down.

A key criticism is that managements too often reshuffle segments, making comparisons over time difficult. This is in addition to the inherent difficulty of comparing companies in the same sector whose managements break down business activities in different ways. In the survey only a minority agreed that IFRS 8 had improved comparability between companies.

**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.*

Response: In the CFA UK survey, a majority (59%) agreed that non-IFRS profit definitions were useful, whereas 34% said the use of non-IFRS information had made the figures more difficult to understand. It was pointed out that this information comes in addition to IFRS numbers and is based on them. Furthermore, the majority agreed that reconciliations were useful.

Examples of useful non-IFRS information included: EBITDA; underlying or "headline" earnings that exclude genuine one-off items; profits excluding changes in the fair value of "own debt".

Other observations: by not defining, for example, operating profit, IFRS leaves preparers to fill the gap with underlying numbers that are sometimes helpful but sometimes massage earnings. It can, however, be difficult to allocate costs to different segments e.g. R&D in pharma, or, for balance sheet numbers, debt raised centrally. It depends on the degree of segmentation.

**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.*

Response: Yes. The FRAC believes that preparers sometimes hide behind concerns about commercial sensitivity to limit disclosures, although more information might well be available in analyst presentations and many companies are responsive to requests from users of accounts.

On changes: a few survey respondents missed geographic breakdowns. See above for concerns about inappropriate lumping together of business lines.

Most useful line items: between the survey and the FRAC, the most common requests for additional information were for: operating cash flow; capital spending, including commitments, capex vs depreciation; assets and liabilities – including pension deficits. This assumes that sales and EBITDA or EBIT are routinely given. Several of the requests are aimed at making it easier to do the following: sum-of-the-parts valuations and calculations of returns on invested capital/capital employed; and to judge capital allocation decisions.

There was some comment that different sectors require different disclosures e.g. capital spending/depreciation is particularly important for capital intensive industries; R&D is very important in pharma.

**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.*

See above. The inconsistencies between companies in the same sector in both identifying segments and deciding what line items to provide suggest either that the standard is not clear enough or that it is not being audited strictly enough. For sector analysts using spreadsheets with standard line items, this makes comparisons between companies more difficult. Management's decision to redefine business segments is particularly difficult under this standard. This may well genuinely reflect a change of strategy, or management. But it does not help analysts to compare performance over time. Sometimes management has an incentive to obscure this. So insisting on at least three years of historic segmental information would help users to track performance over time.

**Question 6**
**How were you affected by the implementation of IFRS 8?**
*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.*

Response: See above. The impact is not fundamental because users of accounts were both asking for better disaggregation and making adjustments to their numbers in order to aid comparisons, make forecasts and value businesses. We obviously try to make the best use of whatever information we get and not just from formal financial reports.

We look forward to discussing the issues raised in this response.

Yours sincerely,

Jane Fuller
Chair, Financial Reporting and Analysis Committee
CFA Society of the UK

Will Goodhart,
Chief Executive
CFA Society of the UK

About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 10,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

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