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Mr. Piotr Madziar  
Head of Accounting Unit F3  
DG Internal Market and Services  
European Commission  
B-1049 Brussels

### **Endorsement of IFRS 8, Operating Segments – Analysis of potential impacts (API)**

Dear Mr. Piotr Madziar,

We are pleased to provide input to the questionnaire that will assist you in your analysis of the potential impacts of adopting IFRS 8, Operating Segments, and so, to be given an opportunity to comment on the endorsement of this standard in Europe. Please note that, while Deloitte Touche Tohmatsu usually only expresses positions or comments on IFRS following a global consultation process, the views expressed in this letter and the following questionnaire have been developed through a consultation process involving largely our IFRS specialist centres in a number of the Deloitte European members firms as this seemed more appropriate to your particular request for comments.

We responded to the IASB when ED 8, Operating Segments, was published for comments. At the time (May 2006), our letter including some negative comments on the need to supersede IAS 14, Segment Reporting, so shortly after so many EU listed companies had finished the exercise of transitioning to IFRS, noting that some costs had been incurred in order to apply IAS 14. We did not find the IASB's document particularly convincing on the urgency for a change in the approach for segment reporting, nor on the superiority of IFRS 8 over IAS 14. However, if the IASB were to pursue its route, we did acknowledge that adopting a management approach had merits, particularly if it was accompanied by an appropriate level of reconciliation with the IFRS financial information presented. This is what the IASB chose to do, after following its due process for revisions of Standards.

Since then, further information has emerged which is relevant. During the process of adopting IFRS in Europe, we have noted several examples of differences between the data included into segment reports in the financial statements and the data that is used by management in other reports used to communicate financial information, whether internally and externally. We find this discrepancy concerning, and potentially confusing for the users of the financial statements. We also note that, generally where market participants find the information which is externally to be inadequate, the markets have their own ways of penalising the entity concerned. This leads us to conclude that a segment reporting approach that is based on information provided to, and by, management is more likely to help reduce the difference between the data used for financial statements purposes and the data used in other reports for internal and external communication purposes. We also expect that it will

result in an increase in the reliability of the data presented. For these reasons, even if IFRS 8 was not our preferred approach for segment reporting, we consider that it provides valuable information to the users of financial statements. Accordingly, purely on this basis, we believe it worth of endorsement in Europe.

More generally, Deloitte Touche Tohmatsu and its member firms are supporters of a global harmonisation and development of a global language of accounting standards. For several years now, we have been expressing a belief that IFRSs are in the best way to achieve this. Accordingly, we would like to draw the attention of the European Commission to a number of adverse consequences should it fail to endorse IFRS 8:

- IFRS 8 is a disclosure standard that has no implication on the way income, expenses, assets liabilities or equity are recognised, measured or presented in the financial statements. While IFRS 8 is not a perfect standard, we see merits in its adoption for the financial information it conveys. We would suggest that a decision not to endorse IFRS 8 for use in Europe would be disproportionate to what is at stake with its adoption;
- Non-endorsement of IFRS 8 would call into question the various steps of the endorsement process put in place by Europe. IFRS 8 has already received positive endorsement advice from EFRAG (following EFRAG's normal due process, including the steps where EFRAG asks public comments on its proposed views before it issues final comment letters to the IASB and final endorsement advices), as well as from the ARC. Also, the IASB's own due process provides many opportunities for comments so that those comments can be dealt with prior to the new Standard or revision being issued, rather than when it is almost too late. Our experience in standard-setting is that it is almost impossible to have every constituent agree with a new or revised standard. There are always some who disagree with the outcome of a project. What is important is to have strong due processes during projects, so that all comments received are considered appropriately. In that respect, both the IASB and the European Commission have made progress recently in their respective due processes;
- Actions that lengthen the endorsement process of new or revised IFRS for use in the EU can only be damaging to European entities and put them at disadvantage compared to other entities world-wide. We are concerned that the timing of the European endorsement process can be jeopardised by some objector groups which may not be truly representative of a majority view.

For all the reasons explained above, we consider that it is important that Europe endorses IFRS 8 as soon as possible.

We thank you again for the opportunity to provide our views on the endorsement of IFRS 8. If you have any questions concerning our comments, please contact Ken Wild in London on +44 (0) 207 007 0907.

Yours sincerely



**Ken Wild**  
**Global IFRS Leader**