Questionnaire

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

- The name of your organisation
  Deloitte Touche Tohmatsu (Deloitte)

- Short description of the general activity of your organisation
  Global accounting firm providing advisory and audit services.

- Country where your organisation is located
  We are located in most countries throughout the world. This response has been prepared through a consultation process involving largely our IFRS specialists centres in a number of the Deloitte European member firms.

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Question 1:
Please indicate whether you submitted comments to IASB and/or EFRAG during their consultations.

Deloitte submitted a letter to IASB dated 12 May 2006. This letter expressed a preference for retaining IAS 14 for the present time pending joint research by IASB and FASB into the most appropriate model for a converged standard. However, if IAS 14 was amended, we supported use of the management approach to identify segments.

Although IASB did not follow our preferred route, we accept that due process was followed in developing IFRS 8 and, taken together with the EFRAG technical advice, we consider IFRS 8 should be endorsed for use in the EU without further delay.

Question 2:
a) Do you think information prepared under the management approach on which IFRS 8 is based is more relevant, reliable, comparable, understandable and useful than information prepared under IAS 14?

As the Commission identifies, IFRS 8 is a disclosure standard and has no implication on the way income, expenses, assets, liabilities or equity are recognised, measured or presented in financial statements. Segment disclosure provides further detailed analysis of reported information and thus assists users to understand the stewardship of management by making comparisons from period to period and with other organisations operating in the same business, and make predictions of future performance and cash flows. In comparing IFRS 8 and IAS 14, we acknowledge that the provision of information on an IFRS measurement basis (as required by IAS 14) rather than a management basis (as required by IFRS 8) assists with comparison between entities and segments of an entity. However, we do not believe that there is an advantage of using one standard over the other one when comparing the same entity over time or in making predictions about future performance. We consider that the provision of internal management information to users can provide a valuable insight into the way management operates. Finally, the level of reconciliation of aggregate segment numbers to IFRS numbers required by IFRS 8 has useful information content. We had indicated to the IASB that the reconciliation was a necessary element if they were to move to a management approach for segment reporting. In effect, the existence of a reconciliation mitigates the consequences of not having immediately comparable data within an entity or between entities.

Also, based on our experience of application of IFRS and financial reporting communication since the publication of the 2005 year-ends financial statements (note: this experience was mainly accumulated after we responded to the IASB on ED 8), we have noted in some cases and in some European countries a disconnection between the data used by management for financial reporting communication compared to the data included for segment reporting in the financial statements. We understand this situation arises particularly when the segment information required by IAS 14 does not correspond to the segment information that management uses internally and for external communication on financial information. We expect that establishing segment information based on a management approach such as the one required under IFRS 8 will help reducing the difference between the data produced in the financial statements for segment information reporting purposes and the data used by management in other reports for financial communication purposes. Such a move can only provide greater relevance and reliability of the data produced in the financial statements.

To conclude, overall, our answers to the Commission's questions are thus:

- IFRS 8 would provide relevant information by revealing the basis on which management view the entity's businesses and monitor performance;
- there is no reason why information would be any more or less reliable;
- there would be no change in a user's ability to compare performance of the entity over time, but there would be a loss of comparability between entities and within an entity where different internal policies are used to prepare segment information;
- the degree to which information is understandable will depend on the specific circumstances of each entity, with an expectation that entities providing unhelpful disclosure will be penalised by users, and entities providing helpful disclosures will be rewarded;
- segment information produced on a management approach will help reduce the difference between the data produced in the financial statements for segment information reporting purposes and the data used by management in other reports for financial communication purposes.

b) Do you think that information prepared under the management approach improves the true and fair representation of business activities?

Provision of a true and fair view requires an assessment of the overall financial statements. We do not consider that changing from IAS 14 to IFRS 8 will impinge on the provision of a true and fair view.

c) Are you of the opinion that segment information based on the management approach provides greater accuracy for measuring individual segments and ultimately results in greater forecast precision than segment information based on IAS 14?

Please refer to our comment at item a) above and the improved relevance and reliability of data, when data used by management for internal purposes and external communication is the same as the data that is used in the financial statements.

We do not see that either the accuracy of measurement, or the ability of users to forecast, is affected by a change in the way segments are reported since there will be consistency of the basis of reporting over time.

Question 3:

a) Do you assess that cost for preparation of information is lower under IFRS 8 than under IAS 14?

Since IFRS 8 will avoid the preparation of segment information on an IFRS basis where this is not used by management, one would expect that it would be less burdensome and result in lower cost.

We also note that those entities that are still transitioning to IFRS would probably incur lower transitioning costs by applying IFRS 8 directly rather than applying IAS 14 in the first place, as the IFRS 8 data is normally already available.

b) Do you think that the cost/benefit balance of replacing IAS 14 by IFRS 8 is positive (e.g. lower cost outweighing the potentially lower quality of information provided or potentially higher quality of information provided outweighing higher cost)?

We refer to our comments above regarding the cost of preparation. Whether information provided on an IFRS 8 basis is more or less beneficial will vary from case to case. We see this as self regulating in that entities that provide less useful information will be penalised by users through negative reports and recommendations.

Question 4:

Do you consider that the principles on which IFRS 8 is based, in particular the fact that information for segment reports should be prepared through the eyes of the "chief operating decision maker", would pose problems on established EU practices, e.g. in the area of corporate governance?

We believe that corporate governance issues should not be dealt with by accounting requirements. Corporate governance and accounting requirements are two different subject areas that should be addressed separately. Production of an accounting standard may result in financial statements producing information that will ultimately result in improved corporate governance behaviour. However, improved corporate governance behaviour is not the primary objective sought for the production of financial statements or of an accounting standard.

We are somewhat confused over comments made by certain analysts to the effect that the Board of Directors and the "entity's chief operating decision maker" as referred to in IFRS 8 may be working to different agendas, and that this chief operating decision maker may seek to obscure information from the Board if IFRS 8 is followed. In our views, the term "chief operating decision maker" in IFRS 8 identifies a function, not necessarily a manager with a specific title. So, it may be a group of executive directors or others. In addition, in Europe, the Board of Directors takes responsibility for the issuance of financial statements, including the basis on which segmental information is prepared. Since the Board has control of operating and financing decisions, it is within the power of the Board to dictate the information they receive and to request available management information should they wish so. We do not therefore see any distinction between an approach "through the eyes of the Board" or "through the eyes of management", and do not see a corporate governance issue arising.

Question 5:

Do you agree with the argument that IFRS 8 requires smaller listed companies to report a segment by segment analysis of their business including commercial sensitive information with the effect that competitiveness of smaller listed companies in the EU will be harmed? Please provide reasons for your view and indicate how far that constitutes a change compared to the requirements of IAS 14.

We appreciate that the provision of segment information by smaller listed companies under IFRS 8 may reveal commercially sensitive information that was not available under IAS 14, in some cases. However, we do not believe that this is a valid reason for rejecting endorsement of IFRS 8 as the information will have significant value to the users of the financial statements and improve the efficiency of the markets.

Question 6:

a) Do you believe that the lack of mandatory requirements for full segment information on a geographical basis in IFRS 8 gives sufficient reason for a non-endorsement decision?

We note that IFRS 8 requires geographical information which is more precise than under IAS 14 (particularly when the secondary level of segment reporting in IAS 14 is geography), which may be to the benefits of users. In those instances where entities fail to give a satisfying level of geographical information (which may exceed the requirements of IFRS 8), we would expect user groups to penalise preparers.

b) Do you believe that other mandatory requirements for segment information are missing in IFRS 8 (compared to IAS 14)? If yes, which ones?

No. The requirements of IFRS 8 are sufficiently broad.

If some information is missing, we expect that users will indicate it and penalise entities for not providing such data. We support reassessment of the efficiency of IFRS 8 after some time. If it appears that some requirements for additional information are missing, then the European commission could ask the IASB to add a project so as to revise IFRS 8 accordingly.

Question 7:
Can you provide any information that has been generated by field studies, research work, internal analysis carried out in your organisation, jurisdiction?

No.

Question 8:
If you have any further comments on this consultation please provide them to us.