

9 March 2007

Pierre Delsaux
Director
DG MARKT/G/2
European Commission
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Dear Mr Delsaux

IFRS 8 Operating segments

The IMA is the trade body representing the UK asset management industry. IMA Members include independent fund managers, the asset management arms of retail banks, life insurers and investment banks, and occupational pension scheme managers. They are responsible for the management of approximately £3 trillion of funds (based in the UK, Europe and elsewhere), including institutional funds (for example, pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, our Members manage 99% of UK-authorized investment funds.

IMA has an interest in accounting standards and the information companies report from the perspective of our members as major investors in companies whose securities are traded on regulated markets. As users of financial statements and in the interests of ensuring the consistency and transparency of accounts internationally and reducing the differences between International Financial Reporting Standards (IFRS) and US GAAP, IMA members strongly support the convergence of accounting standards internationally. We also consider that the International Accounting Standards Board (IASB) is best placed to achieve this in that it is an independent, competent, privately-funded entity with a range of countries represented on its Board.

In this respect, we understand that the Commission plans shortly to consider endorsing IFRS 8, Operating Segments, for adoption throughout the EU. IMA does not consider that the convergence of requirements for segmental disclosures should be a high priority for the Commission. Our reasons are set out below.

- IFRS 8 is based on the US's SFAS 131 and endorsing it in effect means that the US standard is being adopted unilaterally when the underlying legal framework in the US is completely different from that in many EU Member States.
- Last year the IASB issued a discussion paper on a converged IFRS and US GAAP Conceptual Framework for financial reporting. This received much

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criticism and as the underlying converged framework is currently uncertain, it would be premature to adopt unilaterally a US standard.

- One of the principle aims of converging IFRS with US GAAP is to eliminate the need for US GAAP/IFRS reconciliation. However, IFRS 8 only relates to disclosures which are not components of the reconciliation.

Furthermore, segmental reporting should aim to provide users with information on the performance of the components of the business, their cash flows and return on capital. However, the requirements of IFRS 8 will not necessarily result in meaningful disclosures.

- Under IFRS 8 the segments reported are based on “internal reports that are regularly reviewed by the entity’s chief operating decision maker in order to allocate resources to the segment and assess its performance”.

There is no guidance as to who the chief operating decision maker is - is it the board, executive management or a member of senior management? All too often companies seek to comply with the letter of a standard rather than comply with its overall objective. Thus the amount of detail reported will differ according to the seniority of the chief operating decision maker and may not necessarily result in the disclosure of useful information.

- Under IFRS 8, the accounting policies management use for segment information may differ from those used in the entity’s financial statements in that internal management reports tend to be prepared in accordance with national GAAP. Even though an overall reconciliation is required, different reportable segments will not necessarily be comparable.
- As IFRS 8 does not require liabilities to be analysed by segment, users will not be able to determine returns on capital for each segment.
- IFRS 8 does not provide for an analysis of cash flows. Cash flows are important to an analysis of accounts.

In summary, there are aspects of IFRS 8 that could be improved. Furthermore, there are issues with the proposed IFRS/US GAAP converged conceptual framework that are undecided and the legal frameworks that underlie financial reporting in the US and in many EU Member States are fundamentally different. Thus, we believe it would be premature for the Commission to consider endorsing IFRS 8 and US requirements for segmental reporting, and that it should defer such a decision until these matters have been further progressed and a better consensus achieved.

Please contact me if you would like clarification of any of the points in this letter or if you would like to discuss any issues further.

Yours sincerely

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