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European Commission
DG Internal Market and Services
Mr. Piotr Madziar, Head of Accounting Unit F3

B-1049 Brussels

Berlin, 29 June 2007

Dear Mr. Madziar,

Endorsement of IFRS 8 Operating Segments – Analysis of potential Impacts (API)

We appreciate the opportunity to respond to the European Commission's Questionnaire on the Endorsement of IFRS 8 Operating Segments. This letter represents the view of the German Accounting Standards Board (GASB).

The GASB is an independent standardisation board approved by the German Federal Ministry of Justice. One of the objectives is to comment on accounting matters dealt with by national and international bodies.

As a result of our considerations we strongly support the adoption of IFRS 8 Operating Segments, as it significantly enables reducing costs for preparation, depending on the entity-specific circumstances. Concurrently, the decision usefulness of the required information for users will be improved balancing the benefits and the drawbacks associated with this approach.

For the detailed comments we refer to the appendix to this comment letter.

If you want to discuss any aspects of this letter in more detail, please do not hesitate to contact Liesel Knorr:

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Yours sincerely,

Harald Wiedmann

President

Appendix

Question 1

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

The GASB submitted a comment letter to the IASB dated 18 May 2006 and a comment letter to EFRAG dated 5 January 2007. In both we expressed our strong support to the IASB's adoption of ED 8 Operating Segments and to EFRAG's draft endorsement advice.

Furthermore, in our comments to EFRAG we signalled that a speedy endorsement is important for companies preparing interim financial reports under the EU Transparency Directive. Many companies that prepared US-GAAP financial statements up to the end of 2006 using the management approach of SFAS 131, would be compelled to switching to the risks and rewards-approach of IAS 14 to meet those requirements in their half year report for 2007. Therefore, if IFRS 8 was not endorsed in time those companies would risk to issue half-year financial statements not in accordance with EU requirements. In addition, companies that already trusted in the endorsement of IFRS 8 due to the positive advice from both EFRAG and the ARC and therefore dropped efforts for preparing interim segment data under the IAS 14 approach will suffer from an endorsement not in time. Besides, even the requirements for the annual goodwill impairment test associated with complex preparation measures could be influenced, depending on the entity-specific situation if goodwill was tested on a segment basis.

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?

Relevance:
We are of the opinion, that disclosures under IFRS 8 are more relevant than disclosures under IAS 14, as the allocation procedures mirror the views of the management. Management will take decisions based on these allocations rather than on allocations following rules of an accounting standard. Hence, users' ability to foresee management's decisions is improved. Artificial allocations which are not used for decision making are of less value for external users.

Reliability:
Information prepared under the management approach is generally as reliable as information under IAS 14. If, for example, an accounting policy for external reporting purposes required a fair value measure even in situations where no market prices were observable, whereas the internal policy required an accumulated historical cost approach, information under the management approach would be even better. But it

can be the other way around also. Observing the tendency in practice that internal reporting policies are rather simple than artificial, we thus come to the conclusion that information under the management approach is rather more than less reliable compared to information under the IAS 14-approach. Regarding the aspect of auditability it must be noted that this kind of information is easily auditable as it just has to be in line with what is internally reported.

Comparability:
Comparability from period to period is granted, as the management itself has no intention to change the segment structure or the measures from time to time without serious reasons.

In contrast, comparisons between entities could be hindered at first view. However, taking into account that allocations to be made under IAS 14 can be and actually are exercised in various ways, in essence comparability between entities is limited under the IAS 14 approach as well, even though all entities have to measure the items following the same IFRSs.

As we assess the first aspect stronger than the latter, we conclude that comparability is given under the IFRS 8-approach.

Understandability:
Without explanation of the figures and the measures presented under the management approach we would see the risk of restricted understandability of the information presented. As differences in accounting policies have to be explained according to par 27 of IFRS 8, we do not see any understandability restriction in the end.

Usefulness:
As a result of the above mentioned arguments, disclosures under IFRS 8 are more useful than disclosures under IAS 14, especially because of an enhanced relevance of the presented information.

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

Based on the assumption that management's internal reporting is prepared properly for management's decisions, it can be reasoned that the management approach improves the true and fair representation of business activities. It allows flexibility to present entity-specific, industry-specific or at least management-specific views which are more suitable for decision making than a one-fits-all approach under IAS 14. We additionally refer to our comments on relevance under question 2 a).

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?

Several academic research studies confirm that forecast precision is higher under a management approach than under an IAS 14 approach (see studies mentioned in answer to question 7). Based on the rationale given therein and on our own observations and experiences we agree with this assessment.

Question 3

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

Companies with no differences in external and internal segment reporting do neither benefit nor suffer from the IFRS 8 approach with regard to the costs for preparation.

By far not all companies have harmonized or intend to harmonize their reporting. The greater the differences in the segment structure or in measuring the items, the greater their benefits from a management approach. The costs to prepare artificial segment statements can be significant.

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)?

Referring to our comments on questions 2 and 3 we are of the opinion that the cost/benefit balance is positive. A higher quality of information (see question 2) is associated with even lower costs for preparation (see question 3a) for the majority of entities.

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 do not see any problems in the area of corporate governance.

IFRS 8 deals with reporting issues and refers to a function within the entity which is responsible for allocating resources and for assessing the performance of the operating segments (see IFRS 8 par. 7). This definition matches with the German Corporate Governance Regime, under which the board of directors is responsible for resource allocation decisions. We are also not aware of any problems with this definition in other European countries.

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.

A possible disadvantage compared to non listed companies in this regard exists under the management approach as well as under the IAS 14-approach. However, the disadvantage is associated with the general advantage of being listed, so this disadvantage can not be questioned.

Comparing smaller listed companies with larger listed companies the change from the approach under IAS 14 to the management approach will not harm the competitiveness of smaller listed companies.

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?

Based on the assumption that most of the segment reports under IAS 14 present geographic information only in the secondary format, the difference between the requirements in IFRS 8 compared to those of IAS 14 is limited.

IAS 14 requires three items (revenues, assets and cost incurred to acquire assets) to be split into geographical segments. Requirements under IFRS 8 are nearly the same, except that the cost incurred-figure is not to be presented. However, the importance of that can be questioned.

As a result we are of the opinion that this limited and very little disadvantage is by no means a reason enough for a non-endorsement decision.

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

We do not believe that other mandatory requirements, which are included in IAS 14 and which are of significant value for users, are missing in IFRS 8.

Question 7

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

There is a research study about Segmental Reporting on the German Neuer Markt, conducted by *Isabelle Moermann/Ignace de Beelde*, submitted for the 28th Congress of the Association Francophone de la Comptabilité, 23-25 May 2007.

Several doctoral dissertations in Germany deal with segment reporting, including comparisons between SFAS 131 and IAS 14.

Bernd Hacker: Segmentberichterstattung – Eine ökonomische Analyse, 2002;
Manuel Alvarez: Segmentberichterstattung und Segmentanalyse, Deutscher Universitäts-Verlag, 2004;
Philipp R. Ulbrich: Segmentberichterstattung nach IAS 14, Verlag Dr. Kovac, 2005.

Additionally, we refer to the following academic research studies which were conducted associated with switching from SFAS No. 14 to SFAS No. 131 in the US, dealing with the same changes:

- *Don Herrmann/Wayne B. Thomas*: A Model of Forecast Precision Using segment Disclosures: Implications for SFAS No. 131, Journal of International Accounting, Auditing & Taxation, 2000, 9(1), p. 1-18,
- *Philip B. Berger/Rebecca Hann*: The Impact of SFAS No. 131 on Information and Monitoring, Journal of Accounting Research, Vol. 41 No. 2 May 2003, p. 163-223,
- *Sasson Bar-Yosef/Itzhak Venezia*: Experimental Study of the Implications of SFAS 131: The Effects of the new Standard on the Informativeness of Segment Reporting, 2004, Diskussionsbeiträge des Fachbereichs Wirtschaftswissenschaft der Freien Universität Berlin, ISBN 3-935058-82-9.

Question 8

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

Balancing the aspects of advantages and disadvantages for preparers and for users we come again to the conclusion that we prefer IFRS 8 to IAS 14 and therefore strongly support an endorsement of IFRS 8.

In addition to our assessment based on the questions raised in this questionnaire we would like to stress that some comment letters on ED 8 Operating Segments raised concerns about not requiring segment liabilities, see the comment letter from Corporate Reporting User Forum (CRUF) to the IASB dated 19 May 2006. The IASB accepted that criticism and incorporated such a requirement into IFRS 8. Therewith, IFRS 8 goes even further than SFAS 131 does.

Other analyst's organisations like London Investment Banking Association (LIBA) and the Investment entity Fidelity International do prefer IFRS 8 to IAS 14 as well, see their comment letters to IASB dated 18 May 2006 and 12 May 2006, respectively. Preparers do support it with big majority anyway.