

Swedish Bankers' Association

Svenska Bankföreningen

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ED 8 Operating Segments

Summary

Swedish Bankers' Association has reviewed the Exposure Draft 8 Operating Segments and would like to comment on some significant aspects of the exposure draft.

Swedish Bankers' Association agrees with the following comments of EFRAG: The proposed "approach enables users to view the constituent parts of the entity "through the eyes of management". However, on balance we (EFRAG) do not support the use of data which would be neither IFRS compliant nor individually reconciled with IFRS consolidated accounts to report on those identified segments." If non IFRS compliant internal reporting is to be allowed Swedish Bankers' Association believes that it will lead to added dispersion in the financial statements. However, complemented with a reconciliation requirement on individual segments, we believe that such approach is value added to the users of financial statements. .

Swedish Bankers' Association also would like to stress that using internal should be optional not mandatory. This is also commented by EFRAG: "If the Board ultimately decides that the advantages of internal reporting data outweigh the disadvantages then we believe that consideration should be given to permitting rather than requiring their use, the permitted alternative being use of IFRS measures".

Question 1 – Adoption of the management approach in SFAS 131

The draft IFRS adopts the management approach to segment reporting set out in SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* issued by the US Financial Accounting Standards Board.

Is this approach to segment reporting appropriate? If not, why not? What, if any, alternative approach would you propose?

Swedish Bankers' Association agrees that the management approach is the most appropriate way to determine reportable segments. Such an approach enables users to view the performance of the entity from a management perspective which is presumably the perspective that management believes is the most useful to provide users with the most relevant insight in the entity's operations. It also enables the user of the financial statements to evaluate if the entity's segmentation is reasonable and relevant. Unnatural segmentation might be a signal that management lacks the ability to focus on the business properly.

Finally, management commentary on the performance of the segments should be improved if the entity is able to use all the internal information that has been produced to evaluate and forecast the performance of the segments in previous, present and future periods. Also segmentation that is in contrary to internal organisation structures has the disadvantage of not agreeing with allocated responsibilities.

For these reasons we believe that the users of the financial statements will benefit from this revised approach to segmentation, it should enhance users ability to understand and assess better the management actions and estimate better the future performance of the entity.

Question 2 – Divergence from SFAS 131

Do you think that the draft IFRS should depart from the management approach in SFAS 131 by setting requirements for

- (a) the measurement of specified items or**
- (b) the disclosure of specified amounts that might otherwise not be given?**

If so, identify the requirements you would add and indicate what you see as the relative costs and benefits of any such requirements.

Swedish Bankers' Association believes that it should be possible to diverge in the presentation of single items as well as diverging in the choice of measurement principles within the boundaries of the presentation and measurement principles available within IFRS.

The reasons for such statement are mainly the following:

- (a) The presentation of the segments performance might be improved if the entity, in the financial statements of the segments, has the possibility to group single items of revenue and expense that the entity believes is the most relevant for understanding the performance of the entity. E.g. in the trading area interest income and expense might

be irrelevant to present separated from gains and losses on the instruments. In a life insurance segment a grouping of items that display the actual risk result (differences in provisions and losses contra premiums), administrative result (premiums for compensation for administration contra costs for administration) and result of financial activities (the asset and liabilities management).

- (b) At entity level there might have been choices of measurement principles that are not the most relevant when evaluating the performance of a single segment. E.g. the Trading segment might be measuring loans and time deposits at cost because that is relevant when combined with opposite positions in the retail banking division that it has financed. However, as a segment, the Trading segment measures all financial assets and liabilities at fair value.

With such a principle in mind we believe that it is important that the following sub principles should restrict the freedom of presentation:

- (a) All items of income and expense should be allocated to segments.
- (b) All assets and liabilities should be allocated to segments
- (c) Valuation principles that are not within the boundaries of IFRS should be allowed to be presented, but needs to be reconciled with IFRS at the level of individual segments.

Swedish Bankers's believes that such principles might constitute a reasonable balance between management and IFRS view on presentation which would improve and ease the understanding the financial statements.

Question 3 – Scope of the standard

The existing standard IAS 14 requires entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets to disclose segment information. The draft IFRS extends the scope to include also entities that hold assets in a fiduciary capacity for a broad group of outsiders.

Do you agree with the scope of the draft IFRS? If not, why not?

Out of public interest we believe that an extension of the scope should be more general. We have difficulties to understand why just those entities that hold assets in a fiduciary capacity should be of public interest.

Question 4 – Level of reconciliations

The draft IFRS requires an entity to provide, for specified items, reconciliations of total reportable segment amounts to amounts recognised by the entity in accordance with IFRSs. It does not require such reconciliations for individual reportable segments.

Do you agree with the level of reconciliations required in the draft IFRS? If not, indicate what you see as the relative costs and benefits of any other level of reconciliation.

If the use of non IFRS compliant internal reporting were to be permitted reconciliation should be on individual segments. This would improve the quality and ease the understanding of the financial statements. For entities who already are IFRS compliant it is hard to see that it would be any significant costs added. The extra costs should be to have two sets of basic measurement systems (IFRS and own). The IFRS is already required at the consolidated level and the extra costs would occur for those who wish to use other accounting policies than the one's used in consolidation.

Question 5 – Geographical information about assets

The draft IFRS requires an entity to disclose geographical information about non-current assets excluding specified items. It does not require disclosure of geographical information about total assets.

Do you agree with the requirement to disclose geographical information about non-current assets excluding specified items? If not, for which assets would you require geographical information to be given?

We believe that it is of different importance to display total assets depending on industry as well as dependant on primary or secondary segments.

For Bank's and other financial institutions we believe that it is essential to display a total Balance sheet for each primary segment. However, if geography is not a primary segment, one might question the need for geographical information. For a financial institution, if geographical information is given with regards to revenue, we believe that value might be added if also information about the assets that have generated those revenues were displayed.

Finally we believe that the definition of geography in the ED should be general and not to narrow. For example larger Swedish banks refer to the Nordic region as their relevant home market, hence the geographical information should be based on the Nordic region rather than on individual countries.

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