

The European Commission
Internal Market and Services DG

European Financial Reporting Advisory Group

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**Submitted by email to: Piotr.Madziar@ec.europa.eu and
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Endorsement of IFRS 8 *Operating Segments* - Analysis of potential Impacts (API)

Grant Thornton International is pleased to respond to the European Commission's request for input regarding the endorsement of IFRS 8 Operating Segments ("IFRS 8"). We have completed the API Questionnaire and our response is attached to this letter. We also take the opportunity to comment more widely on the importance of the endorsement of IFRS 8.

As indicated in the Questionnaire, Grant Thornton International responded to the International Accounting Standards Board (IASB) consultation on IFRS 8. Our response was supportive of the management approach. Accordingly we consider that IFRS 8 should be endorsed based on its own merits.

We also acknowledge that not all commentators share our views. Some aspects of the Standard have raised strong feelings in certain communities, including a number of investor representatives whose views are important. This emphasises the need for the IASB to engage openly with key stakeholders and is not, of itself, a reason to reject IFRS 8. Indeed challenge, debate and compromise over changes in accounting requirements are an important part of due process. Ultimately, a standard-setter needs to weigh up arguments for and against various alternatives and come to a decision in order to move forward. It is most important that the standard-setter observes a thorough due process in making its decisions. However, achieving absolute consensus is highly unlikely. Accordingly, any endorsement decision is likely to be taken in the face of some degree of disagreement or even controversy. If disagreement results in non-endorsement, new Standards will never be endorsed. The EU's arrangements can therefore succeed only if there is a very strong presumption in favour of endorsement (if the IASB has followed due process and EFRAG had given positive endorsement advice). We fully respect the importance of a robust endorsement process prior to introducing new requirements into EU law. However, in this case we have not heard any arguments which (in our view) justify a rejection of IFRS 8.

Grant Thornton International is also a strong supporter of global harmonization in financial reporting standards. The European Union's decision to require the use of IFRS (as endorsed) in the consolidated financial statements of EU listed companies was a hugely significant and far-sighted step in pursuit of that goal. A failure to endorse IFRS 8 would be a very damaging set-back to this objective, with a far greater adverse impact than the partial endorsement of IAS 39. More specifically:

- Rejection would undermine the European Union's processes and arrangements for review and endorsement of IFRSs. EFRAG has the responsibility to provide advice to the Commission on all issues relating to the application of IFRS in the EU and has given positive endorsement advice in this case. The Accounting Regulatory Committee (ARC) has also voted unanimously in favour of endorsement. The credibility of the EU's institutional arrangements for endorsement would therefore be harmed if this advice can be so readily ignored or overridden.
- Non-endorsement would set harmful precedent signalling that any future Standards can easily be blocked by a relatively small (albeit important) group of objectors.
- The prospects for acceptance of IFRS (without reconciliation) in the United States, and for possible use of IFRS by US domestic companies, would greatly diminish. Non-endorsement would call into question the EU's commitment to international convergence and may lead to less rather than more EU influence in the standard-setting process.
- Companies wishing to claim compliance with both "IFRS as endorsed" and "IFRS" (of which there are many) would be put in the extremely unwelcome position of making two sets of segment disclosures (IAS 14 for endorsed standards and IFRS 8 for IFRS).

For all these reasons, we believe the endorsement of IFRS 8 is absolutely necessary. We therefore welcome the opportunity to share our views with the European Commission and very much hope for a positive outcome.

If you have any questions on our response, or wish us to amplify our comments, please contact (andrew.watchman@gtuk.com or telephone + 44 870 991 2721).

Yours sincerely,



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