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Dear Mr Delsaux

IFRS 8 Operating segments

The National Association of Pension Funds (NAPF) is the leading voice of workplace pension provision in the UK. Some 10 million working people are currently in NAPF Member schemes, while around 5 million pensioners are receiving valuable retirement income from such schemes. NAPF members hold assets of some £750bn, and account for one sixth of investment in the UK stock market.

We understand that the adoption of IFRS 8, replacing IAS 14, by the EU is imminent. There are several problems from a shareholder and analyst perspective which lead us to suggest that it should at least be deferred pending further discussions. Our concerns are as follows:

- 1) The current standard, IAS 14, requires performance and assets by geography and business characteristics. This is clear, comparable and objective. IAS 14 is particularly useful for drawing out any operating segments that are behaving differently to other parts of the business.
- 2) IFRS 8 creates a different way of determining reporting segments by taking what is described as a "through the eyes of management" approach. Disclosure of segments under IFRS 8 need flow only from how management has chosen to structure internal reporting. This means that IFRS 8 is really "management GAAP". We believe that an objective approach serves shareholders better, as it is independent of management and permits easier comparisons between companies.
- 3) This Standard seems to be inconsistent with the "true and fair view" concept which is about accountability to shareholders for performance (the board's stewardship and effective use and safeguarding of resources) via audited financial reporting. "True and Fair" is not about compliance with standards for some other purpose.
- 4) IFRS 8 as a legal instrument creates a conundrum. The UK Companies Act "true and fair view" audit is a check and an objective view, if necessary, over the heads of boards and management. IFRS 8 sets a standard of information for

disclosure which is defined by boards and management, via the internal processes set out in IFRS 8.

- 5) IFRS 8 has no clear guidance or safeguard to direct a different approach if the shareholder interest is not being met. IFRS 8's mode of reporting will be deficient if the performance of parts of a company are being obscured from shareholder view, because the standard is based on what management chose to show.

In addition to the specific weaknesses, the thinking behind IFRS 8 is a harmful precedent for any standard. IFRS 8 is based on the FASB standard SFAS 131, and assumes a US view of corporate governance: that directors' "oversee" management performance on behalf of shareholders and directors report according to that mode. What is lacking is a fully objective economic purpose in the Standard. Convergence should be about maintaining standards and preferably raising them. In this instance we see standards being potentially lowered, to the detriment of shareholders.

This Standard has got this far without support from a number of important users, including Ernst & Young and Deloitte & Touche. UK investor groups such as the CRUF (Corporate Reporting Users Forum) opposed IFRS 8's exposure draft. The Smaller Quoted Companies Alliance is also critical of IFRS 8.

The IASB has said that IFRS 8 will not need to be adopted until 2009. In view of the fact that the convergence path may well change, given the SEC's planned review, it would seem wise for the EU not to adopt IFRS 8 at this time.

In summary, we see a number of philosophical and practical objections to the immediate introduction of the Standard and recommend that the Commission give careful consideration to deferring its introduction.

Yours sincerely



David Gould
Secretary, NAPF Investment Council