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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 20 July 2006, London

Project: Segment Reporting

Subject: Minor issues on scope of the standard
(Agenda Paper 5, Appendix A)

Minor issues on scope of the standard

1. The purpose of Appendix A is to discuss the following issues on the scope raised by respondents to ED 8:
 - (a) wording of the reference to listed entities
 - (b) voluntary disclosure of segment information not in accordance with the IFRS
 - (c) applicability to not-for-profit entities
 - (d) meaning of entity
2. The staff does not intend to discuss these issues at the Board meeting unless a Board member wishes to.

Staff recommendation

3. The staff recommends that:
 - (a) the wording of the reference to listed entities should be amended as set out in paragraph 21.
 - (b) the wording of paragraph 3 of ED 8 should be amended as set out in paragraph 10.
 - (c) no reference to not-for-profit entities is needed in the IFRS.
 - (d) the wording of scope paragraph should be amended as set out in paragraph 21.

Staff analysis

Issue 1: wording of the reference to listed entities

4. The scope of the IFRS as it relates to listed entities is currently expressed as follows in paragraph 2(a) of ED 8:

[entities that] have filed, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or
5. One respondent (CL102) is concerned that as drafted, paragraph 2(a) might capture entities that have previously filed financial statements with securities commission or regulator, even if their securities are no longer publicly traded.
6. [Paragraph omitted from observer notes]

Issue 2: voluntary disclosure of segment information not in accordance with the IFRS

7. According to paragraph 3 of the ED, if an entity that is not required to apply the IFRS chooses to disclose segment information in financial statements that comply with IFRSs, it should comply with the requirements of the IFRS.

8. Some respondents (CL102, 168) think that paragraph 3 of the ED seems unnecessarily restrictive, because it would prevent an unlisted entity from producing an analysis of sales on a voluntary basis, without also producing segment profit or loss or assets etc. They prefer an approach that allows voluntary disclosures, provided that there is a clear disclosure that the extra information does not constitute segment information in accordance with the IFRS.
9. Other respondents (CL128, 161) agree with the requirement in principle, but they think that the Board should clarify the circumstances in which this requirement applies. For example, they believe that an entity could disclose revenue by product without triggering the need to comply with the IFRS, as long as such additional disclosure did not purport to be segment reporting in the context of the IFRS. They think that the Board should include a statement in the Basis for Conclusions that it would be inappropriate for the financial statements to include any segment information that users might consider to be prepared in accordance with the IFRS when in fact it has not.
10. [Sentences omitted from observer notes] The staff recommends the following wording to replace the existing paragraph 3:

If an entity that is not required to apply this IFRS chooses to disclose segment information that does not comply with the IFRS, that entity shall disclose the fact that the segment information does not comply with the IFRS.

Issue 3: applicability to not-for-profit entities

11. One respondent (CL13) argues that the current proposals in ED 8 should be restricted to apply only to for-profit entities that meet the criteria in ED 8.2.
12. [Paragraph omitted from observer notes]

Issue 4: meaning of entity

13. One respondent (CL153) argues that the meaning of 'entity' in the scope paragraph (reproduced in paragraph 4 above) should be clarified to show whether it means group or parent entity. They think that if 'entity' refers to the group, the role of a subsidiary for the financing activities of the group as a

whole might be important.

14. The respondent gives two examples:

- (a) The ultimate parent is not listed and there have been no publicly traded securities in the group until now. The parent decides to issue a publicly traded bond via a special purpose entity. The parent has to give a full guarantee for the bond in order for it to be issued. In this case, they ask whether the ultimate parent is required to publish segment reporting under IAS 14 if the process of issuing the bond starts.
- (b) The securities of the ultimate parent of a group are not publicly traded, whereas the minority interests of one of the subsidiaries are publicly traded in the home country of that subsidiary. The minority interests are not part of the financing strategy and activities of the group. The entity has to publish its own financial statements. In this case, they ask whether the ultimate group is required to publish segment reporting under the IFRS.

15. [Paragraph omitted from observer notes]

16. [Paragraph omitted from observer notes]

17. [Paragraph omitted from observer notes]

18. [Paragraph omitted from observer notes]

19. [Paragraph omitted from observer notes]

20. [Paragraph omitted from observer notes]

21. [Remainder of paragraph omitted from observer notes] The staff therefore recommends the following wording.

IFRS on segments

This IFRS shall apply to

- (a) the separate or individual financial statements of entities that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market and
- (b) the consolidated financial statements of groups with a parent that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

IAS 33

This standard shall apply to

- (a) the separate or individual financial statements of entities whose ordinary shares or potential ordinary shares are publicly traded and by entities that are in the process of issuing ordinary shares or potential ordinary shares in public markets and
- (b) the consolidated financial statements of groups with a parent whose ordinary shares or potential ordinary shares are publicly traded and by entities that in the process of issuing ordinary shares or potential ordinary shares in public markets.