



30 Cannon Street, London EC4M 6XH, United Kingdom
Phone: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: <http://www.iasb.org>

**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: 19 October 2006, London

Project: Segment reporting

Subject: Sweep issues from the pre-ballot draft (Agenda Paper 14)

Introduction

1. The purpose of this paper is to discuss the main issues raised by Board members on the pre-ballot draft of IFRS 8 *Operating Segments*. The pre-ballot draft was also sent to members of the IFRIC for a fatal flaw review. The paper was posted the day after the deadline for comments and reflects those comments received so far. [Sentence omitted from observer notes.] Any comments that are received between now and the Board meeting will be considered by the staff and, if appropriate, raised at the meeting.
2. There are 2 issues discussed in this paper:
 - (a) Disclosure of information about major customers - entities under common state control
 - (b) Definition of listed companies
3. Attached in Appendix A to this Agenda Paper are minor points raised by Board members on the pre-ballot draft. The staff does not intend to discuss these

points at the Board meeting unless otherwise directed by the Board members.

Staff recommendation

4. The staff recommends that:
 - (a) For the purposes of disclosures about major customers, the IFRS should require a group of entities under common state control to be treated as a single customer unless the existence of common state control has no impact on the terms of the entities' transactions with the reporting entity.
 - (b) The wording of the scope should described listed entities in a manner consistent with IAS 27 *Consolidated and Separate Financial Statements*.

Staff analysis

Issue 1: disclosure of information about major customers - treatment of entities under common control

5. Paragraph 33 of ED 8 stated that an entity shall provide information about the extent of its reliance on its major customers. Thus if revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. In addition, a group of entities known to a reporting entity to be under common control shall be considered a single customer, and a national government, a local government or a foreign government each shall be considered a single customer.
6. Some respondents to the ED argued that difficulties could arise in relation to entities that are state-controlled. Thus, they suggested that a group of entities under common control should be treated as a single customer for this purpose only when prices or other material terms of trade are negotiated on a group basis.
7. The staff agreed in principle with this comment and in Agenda Paper 3A of the September 2006 Board meeting, the staff proposed a recommendation

consistent with the principles discussed on a similar issue arising on IAS 24 *Related Party Disclosures*. This amendment is reflected in paragraph 34 of the pre-ballot draft.

8. In Agenda Paper 3A, the staff also noted that when the proposals being discussed in IAS 24 have been finalised, a consequential amendment should be made to IFRS 8 to ensure that consistent wording is used to deal with both issues.
9. In the comments on the pre-ballot draft, two Board members argue that the amendment reflected in paragraph 34 of the pre-ballot draft should not be made as the wording has not yet been exposed as part of the IAS 24 amendment. They suggest that a consequential amendment should follow only when the deliberations of IAS 24 have been finalised.
10. [Paragraph omitted from observers notes]

Issue 2: Definition of listed companies

11. IAS 14 applies only to entities whose equity or debt securities are publicly traded and by entities that are in the process of issuing equity or debt securities in public securities markets. The ED proposed that the new standard should apply to 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.¹
12. [Sentences omitted from observers notes] the staff noted that, in IAS 27, the exemption from presenting consolidated financial statements includes two criteria that could be regarded as excluding listed entities:
 - (a) a parent whose debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) and
 - (b) a parent that did not file, nor is not in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

¹ The scope of ED also included entities that hold assets in a fiduciary capacity. The Board decided in July to remove those entities from the scope pending development of definitions in the SME project.

13. [Sentences omitted from observer notes]. Accordingly, the staff recommends that the scope of IFRS 8 should be worded as follows:

This IFRS shall apply to:

- (a) the separate or individual financial statements of entities:
 - (i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or
 - (ii) 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:
 - (i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets) or
 - (ii) 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.