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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 September 2006, London

Project: Segment Reporting

**Subject: Minor issues of comment letters analysis to ED 8
(Agenda Paper 3, Appendix A)**

Minor issues raised by commentators

1. The purpose of Appendix A is to discuss some minor issues raised by commentators to ED 8:
 - (a) Effective date and early adoption
 - (b) Inclusion of US guidance
 - (c) Adoption of term impracticable
 - (d) Appendix of defined terms
 - (e) Treatment of entities under common control
 - (f) Quantitative thresholds
 - (g) Matrix form of organisations
 - (h) Aggregation criteria
 - (i) Definition of non-current assets in liquidity balance sheet

Staff recommendation

2. The staff recommends that:
 - (a) The effective date should be amended to 1 January 2009 in accordance with the recently announced IASB policy.
 - (b) Early adoption of this standard should be allowed on a voluntary basis before its effective date.
 - (c) The guidance in EITF 04-10 should be included in paragraph 13 of the IFRS to reflect SFAS 131 experience.
 - (d) FASB “Q&A 131 – Segment Information: Guidance on Applying Statement 131” should not be included in the IFRS.
 - (e) The wording used in the draft to allow entities to be exempt from disclosures should not be amended to ‘impracticable’.
 - (f) The standard should include a section of appendix of defined terms to make it consistent with the rest of IFRSs.
 - (g) The last sentence of paragraph 33 should be amended to allow a group of entities under common control to be treated as a single customer unless the existence of common state control has no influence over the reporting entity.
 - (h) The quantitative thresholds for determining reportable segments should not be changed.
 - (i) The last sentence of paragraph nine should be deleted to allow matrix form of organisations to report their segment results in a manner consistent with the management approach.
 - (j) A minor amendment should be made to paragraph 12 to clarify the ranking between aggregation criteria and quantitative thresholds.
 - (k) It is unnecessary to clarify whether the aggregation of segments should be considered in terms of a single currency.
 - (l) The footnote of paragraph 2 of IFRS 5 be added to paragraph 23(b) of the ED to define non-current assets based on liquidity presentation.
3. The staff does not intend to discuss these issues at the Board meeting unless

otherwise directed by Board members.

Staff analysis

Issue 1: Effective date

4. One respondent disagreed with the effective date proposed in the ED of 1 January 2007. They argue that it is unrealistic given the time it take to finalise a standard and the additional timing necessary for it to be endorsed in the EU. Other respondents agree with the proposed date. Indeed, some of those who support the management approach in ED 8 encourage the IASB to issue it as quickly as possible as a final standard. They are of the view that timing is crucial given that for first time adopters, in particularly those who move from US GAAP to IFRS, it is unacceptable to adopt IAS 14 and then revert to the management approach in the following year. The change to IAS 14 would be very costly and difficult to implement for many companies and would be unduly burdensome to do for just one year.
5. The IASB has already announced that no new IFRS will be effective until 2009. However, consistent with other standards, the staff recommends that early adoption of this standard be allowed on a voluntary basis before its effective date.

Issue 2: Inclusion of US guidance

6. Some respondents argue that the Board should address some of the practical problems that have arisen from applying SFAS 131 in the US environment. They recommend that the Board considers the material issued by the FASB – in the form of FASB ‘Q&A 131 Segment Information: Guidance on Applying Statement 131’ and Emergent Issues Task Force (EITF) 04-10 ‘Determining Whether to Aggregate Operating Segments that do not Meet the Quantitative Threshold.’ They suggest that amendments be made to the draft IFRS reflecting SFAS 131 experience.
7. EITF 04-10 addresses the issue of determining whether to aggregate operating segments that do not meet the quantitative thresholds. The staff recommends including the guidance in EITF 04-10 in paragraph 13 of ED 8 as follows:

An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating

segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 11.

8. FASB Q&A 131 – Segment Information: Guidance on Applying Statement 131 is an implementation guide that summarises FASB’s staff personal view on certain questions received on Statement 131. In general these questions relate to the scope, definition, aggregation criteria, quantitative thresholds and disclosures about segments. Copies of the Q&A are available on request from the staff.
9. [Paragraph omitted from observers notes]

Issue 3: Adoption of the term impracticable

10. Some respondents oppose the wording used in ED 8 to allow entities to be exempt from disclosures which states that ‘*unless the necessary information is not available and the cost to develop it would be excessive.*’ They argue that if information is not to be provided, the test to be applied should be consistent with the requirement of IAS 1 paragraph 11, which uses the term impracticable where compliance cannot be achieved. These commentators recommend that the wording be consistent with that of IAS 8, which uses and defines the word ‘impracticable.’
11. [Sentences omitted from observer notes]. The staff recommends no change to the wording in the ED.

Issue 4: Appendix of defined terms

12. Some respondents argue that the draft IFRS should include an appendix of defined terms. They commented that the appendix is useful and the structure of the draft IFRS should be consistent with other IFRSs.
13. [Sentences omitted from observer notes]. The staff recommends that the draft IFRS should include an appendix of defined terms in line with other IFRSs.

Issue 5: A single customer treatment for entities under common control

14. Paragraph 33 states 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.

15. Some respondents argue that difficulties could arise in relation to entities that are state-controlled. They suggest 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.
16. The staff agrees with the principle of this comment but proposes a recommendation more consistent with the principles discussed in Agenda Paper 14A on a similar issue arising on IAS 24 *Related Party Disclosures*. The staff therefore recommends changing the last sentence in paragraph 33 as follows:

For the purposes of this [draft] IFRS, 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 (for example, a country or municipality), or a foreign government each shall be considered a single customer, unless the existence of common state control has no influence over the reporting entity.

17. When the proposals being discussed in Agenda Paper 14A have been finalised, the staff recommends that a consequential amendment is made to the IFRS on reporting segments to ensure that consistent wording is used to deal with both issues.

Issue 6: Quantitative thresholds

18. The ED specifies quantitative thresholds in paragraphs 12 – 18. It states that an entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:
 - (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combine revenue, internal and external, of all operating segments.

- (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount.
 - (c) Its assets are 10 per cent or more of the combined assets of all operating segments.
- 19. Paragraph 14 adds that if the total external revenue reported by operating segment constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments until at least 75 per cent of the entity's revenues is included in reportable segments.
- 20. Some respondents expressed concern about the quantitative thresholds covered in paragraphs 12 – 18. They argue that such thresholds represent an adoption of a rules-based rather than a principle based approach which creates an inconsistency with IFRSs. These commentators also stressed that the thresholds give more weight than is appropriate to quantitative factors as compared to qualitative factors. Finally, they concluded that the 10 percent threshold may create a precedent in determining materiality in other areas.
- 21. [Sentences omitted from observer notes] The staff does not recommend such a change.

Issue 7: Matrix form of organisations

- 22. Some commentators commented that paragraph nine of the ED mandates that where more than one segment could be used, for example entities that use a matrix form of organisation, then the components based on products and services should form the basis for the operating segment. These respondents argued that matrix organisational structures are commonly used for large complex organisations and hence they consider that it is inappropriate to mandate one particular basis for determining operating segments for such entities. In their view such a view may lead to a result that is not in accordance with the core principle of the standard as reflected in paragraph one of the ED.
- 23. [Paragraph omitted from observers notes]

Issue 8: Aggregation criteria

- 24. One commentator highlighted that the description of the management approach was ambiguous. In their view the ranking of the aggregation criteria and the

quantitative thresholds identified in paragraphs 11 and 12 is unclear. By way of illustration they provided an example of an enterprise with eight different business areas. Four of them are very much alike and meet all the aggregation criteria. However, one of those four business areas also meets the quantitative threshold. The commentator argues that the four business areas should be aggregated before applying the quantitative thresholds. Hence they suggest that the IFRS specifies that aggregation criteria take precedence over the quantitative thresholds.

25. [Paragraph omitted from observers notes]

26. Another respondent commented that the assessment of economic characteristics may be affected by matters such as functional currency. In such a case it is not clear whether the two segments to be aggregated should be considered in terms of a single currency.

27. [Paragraph omitted from observers notes]

Issue 9: Definition of non-current assets in liquidity balance sheet

28. A commentator suggested that implementation guidance be issued clarifying how the disclosure of non-current assets required by paragraph 23(b) and 32(b) should be given by entities that prepare their balance sheet based on liquidity in accordance with IAS 1.51, rather than presenting a classified balance sheet. They added that this issue could be resolved by indicating the types of assets to be included in the disclosure.

29. IFRS 5 includes a footnote to paragraph 2 which states that:

For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the balance sheet date. Paragraph 3 applies to the classification of such assets.

The staff recommends the same footnote be added to paragraph 23(b).