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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**13 December 2007, London**
Project:	**Annual improvements process**
Subject:	**IFRS 8 – Disclosures of information about segment assets (Agenda paper 3A)**

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1. The staff believes that the following issue would be most appropriately resolved via the annual improvements process.

   Issue: Should IFRS 8 *Operating Segments* be amended to eliminate an unintended potential divergence from existing US practice regarding the disclosures of information about segment assets?

2. The purpose of this paper is for the Board to consider what disclosure of segment assets it intended IFRS 8 to require. Specifically, the Board will be asked:

   a. Should a measure of segment assets be disclosed even when such information is not provided to the chief operating decision maker (CODM) notwithstanding that this requirement creates a difference from existing US practice?

   b. Should the standard be amended to state clearly the disclosure requirement for segment assets that the Board intends?

Background

3. The staff has received a request to clarify the position in paragraphs BC 34-35 of IFRS 8. These paragraphs relate to the requirement that is set out in paragraph 23 of IFRS 8. The issue relates to the disclosures of a measure of segment assets in circumstances when those amounts are not regularly provided to the CODM. The relevant extracts from IFRS 8 are set out in Appendix C.

4. When reading these paragraphs together, some believe that paragraph BC 35 of IFRS 8 interprets SFAS 131 *Disclosures about Segments of an Enterprise and Related Information* as mandatorily requiring such disclosures even when those amounts are not provided to the CODM.

5. Since the publication of IFRS 8, the staff has been notified that such an interpretation contradicts long-standing interpretive guidance that is published by US practitioners for the application of SFAS 131.

Staff Analysis

6. The staff notes that the objective of adopting the management approach in IFRS 8 was to reduce differences between IFRS and US GAAP. The Board considered a few explicit differences from SFAS 131 when deliberating the IFRS, as listed in paragraph BC 60 of IFRS 8 (see Appendix C of this paper). Information about segment assets is not listed as one of these intended differences.

7. Paragraph 23 of IFRS 8 sets out the disclosure requirement for segment assets. Paragraph 25 sets out the measurement requirements for the segment measures that are disclosed. These paragraphs correspond with paragraphs 27 and 29 of SFAS 131, respectively. The staff notes that both standards are almost identical in wording except for the information about segment liabilities, which is an explicit area the Board has considered and accepted as a difference.

8. Paragraphs 23 and 25 of IFRS 8 require a minimum disclosure of a measure of segment assets because the standard presumes that the CODM sees one or

more measures of segment assets as a basis for decision-making. The staff notes that the Board supported a minimum disclosure of segment profit and loss and segment assets when developing IFRS 8.

9. However, certain businesses are not capital intensive, and do not require a significant base of physical assets for operation. They may not provide information about segment assets to the CODM as a basis to allocate resources or to assess performance. If a measure for segment assets is a required minimum disclosure, the staff notes that applying the measurement requirement in paragraph 25 of IFRS 8 could result in the segment assets being measured at zero.

10. Some also argue that requiring the disclosure of a measure of segment assets even when that measure is not regularly provided to the CODM is inconsistent with the management approach intended by IFRS 8 and SFAS 131.

11. Further, since the publication of SFAS 131 in 1997, long standing practice has developed in the US, including interpretive guidance published by accounting firms. [Sentence omitted from observer note].

12. [Paragraph omitted from observer note].

13. The staff notes therefore that the position in paragraph BC35 of IFRS 8 contradicts long-standing interpretative publications by US practitioners.

14. [Paragraph omitted from observer note].

15. The staff does not think that the Bases for Conclusions to IFRSs should contain new interpretations of US GAAP. The staff therefore argues that BC35 should be amended to eliminate any such interpretation. In order to make an appropriate amendment, the staff needs the Board to answer the following question.

Question to the Board:

16. Should a measure of segment assets be disclosed even when such information is not provided to the CODM notwithstanding that this requirement creates a difference from existing US practice under SFAS 131?

17. The staff has considered two views in response to this question:

View A – Yes. A measure of segment assets should be a minimum disclosure requirement even when such information is not provided to the CODM notwithstanding the difference created from US practice.

a. Supporters of this view presume that a measure of segment assets is an important basis for decision-making. They argue that it is inconceivable that a CODM could manage segments without having some measure of segment assets. Further, this is what the Board decided when it discussed the matter in September 2006.

View B – No. A measure of segment assets should only be disclosed when such information is provided to the CODM and no difference should be created from US practice.

a. Supporters of this view read the disclosure and measurement requirements in paragraphs 23 and 25 of IFRS 8 to suggest that, in satisfying these requirements and applying the management approach, companies would provide the information management has developed for internal purposes. The measure for total segment assets would be none in situations where such information is not provided to the CODM.

b. In addition, supporters of this view believe that requiring a minimum disclosure for a measure of segment assets when such information is not regularly provided to the CODM creates a difference from existing US practice, contradicts the overall management approach, and is more restrictive than the disclosure requirement currently in place for segment liabilities under IFRS 8. When the Board made its decision in September 2006 to require a minimum level of disclosure, it thought that doing so would converge with US GAAP.

18. The staff recommends View B. The staff notes that the responses to ED 8 indicate that a measure of segment assets may not always be available or expected in industries with a low base of physical assets. The staff argues that the value of segment asset disclosures for these industries would not be

sufficient to justify the additional resources needed to track assets by segment for reporting purposes only. Further, the staff argues that the disclosure requirement for segment assets should not be more stringent than that required for segment liabilities.

19. **Does the Board agree with the staff's recommendation?**

20. The Board, if it supports View A, may want to take this opportunity to amend the Basis for Conclusions to remove the implied interpretation of SFAS 131 and add "asset measure" to the list of intended differences from SFAS 131 as proposed in Appendix A of this paper.

21. If the Board agrees with the staff and supports View B, the staff would like the Board to consider the following question.

Question to the Board:

22. Should the standard be amended to state clearly the disclosure requirement for segment assets that the Board intends?

23. The staff has considered two views in response to this question:

View B1 – The Board should amend the standard to clearly state that a measure of segment assets is a required disclosure only when such information is provided to the CODM.

a. Supporters of this view believe that existing wording in paragraph 23 of IFRS 8 may lead readers to conclude that a measure of segment asset is a minimum disclosure requirement in all circumstances, in contrast to the disclosure requirement for a measure of segment liability in that same paragraph. After all, that was what the Board originally intended the wording to achieve. Amending only paragraph BC 35 of IFRS 8 implies that the IFRS cannot be treated as a stand alone document without the Basis.

View B2 – The Board should amend only the Basis for Conclusions and make no changes to the standard of IFRS 8.

a. Supporters of this view believe that an amendment to the Basis for Conclusions on IFRS 8 will suffice to eliminate the potential difference created from existing US practice under SFAS 131. Further, unless the FASB makes a change to its standard, amending IFRS 8 introduces a new difference in wording. IFRS 8 would explicitly *not* require a minimum disclosure. Some may therefore think that because SFAS 131 has different wording, it *does* require a minimum level of disclosure. Keeping the wording as consistent as possible with SFAS 131will neither adopt nor override the interpretive guidance of certain US practitioners on this issue.

24. The staff recommends View B2. The staff believes that, to eliminate potential differences created, IFRS 8 should stay as consistent as possible with SFAS 131 in wording. The potential difference results from the implied guidance that is currently in the Basis for Conclusions on IFRS 8. Amending the Basis for Conclusions as proposed in Appendix B2 will suffice.

25. However, if the Board supports View B1, the staff proposes to amend the standard and the Basis of Conclusions of IFRS 8 as drafted in Appendix B1.

26. **Does the Board agree with the staff's recommendation?**

Appendices A, B1 and B2

[Appendices omitted from observer note].

Appendix C – Extract from IFRS 8

Disclosure

Information about profit or loss, assets and liabilities

23 An entity shall report a measure of profit or loss and total assets for each reportable segment. An entity shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

(a) revenues from external customers;

(b) revenues from transactions with other operating segments of the same entity;

(c) interest revenue;

(d) interest expense;

(e) depreciation and amortisation;

(f) material items of income and expense disclosed in accordance with paragraph 86 of IAS 1 *Presentation of Financial Statements*;

(g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;

(h) income tax expense or income; and

(i) material non-cash items other than depreciation and amortisation.

An entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

Measurement

25 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.

Aspects of the management approach

Information about segment assets

BC34 Several respondents noted that, whilst a measure of segment profit or loss can be expected in every entity's internal reporting, a measure of segment assets is not always available, particularly in service industries or other industries with low utilisation of physical assets. Respondents suggested that in such circumstances a measure of segment assets should be disclosed only if those amounts were regularly provided to the chief operating decision maker.

BC35 The Board noted that requiring disclosure of a measure of segment assets only when such a measure is reviewed by the chief operating decision maker would create divergence from SFAS 131. The Board also supported a minimum disclosure of segment profit or loss and segment assets. The Board therefore concluded that measures of segment profit or loss and total segment assets should be disclosed for all segments regardless of whether those measures are reviewed by the chief operating decision maker.

Information about segment liabilities

BC36 ED 8 did not propose disclosure of segment liabilities because there is no such requirement in SFAS 131. The reasons for this are set out in paragraph 96 of the Basis for Conclusions on SFAS 131, included as Appendix A to this Basis for Conclusions.

BC37 Some respondents proposed adding a requirement for each entity to disclose information about segment liabilities, if such information is regularly provided to the chief operating decision maker. They argued that information about segment liabilities would be helpful to users. Other respondents favoured information about net segment assets rather than gross segment assets.

BC38 The Board noted that if segment liabilities are considered in assessing the performance of, and allocating resources to, the segments of an entity, such disclosure would be consistent with the management approach. The Board also noted support for this disclosure from some commentators, particularly users of financial statements. Accordingly the Board decided to require disclosure of a measure of segment liabilities if those amounts are regularly provided to the chief operating decision maker notwithstanding that such a requirement would create divergence from SFAS 131.

Differences from SFAS 131

BC60 In developing the IFRS, the Board included the following differences from SFAS 131:

(a) The FASB *Guidance on Applying Statement 131* indicates that the FASB staff believe that 'long-lived assets', as that phrase is used in paragraph 38 of SFAS 131, implies hard assets that cannot be readily removed, which would appear to exclude intangibles. Non-current assets in the IFRS include intangibles (see paragraphs BC56 and BC57).

(b) SFAS 131 does not require disclosure of a measure of segment liabilities. The IFRS requires disclosure of segment liabilities if such a measure is regularly provided to the chief operating decision maker (see paragraphs BC36–BC38).

(c) SFAS 131 requires an entity with a matrix form of organisation to determine operating segments based on products and services. The IFRS requires such an entity to determine operating segments by reference to the core principle of the IFRS (see paragraph BC27).