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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: February 2009, London

Project: Annual Improvements – IFRS 8 *Operating Segments*

Subject: Comment Analysis – Disclosure of information about segment assets Cover note (Agenda paper 4A)

INTRODUCTION

- 1 In the 2008 Annual Improvements ED, the Board addressed an issue relating to disclosure of information about segment assets.
- 2 The Board decided to amend the Basis for Conclusions accompanying IFRS 8 to clarify its view on the disclosure of segment assets.

BACKGROUND

- 3 The Basis for Conclusions on IFRS 8 *Operating Segments* (paragraph BC35) sets out the reasons for the Board's decision to require a measure of segment

profit or loss and segment assets to be disclosed regardless of whether those measures are reviewed by the chief operating decision maker. When the Board made this decision, it thought that this requirement would converge with US GAAP. However, after IFRS 8 was issued, the Board was made aware that such a requirement contradicts long-standing interpretations published in the US for the application of SFAS 131 and creates an unintended difference from practice in the US under SFAS 131.

- 4 The Board reconsidered the reasons set out in paragraph BC35, and discussed the interaction between the disclosure and measurement requirements in the IFRS (paragraphs 23 and 25). In some industries with a low base of physical assets, a measure of segment assets is not always available or expected. The Board noted that there could be cases when making no disclosure of segment assets would be in accordance with the IFRS. In addition, the Board concluded that the usefulness of segment asset disclosures for those industries would not be sufficient to justify the additional resources needed to track assets by segment solely for reporting purposes.
- 5 The Board noted that the conclusions above are consistent with the wording of the IFRS and therefore decided that no changes should be made to the IFRS. It further noted that paragraph BC35 as originally drafted no longer reflected the Board's thinking. Therefore, the Board decided to amend paragraph BC35 (see Appendix B).

STAFF ANALYSIS

- 6 The Board received 60 comment letters on the 2008 Annual Improvements of which 30 dealt with IFRS 8.
- 7 The staff notes that majority of respondents agreed with the object/intention of proposed amendment to BC35, that is, disclosure of segment assets are required only when such information is internally reported to chief operation decision maker ("CODM"). However most of them disagreed with how the amendment was made (ie amendment to Basis of Conclusion only) and

believe that the Standard itself should be amended as proposed in Appendix A to this paper.

- 8 They believe that the 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. Therefore, amending paragraph 23 would provide clearer consistency/interaction with paragraph 25.
- 9 In the December 2007 Board meeting, the Board reaffirmed that there is no inconsistency between paragraph 23 and 25 of IFRS 8. That is, disclosure of total assets is required by paragraph 23. Paragraph 25 allows that the measure for total assets would be nil when such information is not provided to the chief operating decision maker. Also in its meeting, some Board members were concerned that if the Standard were amended, that amendment would require re-endorsement by the EU. (The EU was in the endorsement process of IFRS 8 at that time and IFRS 8 was endorsed in late November 2007). Therefore, the Board decided not to amend the Standard itself and decided to amend only Basis of Conclusion.
- 10 The staff noted that one of the strong reasons why the commentators would like to amend the Standard itself is that EU endorsed the Standard only (ie not Basis of Conclusions) and therefore they believe that the Standard should be amended.
- 11 Because the development of IFRS 8 was a project to converge with US GAAP, the staff asked the FASB staff
 - a. whether the amendment to paragraph 23 (eg. Appendix A to this paper) creates a convergence issue, and
 - b. whether the FASB staff intend to recommend that the FASB amend SFAS 131 in a similar way.

The FASB staff are of the view that the amendment to paragraph 23 would keep IFRS converged with the meaning/implication of US GAAP as to disclosure of information about profit and loss and segment assets. Therefore,

FASB staff is not planning to propose amendments to modify the wording within US GAAP on this issue.

- 12 The staff would like to emphasise that paragraph 23 of IFRS 8 requires the information but paragraph 25 states that the number could be zero, like US GAAP. Because the wording of paragraphs 23 and 25 of IFRS 8 are almost identical to the wording with paragraphs 27 and 29 of SFAS131 except for the information about segment liabilities, the staff concerns that making any changes to paragraph 23 of IFRS 8 would create difference from US GAAP in explicit wording level which might trigger unexpected confusions.
- 13 Other concern to the exposure draft raised by the commentators was identified as follows:
 - Some recommend an effective date of 1 January 2010, and that, consistent with the initial application of IFRS 8, retrospective application be required. If the Board amends the Standard, the staff agrees with the comment. If the Board does not amend the Standard and amends only the Basis of Conclusion, the staff think that the new effective date (ie.1 January 2010) is difficult to set up separately from the original effective date of IFRS 8 (ie.1 January 2009) because the Basis for Conclusions does not form part of an IFRS.

Staff recommendation

- 14 Based on the discussion above, the staff is of the view that only Basis of Conclusions should be amended as proposed in the annual improvements Exposure Draft (Appendix B to this paper).

Question for the Board

- 15 Does the Board agree with the staff recommendation in paragraph 14? If not, do you prefer that paragraph 23 of IFRS 8 should be amended as proposed by commentators (Appendix A to this paper)?

Appendix A – the revised wording

Proposed Amendments to IFRS 8: *Operating Segments*

Paragraph 23 and 36 are amended (new text is underlined and deleted text is struck through). Paragraph 35A is added.

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 total assets and liabilities for each reportable segment if such amounts are 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) ...

Transition and effective date

- 35A Paragraph 23 was amended by *Improvements to IFRSs* in [month] 2009. An entity shall apply that amendment in its annual financial statements for periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies this IFRS in its financial statements for a period before 1 January 2010, it shall disclose that fact.
- 36 Segment information for prior years that is reported as comparative information for the initial year of application (including application of the amendment to paragraph 23 made in [month] 2009) shall be restated to conform to the requirements of this IFRS, unless the necessary information is not available and the cost to develop it would be excessive.

Proposed amendment to Basis for Conclusions on IFRS 8 *Operating Segments*

In the Basis for Conclusions on IFRS 8, paragraph BC35 is amended (new text is underlined and deleted text is struck through). Paragraph BC34 is not proposed for amendment but is included here for ease of reference.

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. After IFRS 8 was issued the Board was informed that the reasons originally set out in paragraph BC35 contradict long-standing interpretations published in the US for the application of SFAS 131 and create an unintended difference from practice in the US under SFAS 131. After reconsideration and discussion of the interaction between the disclosure and measurement requirements in the IFRS (paragraphs 23 and 25), the Board concluded that those reasons no longer reflected the Board's thinking. The Board therefore amended paragraph 23 by *Improvements to IFRSs* issued in [date] to clarify that a measure of segment assets should be disclosed only if those amounts were regularly provided to the chief operating decision maker. The Board also noted that the usefulness of segment asset disclosures would not be sufficient to justify the additional resources needed to track assets by segment for reporting purposes only.~~

Appendix B – the 2008 Annual Improvements ED

Proposed amendment to Basis for Conclusions on IFRS 8 *Operating Segments*

In the Basis for Conclusions on IFRS 8, paragraph BC35 is amended (new text is underlined and deleted text is struck through) and a footnote is added at the end of paragraph BC35. Paragraph BC34 is not proposed for amendment but is included here for ease of reference.

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. The Board noted that paragraph 25 specifies how a segment amount that is required to be disclosed by paragraph 23 should be measured. Paragraph 25 states that 'only those assets and liabilities that are included in the measure of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment.'~~ The measure for total segment assets would be nil when such information is not provided to the chief operating decision maker. Therefore, making no disclosure of segment assets would be in accordance with the IFRS in some cases. The Board also noted that the usefulness of segment asset disclosures in those situations would not be sufficient to justify the additional resources needed to track assets by segment for reporting purposes only.*

* After IFRS 8 was issued the Board was informed that the reasons originally set out in paragraph BC35 contradict long-standing interpretations published in the US for the application of SFAS 131 and create an unintended difference from practice in the US under SFAS 131. After reconsideration and discussion of the interaction between the disclosure and measurement requirements in the IFRS (paragraphs 23 and 25), the Board concluded that those reasons no longer reflected the

Board's thinking. The Board therefore amended paragraph BC35 by *Improvements to IFRSs* issued in [date]. That conclusion is consistent with the wording of the IFRS and therefore no changes were made to the IFRS.